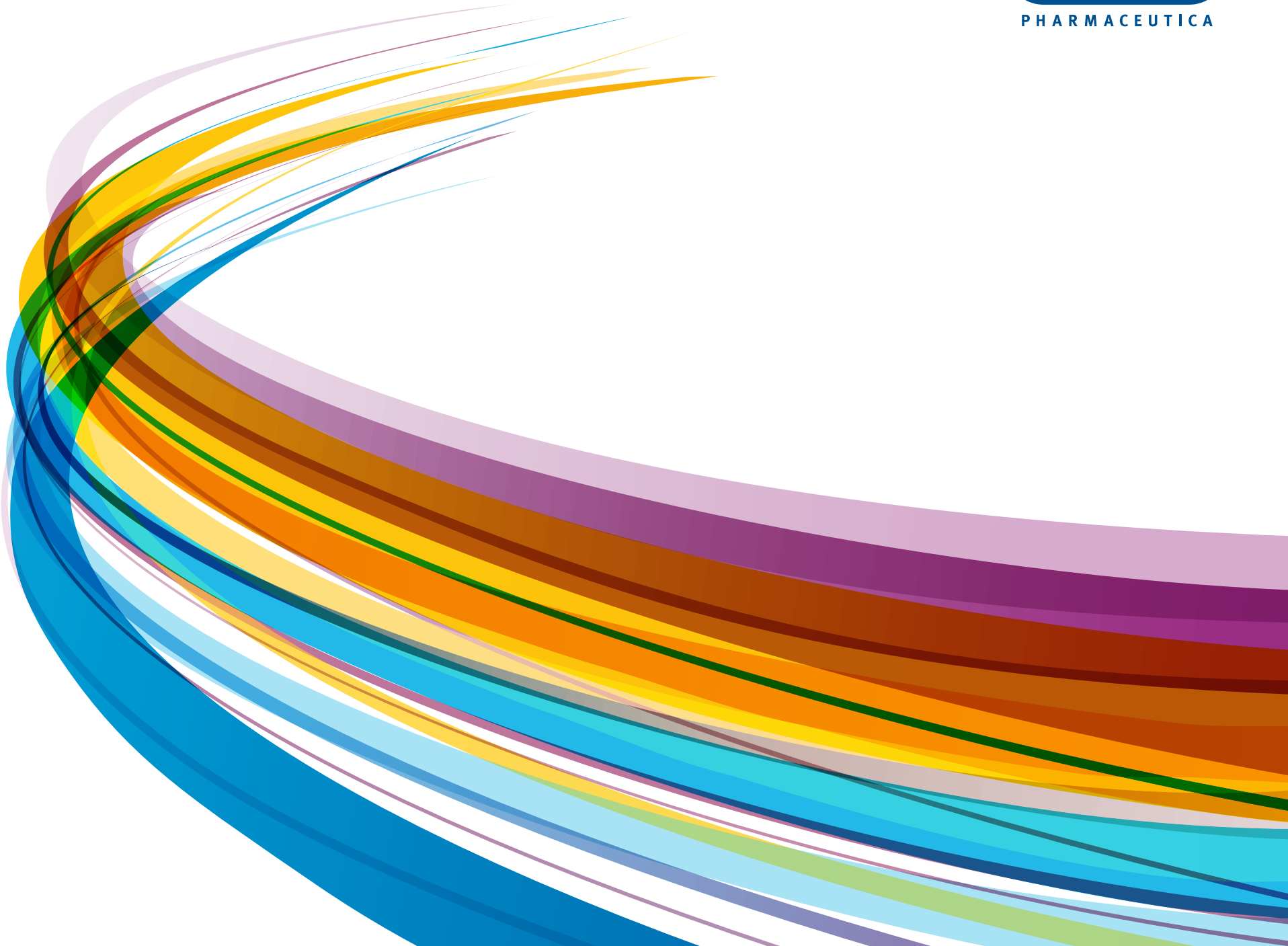
HALF-YEAR REPORT **2017** | **BUILDING ON SUCCESS**

basilea
PHARMACEUTICA



WWW.BASILEA.COM

OUR COMPANY

Basilea Pharmaceutica Ltd. is a commercial stage biopharmaceutical company developing and bringing to the market products that address the medical challenge of increasing resistance and nonresponse to current treatment options in the therapeutic areas of bacterial infections, fungal infections, and cancer. The company is committed to discovering, developing and commercializing innovative pharmaceutical products to meet the medical needs of patients with serious and life-threatening conditions. Basilea Pharmaceutica Ltd. is headquartered in Basel, Switzerland and listed on the SIX Swiss Exchange (SIX: BSLN). The company currently has approximately 230 employees.

OUR VISION

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

License agreement with Pfizer for Cresemba

FOCUSING ON PARTNERING CRESEMBA® AND ZEVTERA®

Distribution agreement with Avir for Cresemba and Zevtera

MOVING CEFTOBIPROLE CLOSER TO THE U.S. MARKET

BARDA commitment of USD 54.8 million in additional funding to support phase 3 clinical development program

ADDRESSING CANCER PATIENTS' NEEDS

Collaboration with U.S. Adult Brain Tumor Consortium to conduct a phase 1 clinical study with BAL101553 in newly diagnosed glioblastoma

SUMMARY AND KEY EVENTS

FINANCIALS

- Half-year cash and financial investments of CHF 253.1 million
- Increased product sales to CHF 9.8 million
- Royalties on Cresemba sales from license partner Astellas Pharma US increased to CHF 5.2 million
- Updated financial guidance for the full year 2017 based on higher total revenues and lower operating expenses: Total annual Basilea product sales expected at approximately CHF 13 million and participation in partner sales through royalties anticipated at approximately CHF 15 million; total operating expenses, net of anticipated BARDA reimbursements, estimated at CHF 9 to 10 million on average per month, operating loss at approximately CHF 2 million on average per month

