

**ACTELION LTD AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS**

	Twelve Months Ended December 31,	
	2007	2006
<i>(in CHF thousands, except per number of shares)</i>		
Net revenue:		
Products sales	1,292,083	924,141
Contract revenue	<u>25,309</u>	<u>21,532</u>
Total net revenue	<u>1,317,392</u>	<u>945,673</u>
Operating expenses (1)		
Cost of sales	137,748	90,594
Research and development	292,137	211,814
Marketing and advertising	234,052	185,491
Selling, general and administration	266,083	185,075
Amortization of acquired intangible assets	19,950	4,510
Write-off of acquired in-process research and development	<u>224,820</u>	<u>-</u>
Total operating expense	<u>1,174,790</u>	<u>677,484</u>
Operating income	<u>142,602</u>	<u>268,189</u>
Interest income	20,408	8,386
Interest expense	(233)	(163)
Amortization of debt discount and issuance costs	(4,090)	(8,410)
Other financial income (expense), net	<u>9,587</u>	<u>10,724</u>
Income before income tax expense	<u>168,274</u>	<u>278,726</u>
Income tax expense	<u>(43,688)</u>	<u>(37,636)</u>
Net income	<u>124,586</u>	<u>241,090</u>
Basic net income per share	1.05	2.13
Number of shares (in thousands) used in computation	118,098	113,269
Diluted net income per share	1.00	2.05
Number of shares and share options (in thousands) used in computation	124,809	121,627
(1) Includes employee stock option costs as follows:		
Research and development	22,755	11,328
Marketing and advertising	15,676	9,035
Selling, general and administration	<u>25,667</u>	<u>12,298</u>
Total stock-based compensation	<u>64,098</u>	<u>32,661</u>

The accompanying notes form an integral part of these consolidated financial statements.

**ACTELION LTD AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

<i>(in CHF thousands, except number of shares)</i>	December 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	331,586	926,137
Short term deposits	527,415	189,098
Derivative instruments	322	3,667
Marketable securities	-	29,750
Trade and other receivables, net	329,528	217,376
Inventories	42,787	24,320
Other current assets	35,386	27,635
Deferred tax asset, current portion	559	4,518
Total current assets	1,267,583	1,422,501
Property, plant and equipment, net	113,993	81,970
Other assets	10,011	11,486
Intangible assets, net	187,417	19,159
Goodwill, net	81,155	27,385
Deferred tax asset	15,275	15,669
Total assets	1,675,434	1,578,170
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	89,101	67,297
Accrued expenses	208,961	130,894
Deferred revenue, current portion	28,434	27,314
Other current liabilities	1,184	1,649
Short-term financial debt	493,000	626,832
Total current liabilities	820,680	853,986
Long-term financial debt	84,100	-
Deferred revenue, less current portion	106,514	120,890
Other non-current liabilities	5,213	4,395
Pension liability	4,000	19,835
Deferred tax liability	2,546	932
Total liabilities	1,023,053	1,000,038
Shareholders' Equity		
Common shares (par value CHF 0.50 per share, authorized 213,275,590 and 207,033,200 shares; issued 122,027,729 and 114,779,420 shares in 2007 and 2006 respectively)	61,014	57,390
Additional paid-in capital	569,920	394,090
Accumulated profit	281,207	156,621
Treasury shares, at cost	(230,627)	(11,118)
Accumulated other comprehensive income	(29,133)	(18,851)
Total Shareholders' Equity	652,381	578,132
Total Liabilities and Shareholders' Equity	1,675,434	1,578,170

The accompanying notes form an integral part of these consolidated financial statements.

