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Ceftobiprole is a new, powerful, first-in-class antibiotic designed to treat patients with a wide variety of serious infections, including those due to highly drug-resistant bacteria. Basilea is uniquely positioned in anti-infectives with both a late-stage development portfolio plus a significant research pipeline.



Report of Independent Accountants



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

We have reviewed the accompanying condensed consolidated balance sheet of Basilea Pharmaceutica Ltd. and its subsidiaries as of June 30, 2005, the related condensed consolidated statements of operations and cash flows for each of the six-months periods ended June 30, 2005 and 2004, the condensed consolidated statement of changes in shareholders' equity for the six months ended June 30, 2005, and the related notes, included on pages 7 to 14. These interim financial statements are the responsibility of the Board of Directors.

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

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

PricewaterhouseCoopers AG

Ralph R. Reinertsen

Garrett C. Thompson

Basel, August 15, 2005

Condensed Consolidated Interim Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004, in CHF

ASSETS	Footnote reference	Unaudited Jun 30, 2005	Dec 31, 2004
Current assets			
Cash and cash equivalents		104 586 727	66 918 453
Short-term investments	6	150 500 000	136 250 000
Accounts receivable		2 653 432	70 943
Other receivables		230 375	585 021
Accrued interest		412 356	474 606
Other current assets		922 588	1 496 298
Total current assets		259 305 478	205 795 321
Non-current assets			
Property, plant and equipment, net		20 536 956	21 737 027
Other non-current assets	12	3 231 500	3 249 000
Total non-current assets		23 768 456	24 986 027
TOTAL ASSETS		283 073 934	230 781 348
LIABILITIES			
Current liabilities			
Accounts payable			
- Third		1 261 305	1 999 848
- Related parties		5 575	611
Short-term debt	7	126 206	10 365 868
Deferred revenue	5	5 327 043	-
Accruals and other current liabilities	8		
- Third		13 861 569	8 238 588
- Related parties		513 617	556 920
Total current liabilities		21 095 315	21 161 835
Non-current liabilities			
Deferred revenue, less current portion	5	71 296 377	-
Long-term debt		6 737	19 109
Total non-current liabilities		71 303 114	19 109
Total liabilities		92 398 429	21 180 944
SHAREHOLDERS' EQUITY			
Share capital ⁽¹⁾	10	7 387 829	7 380 954
Additional paid-in capital		419 877 243	418 729 970
Accumulated other comprehensive loss		(713 977)	(1 171 305)
Accumulated deficit		(235 875 590)	(215 339 215)
Total shareholders' equity		190 675 505	209 600 404
TOTAL LIABILITIES AND EQUITY		283 073 934	230 781 348

⁽¹⁾As of June 30, 2005, 7 387 829 shares issued and outstanding at par value of CHF 1 per share.

As of December 31, 2004, 7 380 954 shares issued and outstanding at par value of CHF 1 per share.

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

**Condensed Consolidated Statements of Operations
for the six months ended June 30, 2005 and 2004
(unaudited), in CHF**

	Jun 30, 2005	Jun 30, 2004
Revenues	19 562 823	148 023
Research & development expenses	(36 750 821)	(28 452 560)
General & administrative expenses	(3 690 656)	(3 255 062)
Total operating expenses	(40 441 477)	(31 707 622)
Operating loss	(20 878 654)	(31 559 599)
Interest expense	(155 735)	(222 829)
Interest income	820 564	245 784
Other financial income/(expense), net	(322 550)	(12 365)
Loss before taxes	(20 536 375)	(31 549 009)
Income taxes	0	0
Net loss	(20 536 375)	(31 549 009)

	2005 6 months	2004 6 months
Loss per share		
Basic and diluted loss per share, in CHF	(2.78)	(4.91)

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

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2005 and 2004 (unaudited), in CHF

	Jun 30, 2005	Jun 30, 2004
Net cash provided by/used for operating activities	61 935 589	(25 787 967)
Cash flow from investing activities		
Short-term investments	(14 250 000)	(190 000 000)
Investments in property, plant & equipment, net of disposals	(303 610)	(104 502)
Net cash used for investing activities	(14 553 610)	(190 104 502)
Cash flow from financing activities		
Net proceeds from capital increase	–	192 785 190
Net proceeds from exercise of stock options	407 912	–
Repayment of debt	(10 000 000)	–
Repayment of capital lease liabilities	(252 034)	(264 139)
Net cash provided by/used for financing activities	(9 844 122)	192 521 051
Effect of exchange rate changes on cash and cash equivalents	130 417	14 475
Net increase/decrease in cash and cash equivalents	37 668 274	(23 356 943)
Cash and cash equivalents, beginning of period	66 918 453	74 299 265
Cash and cash equivalents, end of period	104 586 727	50 942 322

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

**Condensed Consolidated Statement of changes
in Shareholders' Equity for the six months ended
June 30, 2005 (unaudited), in CHF**