NEW AND EXTENDED PARTNERSHIPS

- Entered into license agreement with Pfizer for Cresemba in Europe (excluding Nordics), Russia, Turkey and Israel: CHF 70 million upfront payment, up to USD 427 million for achieving regulatory and sales milestones, mid-teen range royalties on sales
- Signed distribution agreement with Avir Pharma Inc. for Cresemba and Zevtera in Canada
- BARDA committed USD 54.8 million in additional funding under existing contract to support ceftobiprole phase 3 clinical development; total potential funding of up to USD 108 million

ANTIFUNGAL CRESEMBA (ISAVUCONAZOLE) – ON THE MARKET

- Marketed in Germany, Italy, the U.K., France and Austria by Basilea; transition of commercialization to Pfizer ongoing
- First launches by distribution partner
- License partner Asahi Kasei Pharma completed phase 1 study as part of abbreviated clinical development program for a potential registration in Japan

ANTIBIOTIC ZEVTERA/MABELIO (CEFTOBIPROLE) – ON THE MARKET

- Special Protocol Assessments for two phase 3 clinical studies – one in *Staphylococcus aureus* bacteremia (bloodstream infections) and one in acute bacterial skin and skin structure infections – agreed with FDA. Studies required for registration in the U.S.
- Preparing start of these two phase 3 studies. Funding under BARDA contract

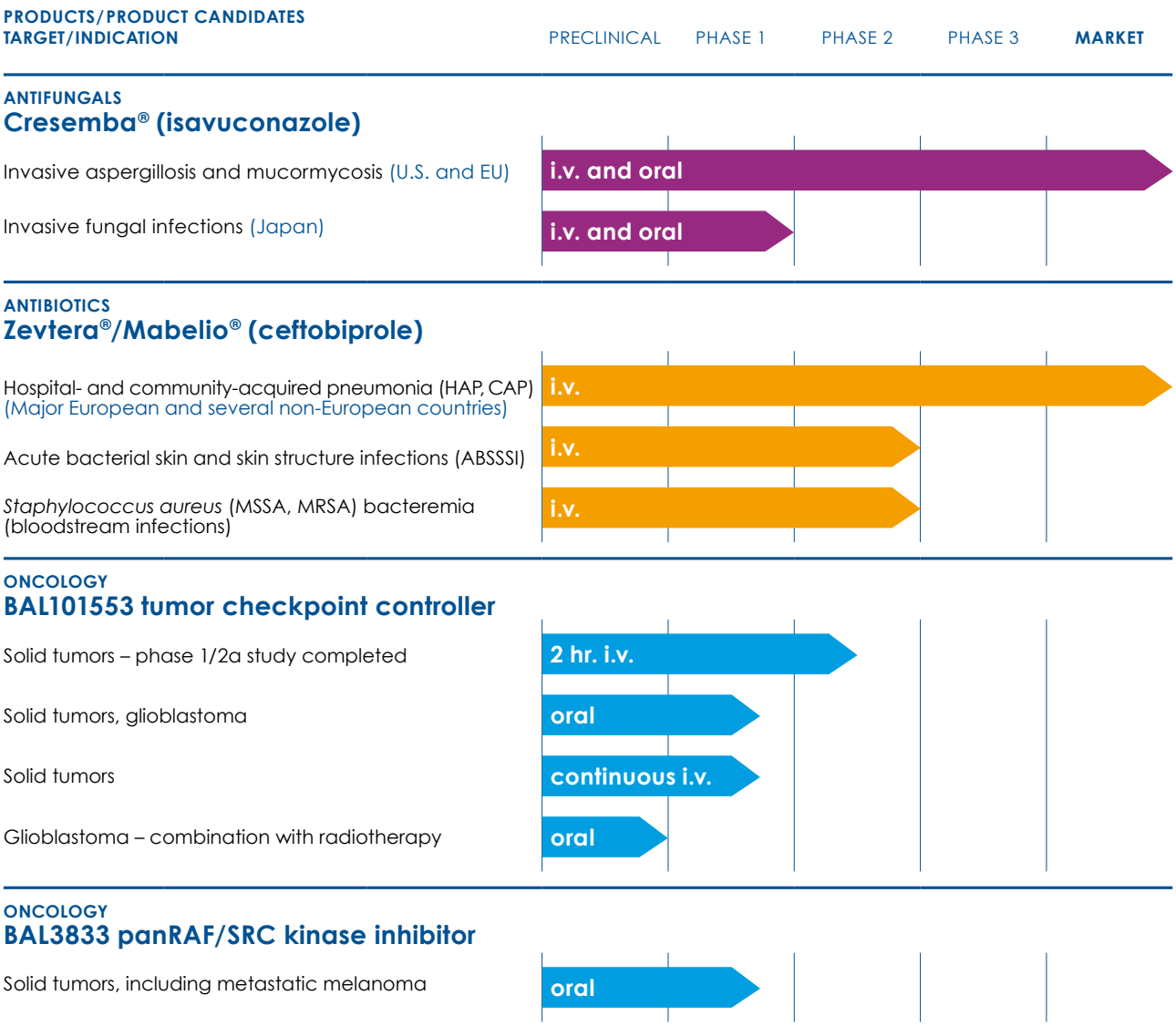
ANTICANCER DRUG BAL101553 (TUMOR CHECKPOINT CONTROLLER) – PHASE 1/2A