ACTELION LTD AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Twelve Months Ended	
	December 31,	
	2007	2006
<i>(in CHF thousands)</i>		
Cash flow from operating activities		
Net income	124,586	241,090
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	39,923	19,525
Stock-based compensation	64,606	32,979
Excess tax benefits from share based payment arrangements	(7,401)	(3,959)
(Gains) Losses on derivative instruments	3,096	(7,423)
(Gains) Losses on marketable securities	(742)	-
Write-off of acquired in-process research and development	224,820	68
Amortization of debt discount and expense	4,090	8,410
Trade and other receivables	(100,190)	(58,812)
Inventories	(7,525)	2,052
Other current assets	(11,942)	(4,914)
Other assets	(3,820)	(11,547)
Trade and other payables	23,025	7,317
Accrued expenses	61,153	46,040
Deferred revenue	(13,438)	80,347
Other liabilities	(3,185)	3,942
Changes in other operating cash flow items	(2,892)	(2,358)
Net cash flow provided by operating activities	394,164	352,757
Cash flow from investing activities		
Purchase of short-term deposits	(1,050,153)	(323,157)
Withdrawal of short-term deposits	711,679	378,900
Purchase of property, plant and equipment	(55,382)	(42,519)
Purchase of marketable securities	-	(20,000)
Proceeds from sale of marketable securities	109,125	-
Purchase of derivative instruments	(505)	(1,434)
Proceeds from sale of derivative instruments	505	1,434
Purchase of intangible assets	(7,230)	(11,124)
Increase of investment	(16,708)	-
Acquisition of subsidiary	(520,271)	-
Net cash flow used in investing activities	(828,940)	(17,900)
Cash flow from financing activities		
Payments on capital leases	(238)	(226)
Issuance of 2006 convertible bond	(260)	451,430
Conversion costs 2003 convertible bond	(2,213)	-
Bank Loan	117,100	-
Proceeds from exercise of stock options, net of expense	59,161	31,026
Purchase of treasury shares	(219,650)	(10,839)
Purchase of call option	(117,054)	(20,562)
Excess tax benefits from share based payment arrangements	7,401	3,959
Net cash flow provided by (used in) financing activities	(155,753)	454,788
Net effect of exchange rates on cash and cash equivalents	(4,022)	(1,525)
Net change in cash and cash equivalents	(594,551)	788,120
Cash and cash equivalents at beginning of period	926,137	138,017
Cash and cash equivalents at end of period	331,586	926,137
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	196	163
Taxes	24,942	11,997

The accompanying notes form an integral part of these consolidated financial statements.

ACTELION LTD AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(in CHF thousands, except number of shares)</i>	Common Shares		Additional	Accumulated	Treasury	Other	Shareholders'
	Shares	Amount	Paid-in- Capital	Profit	Shares	Comprehensive Income (Loss)	Equity
At January 1, 2006	112,696,750	56,364	348,011	(84,469)	(467)	2,275	321,714
Comprehensive income net of tax effect:							
Net income				241,090			241,090
Other comprehensive income:							
Currency translation adjustment						(3,071)	(3,071)
Additional minimum pension liability						(2,332)	(2,332)
Unrealized loss on marketable securities						(70)	(70)
Comprehensive income							<u>235,617</u>
Additional pension liability, adoption of SFAS 158						(15,653)	(15,653)
Excess tax benefit from share-based payment			3,850				3,850
Exercise of stock options	2,051,685	1,026	30,000				31,026
Transactions in treasury shares	(247,500)		130		(10,651)		(10,521)
Options related to own shares			(20,562)				(20,562)
Stock-based compensation expense, net			32,661				32,661
At December 31, 2006	114,500,935	57,390	394,090	156,621	(11,118)	(18,851)	578,132
Comprehensive income net of tax effect:							
Net income				124,586			124,586
Other comprehensive income:							
Currency translation adjustment						(24,526)	(24,526)
Not recognized components of net periodic benefit costs						14,157	14,157
Unrealized gain on marketable securities						87	87
Comprehensive Income							<u>114,304</u>
Excess tax benefit from share-based payment			7,209				7,209
Exercise of stock options	2,562,969	1,281	57,880				59,161
Equity increase from debt conversion	4,685,340	2,343	163,330				165,673
Transactions in treasury shares	(3,662,025)		367		(219,509)		(219,142)
Options related to own shares			(117,054)				(117,054)
Stock-based compensation expense, net			64,098				64,098
At December 31, 2007	118,087,219	61,014	569,920	281,207	(230,627)	(29,133)	652,381

The accompanying notes form an integral part of these consolidated financial statements.