	Number of shares	Share capital	Additional paid-in capital	Additional paid-in capital: Unearned compensation	Accumulated deficit	Accumulated other comprehensive income/(loss)	Total
Balance as of December 31, 2004	7 380 954	7 380 954	420 974 252	(2 244 282)	(215 339 215)	(1 171 305)	209 600 404
Currency translation adjustment	-	-	-	-	-	457 328	457 328
Net loss	-	-	-	-	(20 536 375)	-	(20 536 375)
Comprehensive income	-	-	-	-	(20 536 375)	457 328	(20 079 047)
Exercise of stock options, net	6 875	6 875	401 037	-	-	-	407 912
Stock-based compensation, net	-	-	-	746 236	-	-	746 236
Balance as of June 30, 2005	7 387 829	7 387 829	421 375 289	(1 498 046)	(235 875 590)	(713 977)	190 675 505

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

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1 Basis of Presentation

The condensed consolidated interim financial statements of Basilea Pharmaceutica Ltd. and its subsidiaries («Company») have been prepared in accordance with Generally Accepted Accounting Principles in the United States of America («US GAAP») for interim financial information and accordingly do not include all information and disclosures as required by US GAAP for complete financial statements. Please refer to the consolidated financial statements as of December 31, 2004, as included in the Annual Report 2004, 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 to present fairly the consolidated balance sheets, statements of operations, cash flows and changes in shareholders' equity for the interim periods presented.

2 Significant Accounting Policies

REVENUE RECOGNITION

The Company generally recognizes revenue if the criteria of Staff Accounting Bulletin («SAB») No. 101, as amended by SAB No. 104, are met, which is when there is evidence of an arrangement, the price is fixed or determinable, collectibility is reasonably assured and the service has been rendered or delivery has occurred. For agreements with multiple deliverables, the Company recognizes revenue separately for each deliverable in accordance with EITF 00-21.

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

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

Payments received as reimbursement of expenses incurred by the Company, for which the Company was the primary obligor at the time the expenses incurred, are recognized as revenue in accordance with EITF 01-14.

3 New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board («FASB») released the Statement of Financial Accounting Standards («SFAS») No. 123R related to Accounting for Stock-Based Compensation. According to this new pronouncement, application of Accounting Principles Board («APB») Opinion No. 25 would not be allowed for stock-based compensation beginning from the effective date of SFAS No. 123R, which would be July 1, 2005 for the Company. This SFAS requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This pronouncement does not have an effect on the consolidated interim financial statements as of June 30, 2005. The Company currently plans, per the effective date of SFAS No. 123R, to apply the modified prospective application method, as provided by SFAS No. 123R, and estimates total additional stock-based compensation expenses for the stock options granted until June 30, 2005 of approximately CHF 5.7 million through 2008, of which approximately CHF 2.0 million would effect the results of operations in the second half of 2005.

4 Exchange Rates of Principal Currencies

The exchange rates used for the consolidation in 2005 and 2004 were the following:

	Statement of Operations		Balance Sheet	
	6 months 2005	Average rate 6 months 2004	Jun 30, 2005	Dec 31, 2004
US Dollar	1.20	1.27	1.28	1.13

5 Licensing Agreement

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

Under this agreement, the Company is eligible for non-refundable milestone payments based on the achievement of milestones related to development, regulatory filing, regulatory approval and commercialization of ceftobiprole. In addition, the Company is also eligible for royalty payments in the event of commercialization of BAL5788.

In the six months ended June 30, 2005, the Company received non-refundable upfront and milestone payments totalling to CHF 78.0 million. These payments are being recognized straight-line over the term of the agreement. The Company has recognized CHF 1.5 million as revenue in the first six months of 2005 related to these payments. Furthermore, the Company realized revenue in the first six months ending June 30, 2005 in the amount of CHF 15.1 million as reimbursement of expenses incurred by the Company related to BAL5788 as well as CHF 2.8 million for research and development services provided to the Licensee.

6 Short-Term Investments

The short-term financial investments as of June 30, 2005 contain short-term deposits with banks, all denominated in Swiss Francs, in the amount of CHF 150.0 million (CHF 135.0 million as of December 31, 2004).

The short-term investments as of June 30, 2005 include in addition a pledged bank deposit of CHF 0.5 million (December 31, 2004: CHF 1.3 million), which has been pledged to a bank in connection with financial lease obligations. The use of this deposit is restricted to the extent of the total lease liabilities, which amount to CHF 0.1 million as of June 30, 2005 (December 31, 2004: CHF 0.4 million).

7 Short-Term Debt

The short-term debt as of June 30, 2005 consists of the current portion of the capital lease liabilities. As of December 31, 2004, the short-term debt included a mortgage in the amount of CHF 10.0 million, which the Company repaid in May 2005.