- Entered into a clinical study agreement with Adult Brain Tumor Consortium (ABTC) for a phase 1 study to explore oral BAL101553 in combination with radiotherapy in patients with newly diagnosed glioblastoma. ABTC is funded by the U.S. National Cancer Institute
- Dose-escalation ongoing in two phase 1/2a clinical studies exploring BAL101553 in patients with solid tumors; one study with oral daily dosing, including a separate arm for brain cancer (glioblastoma) patients, and a second study evaluating continuous infusion
- Presented interim clinical data from phase 1/2a solid tumor studies at American Society of Clinical Oncology (ASCO) meeting which showed that both daily oral and continuous 48-hour infusion provide higher drug exposure than previously achieved with 2-hour weekly infusion

ANTICANCER DRUG BAL3833 (PANRAF/SRC KINASE INHIBITOR) – PHASE 1

- Ongoing first-in-human phase 1 clinical study, exploring oral BAL3833 in patients with advanced solid tumors including metastatic melanoma

OUR DIVERSIFIED PORTFOLIO: FOCUSED ON DRUGS IN THE HOSPITAL SETTING



MSSA, MRSA: methicillin-susceptible and resistant *Staphylococcus aureus*

ANTIFUNGALS

CRESEMBA® (ISAVUCONAZOLE) is an intravenous (i.v.) and oral azole antifungal and the active agent of the prodrug isavuconazonium sulfate. It received marketing authorization in Europe for the treatment of adult patients with invasive aspergillosis and for the treatment of adult patients with mucormycosis for whom amphotericin B is inappropriate. It is approved in the United States for patients 18 years of age and older in the treatment of invasive aspergillosis and invasive mucormycosis. A decision by Swissmedic on Basilea's marketing authorization application for Switzerland is anticipated in 2017. Isavuconazole has orphan drug designation for the approved indications in Europe and the U.S. and was designated a Qualified Infectious Disease Product (QIDP) by the U.S. Food and Drug Administration (FDA) under the Generating Antibiotics Incentives Now (GAIN) Act.

Basilea has entered into license and distribution agreements for isavuconazole in the U.S., Europe, Japan, Latin America, the Middle East and North Africa (MENA) region, Canada, Russia, Turkey and Israel. The drug is commercialized under the trade name Cresemba. In Europe, it is currently marketed in Germany, Italy, the United Kingdom, France, Austria and the Nordic countries. Pfizer is anticipated to assume the responsibility for commercializing the drug in Europe (excluding the Nordic countries) by the end of 2017. Basilea's license partner Astellas Pharma US markets the drug in the U.S. Outside the U.S. and the EU, isavuconazole is currently not approved for commercial use.

ANTIBIOTICS

ZEVTERA®/MABELIO® (CEFTOBIPROLE) is a cephalosporin antibiotic for i.v. administration with rapid bactericidal activity against a wide range of Gram-positive and Gram-negative bacteria, including methicillin-susceptible and resistant *Staphylococcus aureus* (MSSA, MRSA) and susceptible *Pseudomonas* spp.

The drug is approved for sale in 13 European countries and several non-European countries for the treatment of adult patients with community-acquired pneumonia (CAP) and hospital-acquired pneumonia (HAP), excluding ventilator-associated pneumonia (VAP). It received Qualified Infectious Disease Product (QIDP) designation from the FDA for the potential treatment of community-acquired bacterial pneumonia (CABP) and acute bacterial skin and skin structure infections (ABSSSI).

Ceftobiprole is currently marketed in Germany, Italy, the United Kingdom, France, Austria and Switzerland under the trade names Zevtera or Mabelio. Basilea has entered into distribution agreements for the drug in Latin America, the Middle East and North Africa (MENA) region, Canada and the Nordics.

Basilea is preparing for the conduct of a clinical phase 3 program aiming at the regulatory approval of ceftobiprole in the United States. It consists of two cross-supportive phase 3 studies, one in the treatment of *Staphylococcus aureus* bacteremia (bloodstream infections) and the second one in ABSSSI. Basilea reached agreement with the FDA on Special Protocol Assessments for both studies. The program receives funding from the Biomedical Advanced Research and Development Authority (BARDA), the Department of Health and Human Services, Office of the Assistant Secretary for Preparedness and Response, under contract number HHSO100201600002C. The total value of the contract, which was signed in 2016, could reach approximately USD 108 million over a period of 4.5 years if pre-defined milestones are met.

ONCOLOGY

BAL101553 is a small-molecule tumor checkpoint controller being developed as a potential therapy for diverse cancers. Basilea is exploring once-daily oral dosing of drug candidate BAL101553 (prodrug of BAL27862) in an open-label phase 1/2a study in adult patients with advanced solid tumors. This study was amended in late 2016 to include the enrollment of adult patients with recurrent or progressive glioblastoma (brain cancer) after prior radiotherapy with or without chemotherapy. In another phase 1/2a clinical study, Basilea is exploring weekly 48-hour continuous infusion of BAL101553 as an alternative dosing regimen for the treatment of solid tumors.

Basilea entered into a clinical study agreement with the Adult Brain Tumor Consortium (ABTC) in the U.S., which will support a clinical phase 1 study with BAL101553 to determine the safety and tolerability of BAL101553 in combination with standard radiation. The study will enroll patients with newly diagnosed glioblastoma who have a reduced sensitivity to the standard chemotherapy temozolomide due to an unmethylated MGMT promoter. MGMT promoter status is an important prognostic molecular genetic biomarker in glioblastoma.

In preclinical studies, the active moiety of the prodrug, BAL27862, demonstrated *in-vitro* and *in-vivo* activity against diverse treatment-resistant cancer models, including tumors refractory to conventional approved therapeutics and radiotherapy. BAL101553 efficiently distributed to the brain, with anticancer activity in diverse glioblastoma models. BAL27862 binds the colchicine site of tubulin with distinct effects on microtubule organization, resulting in the activation of the "spindle assembly checkpoint" which promotes tumor cell death.