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Note 1. Description of business and summary of significant accounting policies

Actelion Ltd (“Actelion” or the “Group”), a biopharmaceutical company headquartered in Allschwil, Switzerland, discovers, develops and commercializes innovative low molecular weight drugs for high unmet medical needs.

Basis of accounting

The Group’s consolidated financial statements have been prepared under United States Generally Accepted Accounting Principles (“US GAAP”). All amounts are presented in Swiss francs (“CHF”), unless otherwise indicated.

Principles of consolidation

The consolidated financial statements include the accounts of the Group and its wholly-owned affiliated companies in which the Group has a controlling financial interest and exercises control over their operations as well as entities for which the Group has determined to be the primary beneficiary under the Financial Accounting Standards Board Interpretation No. 46(R), Consolidation of Variable Interest Entities (“VIE”), an interpretation of ARB No. 51 (“FIN 46(R)”).

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make judgments, assumptions and estimates that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. On an on-going basis, management evaluates its estimates, including those related to revenue recognition for contract revenue, allowance for doubtful accounts, stock-based compensation, purchase accounting, impairment of goodwill, provisions and income taxes. The Group bases its estimates on historical experience and on various other market-specific assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Revenue recognition

Product sales

The Group recognizes revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectability is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns and discounts.

Taxes collected from customers and remitted to governmental authorities like sales taxes, VAT are generally deducted directly from gross sales without recording them in revenue.

Contract revenue

Contract revenue includes license fees and milestone payments associated with collaborative agreements with third parties. The Group recognizes revenue from collaborative agreements when the services are performed and collectability is reasonably assured, revenue from non-refundable, upfront license fees and performance milestones where the Group has continuing involvement is recognized over the estimated performance or agreement period, depending on the terms of the agreement. The recognition of revenue is prospectively adjusted for subsequent changes in the development or agreement period. Revenue associated with performance milestones where the Group has no continuing involvement or service obligation is recognized upon achievement of the milestone. Payments received in excess of amounts earned are classified as deferred revenue until earned.

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Shipping and handling costs

The Group recognizes expenses relating to shipping and handling costs in cost of sales.

Research and development

Research and development expense consists primarily of compensation and other expenses related to research and development personnel; costs associated with pre-clinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services rendered under co-development agreements; and facilities expenses. All research and development costs are charged to expense when incurred.

Payments made to acquire research and development assets, including those payments made under licensing agreements, that are deemed to have an alternative future use or are related to proven products are capitalized as intangible assets; otherwise, they are expensed as research and development costs. For further information on payments made under the Group's licensing agreements refer to Note 3, "Licensing agreements".

Advertising and promotional costs

The Group expenses the costs of advertising, including promotional expenses, as incurred. Advertising and promotional costs were CHF 121.9 million and CHF 98.6 million in 2007 and 2006, respectively.

Patents and trademarks

Costs associated with the filing and registration of patents and trademarks are expensed in the period in which they occur.

Taxes

The Group accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS 109"). Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rules and laws that will be in effect when differences are expected to reverse. The Group performs periodic evaluations of recorded tax assets and liabilities and maintains a valuation allowance if deemed necessary. Since January 1, 2007 effective settlement of tax positions is determined in compliance with FASB Interpretation 48, Accounting for Uncertainty of Income Taxes ("FIN 48") and related FASB staff position papers. Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favorable or unfavorable effects on the future effective tax rate, which would directly impact the Group's financial position or results of operations. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of capital expenditures, and changes in overall levels of pre-tax earnings. Interest and penalties related to uncertain tax positions are recognized as income tax expense.

Earnings per share

In accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128"), basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding for the fiscal year. Diluted earnings per share reflects the maximum potential dilution that could occur if dilutive securities, such as share options or convertible debt, were exercised or converted into common shares or resulted in the issuance of common shares that would participate in net income.

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In June 2007, a one-to-five split in shares of Actelion Ltd. took effect. Basic and diluted EPS have been adjusted retroactively for all periods presented to reflect the change in the number of shares. Actelion shareholders had approved this stock split at their Annual General Meeting on May 4, 2007.