8 Accruals and Other Current Liabilities

Accruals and other current liabilities consisted of the following:

In CHF million	Jun 30, 2005	Dec 31, 2004
Accrued R&D expenses	8.9	5.1
Accrued personnel and compensation costs	2.7	2.6
Other	2.3	0.5
Total accruals and other current liabilities, third	13.9	8.2
Accruals and other current liabilities, related parties	0.5	0.6

9 Stock-Based Compensation

The Company has established a stock option plan effective on December 13, 2000, to provide incentives to directors, executives and employees with an opportunity to obtain stock options on registered shares of Basilea. The shareholders approved conditional capital of up to CHF 2.0 million comprising of two million registered shares at a par value of CHF 1 per share, necessary for the issuance of the shares upon the exercise of the options.

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

The Company accounts for stock-based compensation applying APB Opinion No. 25. For the six months ending June 30, 2005, the Company recognized compensation expenses of CHF 0.7 million related to stock-based compensation, while CHF 1.2 million of compensation expenses were recognized in the respective period in 2004.

Pro forma disclosure

The pro forma net loss and net loss per share for the first half of 2005 and 2004 have been determined as if the Company had used the fair value method of accounting for its stock option grants in accordance with the provisions of SFAS No. 123 and No. 148.

The following table illustrates the effect on net loss and loss per share for the six months ending June 30, 2005 and 2004, respectively, if the fair value based method had been applied to all outstanding and unvested awards:

In CHF million, except per share data	6 months 2005	6 months 2004
Net loss, as reported	(20.5)	(31.5)
+ Stock-based compensation included in reported net loss, net of tax	0.7	1.2
- Stock-based compensation determined under fair value based method, net of tax	(2.9)	(1.2)
Pro forma net loss (fair value method)	(22.7)	(31.5)
Per share data:		
Basic and diluted loss per share, as reported, in CHF	(2.78)	(4.91)
Basic and diluted loss per share, pro forma, in CHF	(3.08)	(4.91)

10 Shareholders' Equity

As of June 30, 2005, Basilea had 7,387,829 registered shares («Namenaktien») issued and outstanding with a par value of CHF 1 per share. As of December 31, 2004, Basilea had 7,380,954 registered shares at CHF 1 per share issued and outstanding, respectively.

In March 2004, Basilea increased its share capital by an amount of CHF 2,100,000 through issuance of 2,100,000 registered shares with a nominal value of CHF 1 per share through a public offering. The Company realized net proceeds of approximately

CHF 192.8 million through this capital increase and Basilea's shares were listed on the SWX Swiss Exchange.

In addition, 6,875 stock options have been exercised in the first six months ending June 30, 2005, using the conditional capital, which resulted in the issuance of 6,875 registered shares with a par value of CHF 1 per share. No options were exercised in the respective period in 2004.

The Company has an approved conditional capital of CHF 1,992,312 as of June 30, 2005, consisting of 1,992,312 registered shares with a par value of CHF 1 per share reserved for the issuance of shares under the stock option plan available to directors, executives and employees.

The shareholders also approved additional conditional capital up to CHF 640,000 consisting of 640,000 registered shares at a par value of CHF 1 each available for the exercise of option or conversion rights granted with new option or convertible bonds.

In addition, the Company is authorized, through April 2007, to increase its share capital by a maximum of CHF 540,000 by issuing a maximum of 540,000 registered shares with a nominal value of CHF 1 per share.

11 Earnings per Share

For the six months ended June 30, 2005 and 2004, 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, 2005 and 2004 are as follows:

	2005	2004
Net loss in CHF million	(20.5)	(31.5)
Weighted average number of shares outstanding, basic and diluted	7 385 436	6 422 449
Basic and diluted loss per share, in CHF	(2.78)	(4.91)

The computation of the dilutive loss per share for the six months ending June 30, 2005 excludes the conversion or issuance of 1,251,794 shares (2004: 972,065 shares) related to stock options as the effect would have been anti-dilutive.

12 Pension Plan

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

The following table provides information on the estimated pension expenses for the six months periods ending June 30, 2005 and 2004:

In CHF million	Jan 1 to Jun 30, 2005	Jan 1 to Jun 30, 2004
Service cost	0.9	1.1
Interest cost	0.4	0.4
Expected return on plan assets	(0.4)	(0.5)
Gross benefit expense	0.9	1.0
Participant contributions	(0.3)	(0.3)
Net periodic pension cost	0.6	0.7
Employer contributions	(0.6)	(0.5)
Decrease of prepaid pension asset	0.0	0.2

13 Related Party Transactions

The Company has an agreement with its shareholder, F. Hoffmann-La Roche Ltd. («Roche»), with respect to one of the Company's development compounds, BAL8557, and certain of its research molecules, that allows Roche to opt-in on such compounds in

exchange for milestone payments and potential future royalties. The Company is currently not pursuing those research molecules for which Roche has opt-in rights.

In May 2004, Roche decided not to exercise its option to license the Company's anti-biotic compound BAL5788. As a consequence, the Company obtained global commercialization rights for this compound.

14 Commitments and Contingencies

The Company entered into various purchase commitments for services and materials as well as for equipment as part of the ordinary business. These commitments are not in excess of current market prices in all material respects and reflect normal business operations.

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