BAL3833, also known as CCT3833, is an orally available small-molecule drug candidate, in-licensed by Basilea. It is called a panRAF/SRC kinase inhibitor as it blocks BRAF and CRAF and also inhibits the SRC kinase family. The compound originates from The Institute of Cancer Research in London where it was developed by scientists funded by Cancer Research UK and the Wellcome Trust. It is currently being explored as a daily oral administration in a clinical phase 1 dose-escalation study in adult patients with advanced solid tumors, including metastatic melanoma.

RAF and SRC kinases play an important role in the transmission of cell growth and proliferation signals. If deregulated, they are associated with tumor growth and the development of resistance to current therapies. In particular, melanoma is often linked to a mutated BRAF kinase. BAL3833 demonstrated activity in preclinical studies in a range of patient-derived melanoma models with intrinsic or acquired resistance to selective BRAF inhibitors, as well as tumor models derived from colorectal, pancreatic and lung cancers associated with genetic changes resulting in activation of the RAF pathway.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016 (in CHF thousands, except for number of shares)

	Footnote reference	Unaudited **2017**	2016
ASSETS			
Current assets			
Cash and cash equivalents		143 101	239 030
Short-term investments	6	60 000	–
Accounts receivable	7	4 130	2 492
Other receivables	8	7 960	4 917
Inventories	9	15 600	14 931
Other current assets		4 537	7 124
Total current assets		**235 328**	**268 494**
Non-current assets			
Tangible assets, net	3	8 280	8 878
Intangible assets, net	4	202	232
Long-term investments	6	50 000	50 000
Other non-current assets		88	154
Total non-current assets		**58 570**	**59 264**
TOTAL ASSETS		**293 898**	**327 758**
LIABILITIES			
Current liabilities			
Accounts payable		2 475	1 851
Deferred revenue	5	51 701	51 615
Accruals and other current liabilities	11	24 883	19 448
Total current liabilities		**79 059**	**72 914**
Non-current liabilities			
Convertible senior unsecured bonds	10	195 842	195 466
Deferred revenue, less of current portion	5	49 913	74 511
Other non-current liabilities	15	19 735	19 867
Total non-current liabilities		**265 490**	**289 844**
Total liabilities		**344 549**	**362 758**
Commitments and contingencies	18		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital[1]	13	11 850	11 812
Additional paid-in capital		914 612	910 509
Accumulated other comprehensive loss	13	(24 100)	(24 872)
Treasury shares held by a subsidiary	13	(1 000)	(1 000)
Accumulated deficit		(952 013)	(931 449)
Total shareholders' equity (deficit)		**(50 651)**	**(35 000)**
TOTAL LIABILITIES AND EQUITY (DEFICIT)		**293 898**	**327 758**

[1] As of June 30, 2017, 11,850,382 registered shares were issued and outstanding with a par value of CHF 1 per share.
As of December 31, 2016, 11,811,973 registered shares were issued and outstanding with a par value of CHF 1 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, 2017 and June 30, 2016 (unaudited, in CHF thousands, except per share amounts)

	Footnote reference	2017	2016
Product revenue		9 805	1 888
Contract revenue	5	31 216	27 829
Revenue from research & development services		145	7
Other revenue	5	5 034	25
Total revenue		**46 200**	**29 749**
Cost of products sold		(3 531)	(2 997)
Research & development expenses, net		(26 439)	(24 777)
Selling, general & administrative expenses		(33 903)	(26 807)
Total cost and operating expenses		**(63 873)**	**(54 581)**
Operating loss		**(17 673)**	**(24 832)**
Interest income		10	17
Interest expense	10	(3 300)	(3 149)
Other financial income		1 475	637
Other financial expenses		(1 048)	(591)
Loss before taxes		**(20 536)**	**(27 918)**
Income taxes		(28)	(3)
Net loss		**(20 564)**	**(27 921)**

Loss per share	14	**2017**	2016
Basic and diluted loss per share, in CHF		(1.90)	(2.76)

BASILEA PHARMACEUTICA LTD. AND SUBSIDIARIES

Condensed consolidated statements of comprehensive income/loss for the six months ending June 30, 2017 and June 30, 2016 (unaudited, in CHF thousands)

	Footnote reference	2017	2016
Net loss		**(20 564)**	**(27 921)**
Currency translation adjustments		(163)	(545)
Amortization of unrecognized pension costs		935	616
Other comprehensive income, net of tax	13	**772**	**71**
Comprehensive loss		**(19 792)**	**(27 850)**

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, 2017 and June 30, 2016 (unaudited, in CHF thousands)

	Footnote reference	2017	2016
Cash flow from operating activities			
Net loss		(20 564)	(27 921)
Adjustments to reconcile net loss to net cash used in/provided by operating activities:			
Depreciation and amortization		1 014	1 191
Gain on disposal of assets, net		–	(5)
Stock-based compensation		2 847	3 673
Interest and accretion of debt issuance cost	10	353	370
Change in operating assets/liabilities:			
Accounts receivable		(1 671)	(13)
Other receivables		(3 047)	(158)
Inventories		(846)	(1 515)
Accounts payable		498	118
Deferred revenue		(24 511)	(24 740)
Accruals and other current liabilities		5 574	(4 866)
Other operating cash flow items		3 743	164
Net cash used for operating activities		**(36 610)**	**(53 702)**
Cash flow from investing activities			
Payments for short-term investments	6	(60 000)	–
Maturities of short-term investments	6	–	51 645
Payments for long-term investments	6	–	(50 000)
Investments in tangible assets		(392)	(94)
Investments in intangible assets		(46)	3
Net cash used in/provided by investing activities		**(60 438)**	**1 554**
Cash flow from financing activities			
Net proceeds from exercise of stock options		1 294	350
Net cash provided by financing activities		**1 294**	**350**
Effect of exchange rate changes on cash and cash equivalents		**(175)**	**(347)**
Net change in cash and cash equivalents		**(95 929)**	**(52 145)**
Cash and cash equivalents, beginning of period		**239 030**	**313 064**
Cash and cash equivalents, end of period		**143 101**	**260 919**

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, 2017 and June 30, 2016 (unaudited, in CHF thousands, except for number of shares)

	Footnote reference	Number of shares	Share capital	Additional paid-in capital	Accumulated other comprehensive income/loss	Treasury shares held by a subsidiary	Accumulated deficit	Total
Balance at December 31, 2015		**10 800 623**	**10 801**	**902 085**	**(17 868)**	**–**	**(880 162)**	**14 856**
Net loss		–	–	–	–	–	(27 921)	(27 921)
Other comprehensive income		–	–	–	71	–	–	71
Shares issued to a subsidiary	13	1 000 000	1 000	–	–	(1 000)	–	–
Exercise of stock options, net		9 750	9	341	–	–	–	350
Stock-based compensation, net		–	–	3 673	–	–	–	3 673
Balance at June 30, 2016		**11 810 373**	**11 810**	**906 099**	**(17 797)**	**(1 000)**	**(908 083)**	**(8 971)**
Balance at December 31, 2016		**11 811 973**	**11 812**	**910 509**	**(24 872)**	**(1 000)**	**(931 449)**	**(35 000)**
Net loss		–	–	–	–	–	(20 564)	(20 564)
Other comprehensive income		–	–	–	772	–	–	772
Exercise of stock options, net		38 409	38	1 256	–	–	–	1 294
Stock-based compensation, net		–	–	2 847	–	–	–	2 847
Balance at June 30, 2017		**11 850 382**	**11 850**	**914 612**	**(24 100)**	**(1 000)**	**(952 013)**	**(50 651)**

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. Please refer to the consolidated financial statements as of December 31, 2016, as included in the Annual Report 2016, 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 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 at June 30, 2017 and December 31, 2016:

Estimated fair value		
In CHF million	**2017**	2016
Convertible senior unsecured bonds (Level 1)	214.0	204.0

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.

Short-term 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 classified based on the input as level 2 of 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.

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.

Revenue recognition
The Company recognizes revenue when it is realized or realizable and earned in accordance with ASC 605 "Revenue Recognition". For agreements with multiple deliverables, the Company recognizes revenue separately for each unit of accounting 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 revenue
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 revenues are recognized net of any sales and value added taxes and sales deductions. Allowances are recorded for estimated rebates, discounts, returns and charge backs. If the Company grants rights of return to its customers, allowances for sales returns are recorded at the time of sale. If the Company cannot reasonably estimate the amount of future sales returns, revenue is recognized only when the risk of product return has expired, and when the Company can reasonably estimate the amount of future sales returns. 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 to gross revenues.

Contract revenue
Contract revenue includes realized or realizable amounts from upfront and milestone payments in connection with licensing and distribution agreements and royalties. Contract revenue also includes consideration received or receivable from a licensee for services provided by the Company in accordance with the respective license agreement.

For license agreements with multiple deliverables, the Company allocates the arrangement consideration, including upfront payments, to the separate deliverables based on the relative selling price of each deliverable 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 or over the expected period during which the Company has to satisfy its contractual performance obligations, 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 to be considered 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 recognized over the estimated remaining agreement period, depending on the terms of the agreement.

Revenue related to sales-based royalties received from licensees is recognized when earned, meaning when the royalties can be reasonably estimated based on the net 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.

Following the guidance in ASC 808 "Collaborative Arrangements", the Company presents the result 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 (see Note 5 Agreements) is to evaluate amounts due from (or owed to) other collaborators based on the nature of each separate activity.

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.

Other revenue
Other revenue includes realizable amounts from the contract with the Biomedical Advanced Research and Development Authority (BARDA) for the ceftobiprole U.S. phase 3 development. The Company considers the arrangement to be part of its ongoing major operations. Revenue from this contract is recognized as allowable costs are incurred applying the proportional performance revenue recognition method.

Cost of products sold
Expenses relating to the Company's products sold consisting of the manufacturing cost, 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.

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.

New accounting pronouncements

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

In May 2014, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers" (Topic 606): the development of this new standard is a part of the joint project of the 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 obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when the Company satisfies each performance obligation.
In March 2016, the FASB issued an amendment to the standard, ASU No. 2016-08, "Revenue from Contracts with Customers" (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued an additional amendment to the standard, ASU No. 2016-10, "Revenue from Contracts with Customers" (Topic 606): Identifying Performance Obligations and Licensing, which clarifies the guidance on identifying performance obligations and the implementation guidance on licensing.
The FASB voted on July 9, 2015 to approve a one-year deferral of the effective date of ASU No. 2014-09, "Revenue from Contracts with Customers" to make it effective for public companies for annual periods beginning after December 15, 2017. The FASB issued its final ASU formally amending the effective date in August 2015. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842). The key features of the new standard are: lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases).
The standard will be effective for public companies for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact on the financial statements of this new accounting pronouncement.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows" (Topic 230) - Restricted Cash: the amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.
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, 2017, whereby early adoption is permitted in any interim or annual period. The Company currently does not anticipate a significant impact on the current cash-flow statement disclosure.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation – Retirement Benefits" (Topic 715) - Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: the amendment requires the splitting of the net benefit cost. Thereby, the service cost component will be presented with other employee compensation costs within the result from operations (or capitalized in assets). The other components will be reported separately outside of the result of operations and will not be eligible for capitalization.
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, 2017, 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 May 2017, the FASB issued ASU No. 2017-09, "Compensation – Stock Compensation" (Topic 718) - Scope of Modification Accounting: the amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The current disclosure requirements apply regardless of whether an entity is required to apply modification accounting under the amendments in this update.
The amendments in this update will be effective for public companies for annual periods and interim periods within those annual periods, beginning after December 15, 2017, whereby early adoption is permitted in any interim period for which financial statements have not yet been issued. The Company is currently assessing the impact on the financial statements of this amendment.

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

Following accounting pronouncements were effective for reporting periods beginning after December 15, 2016: ASU No. 2015-11, "Inventory": Simplifying the Measurement of Inventory (Topic 330); ASU No. 2015-17, "Income Taxes" (Topic 740) - Balance Sheet Classification of Deferred Taxes; ASU No. 2016-09, "Compensation – Stock Compensation" (Topic 718) - Improvements to Employee Share-Based Payment Accounting and ASU No. 2016-19, "Technical Corrections and Improvements". The implementation of these accounting pronouncements had no significant impact on these condensed consolidated interim financial statements as of June 30, 2017.

3 Tangible assets

In CHF million	Land/Land-use rights	Buildings	Equipment	**Total**
H1 2017				
Cost				
January 1, 2017	1.5	18.9	24.8	45.2
Additions	0.0	0.0	0.4	0.4
Disposals	0.0	0.0	(0.5)	(0.5)
Currency effect	0.0	0.0	(0.2)	(0.2)
June 30, 2017	1.5	18.9	24.5	44.9
Accumulated depreciation				
January 1, 2017	0.0	13.4	22.9	36.3
Additions	0.0	0.5	0.5	1.0
Disposals	0.0	0.0	(0.5)	(0.5)
Currency effect	0.0	0.0	(0.2)	(0.2)
June 30, 2017	0.0	13.9	22.7	36.6
Net book value as of June 30, 2017	**1.5**	**5.0**	**1.8**	**8.3**
H1 2016				
Cost				
January 1, 2016	1.5	19.0	25.4	45.9
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	(0.5)	(0.5)
Currency effect	0.0	0.0	(0.3)	(0.3)
June 30, 2016	1.5	19.0	24.7	45.2
Accumulated depreciation				
January 1, 2016	0.0	12.5	22.7	35.2
Additions	0.0	0.5	0.6	1.1
Disposals	0.0	0.0	(0.5)	(0.5)
Currency effect	0.0	0.0	(0.2)	(0.2)
June 30, 2016	0.0	13.0	22.6	35.6
Net book value as of June 30, 2016	**1.5**	**6.0**	**2.1**	**9.6**

4 Intangible assets

The intangible assets as of June 30, 2017 and June 30, 2016 consist of software for internal use:

In CHF million	**H1 2017**	H1 2016
Cost		
January 1	4.8	4.8
Additions	0.0	0.0
Disposals	0.0	0.0
Currency effect	0.0	0.0
June 30	4.8	4.8
Accumulated amortization		
January 1	4.6	4.5
Additions	0.0	0.0
Disposals	0.0	0.0
Currency effect	0.0	0.0
June 30	4.6	4.5
Net book value as of June 30	**0.2**	**0.3**

5 Agreements

License agreement with Pfizer related to isavuconazole for Europe, Russia, Turkey and Israel

In June 2017, the Company entered into a license agreement with Pfizer Inc. for isavuconazole. The transaction 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.

Under the terms of the agreement, the Company receives 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 prespecified regulatory and sales milestones. In addition, the Company will also receive royalties in the mid-teen range on Pfizer Inc.'s sales in the Territory.

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. The agreement was further amended in August 2015, providing the Company full rights to isavuconazole in all markets outside the U.S. 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 milestone and royalty payments from Astellas relating to its territory. The Company received total CHF 42.0 million regulatory milestone payments from Astellas in 2014 and 2015 and is further eligible to receive up to CHF 290 million sales milestone payments. The achievement and timing of the sales milestones depend on the sales progress of the product in the future.

As such the agreement consists in a multiple-element arrangement with several deliverables identified, 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) and development-related manufacturing services. 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, as well as the manufacturing and procurement of clinical supplies related the co-development services, and 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 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 commercial-related manufacturing services consisting of another. 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 are another unit of accounting since they have value to Astellas and there is evidence of fair value of the undelivered commercial-related manufacturing services in the arrangement. The entire upfront payment was allocated

to the unit of accounting composed of the co-development services, the grant of the license and the participation in the Committee. The related revenue is recognized over the period over which the services are rendered based on an input measure which results in higher revenue recognized in the first years when more services were rendered. The period during which the Company has to satisfy its contractual performance obligations is expected to be until October 2020. Following the amendment of the agreement in 2014, the Company reassessed the remaining expected period during which the Company has to satisfy its contractual performance obligations and reduced it from lasting until July 2029 to lasting until October 2020.

In 2010, the Company received from Astellas 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). 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 participation in the Committee. As of June 30, 2017, the Company presented deferred revenue of CHF 15.1 million on its balance sheet, of which CHF 4.5 million is presented as current liabilities. For the six months ending June 30, 2017 and June 30, 2016, the Company recognized CHF 2.3 million as contract revenue related to this upfront payment related to 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. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of June 30, 2017, the Company presented deferred revenue of CHF 6.5 million on its balance sheet, of which CHF 2.0 million is presented as current liabilities. For the six months ending June 30, 2017 and June 30, 2016, the Company recognized CHF 1.0 million as contract revenue related to this additional milestone payment received upon acceptance of filing.

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. The Company deemed the milestone not to be substantive and as such the milestone payment was deferred and is recognized as contract revenue over the remaining period during which the Company has to satisfy its contractual performance obligations, expected to be until October 2020. As of June 30, 2017, the Company presented deferred revenue of CHF 17.7 million on its balance sheet, of which CHF 5.3 million is presented as current liabilities. For the six months ending June 30, 2017 and June 30, 2016, the Company recognized CHF 2.7 million as contract revenue related to this additional milestone payment received upon approval.

For the six months ending June 30, 2017, the Company recognized CHF 11.2 million (six months ending June 30, 2016: CHF 9.0 million) as contract revenue related to these payments and revenues related to royalties, and recognized additional contract revenue in the total amount of CHF 0.1 million (six months ending June 30, 2016: CHF 0.1 million) related to services provided by the Company to Astellas related to isavuconazole.

For the six months ending June 30, 2017, the Company reported CHF 0.8 million (six months ending June 30, 2016: CHF 1.1 million) research and development expenses for isavuconazole net of cost reimbursements from Astellas of CHF 0.2 million (six months ending June 30, 2016: CHF 0.4 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 for 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. The Company deemed the milestone not to be substantive and as such the milestone 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, 2017, the Company presented deferred revenue of CHF 6.0 million on its balance sheet, of which CHF 1.3 million is presented as current liabilities.

For the six months ending June 30, 2017, the Company recognized CHF 0.7 million (six months ending June 30, 2016: none) 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 and Grupo Biotoscana S.L. (GBT) for Latin and South America and Unimedic Pharma AB (Unimedic) for the Nordic countries, respectively. 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 13.4 million and is eligible for sales milestone payments of up to CHF 37.3 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 total CHF 1.3 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 1.3 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 on a straight line basis over the remaining performance

period, approximate to be until 2032. As of June 30, 2017, the Company presented deferred revenue of CHF 13.6 million on its balance sheet, of which CHF 0.9 million is presented as current liabilities.

For the six months ending June 30, 2017, the Company recognized CHF 0.4 million (six months ending June 30, 2016: none) as contract revenue related to these upfront payments and product revenues in the total amount of CHF 0.3 million (six months ending June 30, 2016: none) related to these distribution agreements.

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. Under the terms of the contract, BARDA will provide funding in the form of reimbursement of agreed development costs of approximately USD 20 million over an initial period of 18 months. During this initial period, the Company sought agreement on the development program from the FDA and obtained first health authority approvals for the initiation of clinical phase 3 studies. In June 2017, the company was awarded two additional options with a total amount of USD 54.8 million under the existing contract with BARDA to further support the phase 3 development of ceftobiprole. The Company considers the arrangement to be part of its ongoing major operations. Hence, other revenue is recorded using the proportional performance revenue recognition method and the associated costs are reflected as a component of research and development expenses.

For the six months ending June 30, 2017, the Company recognized CHF 4.9 million (six months ending June 30, 2016: none) as other revenue related to these services.

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, 2017 and June 30, 2016, the Company reported no amounts in research and development expenses, net related to this agreement.

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 on a straight-line basis 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, 2017, the Company presented deferred revenue of CHF 42.7 million on its balance sheet, of which CHF 37.7 million is presented as current liabilities.

For the six months ending June 30, 2017 and June 30, 2016, the Company recognized CHF 18.8 million as contract revenue related to this upfront payment.

6 Short-term and long-term investments

The short-term investments as of June 30, 2017 contain short-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 60.0 million (December 31, 2016: none). The long-term investments as of June 30, 2017 and December 31, 2016 contain long-term time deposits with banks, denominated in Swiss Francs, in the amount of CHF 50.0 million.

7 Accounts receivable

The accounts receivable primarily consist of receivables from product revenue as well as receivables related to activities for isavuconazole for Astellas. The Company did not record an allowance for estimated uncollectible receivables as of June 30, 2017 and December 31, 2016.

8 Other receivables

The following table shows the components of other receivables as of June 30, 2017 and December 31, 2016:

In CHF million	**2017**	2016
VAT receivables	1.1	1.7
Royalty receivables (see Note 5 Agreements)	2.9	2.4
Receivables from BARDA (see Note 5 Agreements)	3.7	0.2
Other	0.3	0.6
Total	**8.0**	**4.9**

9 Inventories

The following table shows the components of inventories as of June 30, 2017 and December 31, 2016:

In CHF million	2017	2016
Raw materials	3.4	3.2
Semi-finished products	21.2	21.7
Finished products	1.7	1.0
Inventory provisions	(10.7)	(11.0)
Total	**15.6**	**14.9**

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.

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, 2017 and December 31, 2016:

In CHF million	2017	2016
Convertible senior unsecured bonds	195.8	195.5

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, 2017 and June 30, 2016, 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 4.2 million will be accreted over the remaining term of the convertible senior unsecured bonds, which is approximately 5.5 years.

The amortization table related to the convertible senior unsecured bonds as of June 30, 2017 is as follows:

Amount in CHF million	
Remainder of 2017	3.2
2018	6.3
2019	6.3
2020	6.3
2021	6.3
2022	206.1
Total minimum payments, including unamortized issuance costs	**234.5**
Less amount representing interest	(34.5)
Convertible senior unsecured bonds, gross	**200.0**
Unamortized issuance costs on convertible senior unsecured bonds	(4.2)
Convertible senior unsecured bonds, including unamortized issuance costs	**195.8**

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 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, 2017 and December 31, 2016 consisted of the following:

In CHF million	2017	2016
Accrued research & development expenses	7.0	3.6
Accrued personnel and compensation costs	8.3	8.4
Accrued sales and marketing expenses	5.5	2.9
Other	4.1	4.5
Total accruals and other current liabilities	**24.9**	**19.4**

The accrued personnel and compensation costs and accrued sales and marketing expenses as of June 30, 2017 include expenses related to the Pfizer license agreement implementation preparation in the amount of CHF 1.6 million each.

The other liabilities include income tax payables solely related to foreign taxable income.

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. 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, 2017. CHF 1.6 million of this remaining available conditional capital are reserved for stock options, which were issued and outstanding as of June 30, 2017.

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.

In the six months ending June 30, 2017 the Company granted 202,098 stock options under its stock option plan with an exercise price of CHF 85.70 and a weighted average grant-date fair value of CHF 35.84 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, 2017, the Company recognized stock-based compensation expenses of CHF 2.8 million (six months ending June 30, 2016: CHF 3.7 million) related to this stock option plan.

13 Shareholders' equity

As of June 30, 2017, Basilea had 11,850,382 registered shares (*Namenaktien*) issued and outstanding with a par value of CHF 1.00 per share. As of December 31, 2016, Basilea had 11,811,973 registered shares issued and outstanding with a par value of CHF 1.00 per share.

For the six months ending June 30, 2017, 38,409 stock options were exercised, using conditional capital, which resulted in the issuance of 38,409 registered shares with a par value of CHF 1.00 per share. For the six months ending June 30, 2016, 9,750 stock options were exercised resulting in the issuance of 9,750 registered shares with a par value of CHF 1.00 per share.

Basilea had a total approved conditional capital of CHF 2,549,759 as of June 30, 2017 for the issuance of a maximum of 2,549,759 registered shares with a par value of CHF 1.00 per share. This conditional capital contained CHF 1,909,759 (1,909,759 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.

By shareholder approval at the 2014 ordinary general meeting of shareholders, Basilea was 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 1.00 per share. This authorization was valid for two years and expired in April 2016. In January 2016 Basilea increased the share capital by CHF 1,000,000 out of this authorized capital by issuing 1,000,000 registered shares with a par value of CHF 1.00 per share to a subsidiary of Basilea. These issued shares are held by Basilea Pharmaceutica International Ltd. for the potential conversion of the outstanding convertible senior unsecured bonds and are presented as treasury shares in these condensed consolidated interim financial statements.

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. This authorization is valid for two years.

Changes in accumulated other comprehensive income/loss for the six months ending June 30, 2017 and June 30, 2016:

In CHF million	Currency translation adjustment	Unrecognized pension cost	**Total**
December 31, 2015	**(0.8)**	**(17.1)**	**(17.9)**
Change during the period	(0.5)	0.6	0.1
Total change during the period	**(0.5)**	**0.6**	**0.1**
June 30, 2016	**(1.3)**	**(16.5)**	**(17.8)**
December 31, 2016	**(1.6)**	**(23.3)**	**(24.9)**
Change during the period	(0.1)	0.9	0.8
Total change during the period	**(0.1)**	**0.9**	**0.8**
June 30, 2017	**(1.7)**	**(22.4)**	**(24.1)**

14 Earnings/Loss per share

For the six months ending June 30, 2017 and June 30, 2016, 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, 2017 and June 30, 2016 were as follows:

	2017	2016
Net loss in CHF million	(20.6)	(27.9)
Weighted average number of shares outstanding, basic and diluted	10 830 060	10 119 900
Basic and diluted loss per share in CHF	(1.90)	(2.76)

For the six months ending June 30, 2017, 198,004 incremental shares (six months ending June 30, 2016: 168,596 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, 2016: 1,586,017 shares) were excluded, as the effect would have been anti-dilutive.

15 Pension plan

As of June 30, 2017, the Company recorded an accrued pension liability of CHF 19.6 million in other non-current liabilities (December 31, 2016: CHF 19.7 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, 2017 and June 30, 2016:

In CHF million	**2017**	2016
Service cost	1.5	1.4
Interest cost	0.2	0.4
Expected return on plan assets	(0.5)	(0.6)
Amortization of pension related net loss	1.1	0.6
Amortization of prior cost	(0.2)	(0.0)
Gross (benefit)/expense	**2.1**	**1.8**
Participant contributions	(0.6)	(0.6)
Net periodic pension cost	**1.5**	**1.2**

16 Segment 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, 2017, the short-term investments amounted to CHF 60.0 million and the long-term investments amounted to CHF 50.0 million and were invested with two different banks. As of December 31, 2016, all investments were invested long-term with one bank and amounted to CHF 50.0 million.

The cash and cash equivalents as of June 30, 2017 amounted to CHF 143.1 million, of which CHF 134.2 million were held with three different banks. The cash and cash equivalents as of December 31, 2016 amounted to CHF 239.0 million, of which CHF 230.5 million were held with three different banks. As of June 30, 2017, the highest total amount of cash and cash equivalents and investments held at one bank amounted to CHF 118.3 million. As of December 31, 2016, the highest total amount of cash and cash equivalents and long-term investments held at one bank amounted to CHF 142.8 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, 2017 is from Alliance Healthcare (Distribution) Limited in the amount of CHF 0.8 million (December 31, 2016: CHF 0.6 million) in connection with product revenue in the United Kingdom.

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, 2017 and December 31, 2016, there were no significant contingencies.

19 Subsequent events

On July 19, 2017 the license agreement between the Company and Pfizer Inc. for isavuconazole was closed and the Company received an upfront payment of CHF 70.0 million. For further details please refer to Note 5 Agreements.

The Company has evaluated subsequent events through August 8, 2017, the date on which the condensed consolidated interim financial statements were available to be issued.

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