Dividends

The Group may declare dividends upon the recommendation of the board of directors and the approval of shareholders at their annual general meeting. Under Swiss corporate law, the Group's right to pay dividends may be limited in specific circumstances.

Cash and cash equivalents

The Group considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Additionally, the Group includes all amounts held in money market funds as cash equivalents.

Short-term deposits

Short-term deposits with maturities greater than three months have been separated from cash and cash equivalents and are reported in a separate line in the consolidated balance sheet.

Marketable securities

The Group classifies marketable securities as either "available-for-sale" or "held-to-maturity". Available-for-sale securities are carried at fair value with unrealized gains and losses recorded as a separate component of shareholders' equity. Held-to-maturity securities are carried at amortized cost. Dividends and interest income are accrued as earned. Realized gains and losses are determined on an average cost basis. The Group reviews marketable securities for impairment whenever circumstances indicate that a decline in the fair value of the security below its amortized cost may be other than temporary. Securities with unrealized losses for more than six months are presumed to be impaired, absent compelling evidence to the contrary. In addition, securities with unrealized losses for less than six months may be deemed impaired in certain circumstances.

Derivative instruments

A significant portion of the Group's operations is denominated in foreign currencies, principally in US Dollars and Euros. These exposures may adversely impact the Group's net income and net assets. The Group uses derivatives to partially offset market exposure to fluctuations in foreign currencies. The Group records all derivatives on the balance sheet at fair value. The Group's derivative instruments, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting as defined by Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). Changes in the fair value of all derivative instruments are recognized immediately in other financial income (expense) in the consolidated income statement.

The Group does not regularly enter into agreements containing embedded derivatives. However, when such agreements are executed, an assessment is made of any embedded derivative based on the criteria set out in SFAS 133 to determine if the derivative is required to be bifurcated and accounted for as a stand alone derivative instrument.

Financial instruments indexed to own shares

The costs of contracts indexed to own shares which meet all of the applicable criteria for equity classification as outlined in Emerging Issues Task No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and

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Potentially Settled in, a Company's Own Stock, are classified in shareholder's equity. The Group applies settlement date accounting to such instruments.

Accounts receivable

Accounts receivable are recorded at net realizable value after deducting an allowance for doubtful accounts. The Group maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Group's customers were to deteriorate, resulting in an impairment of their ability to make payments, an increase to the allowance might be required, which could affect future earnings.

The Group accounts for the securitization of trade receivables in accordance with Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities ("SFAS 140"). SFAS 140 requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. At the time the Group meets the criteria of SFAS 140, the balances are removed from trade receivables and costs associated with the sale of receivables are included in the determination of earnings. Additionally, the Group evaluates whether the purchasing entities qualify as VIEs and whether the Group is required to consolidate these entities in accordance with FIN 46(R).

The Group in its normal course of business, sells receivables outside its securitization programs without recourse. Sales or transfers that do not meet the requirements of SFAS 140 are accounted for as secured borrowings.

Inventories

Inventories are stated at the lower of cost or market value with cost determined by the average-cost method. Inventories consist of semi-finished and finished products. In 2006, the Group changed its accounting principle for inventories from the first-in first-out (FIFO) method to the average-cost method as preferable method with no material impact.

Property, plant and equipment

Property, plant and equipment is recorded at historical cost less accumulated depreciation.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful life of the asset. Assets are written down to their estimated residual value. Leasehold improvements and assets acquired under capital leases are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset. Assets acquired under capital leases in which title transfers to the Group at the end of the agreement are recorded at their estimated fair value and amortized over the useful life of the asset. The estimated useful lives are as follows:

Group of assets	Useful life
Computers	3 years
Furniture and fixtures	5 years
Laboratory equipment	5 years
Leasehold improvements	5 to 10 years
Buildings	40 years

Impairment of long-lived assets

Long-lived assets and certain identifiable intangible assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. In the event that such cash flows are not expected to be sufficient to recover

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the carrying amount of the assets, the assets are written down to their estimated fair values. Long-lived assets and certain identifiable intangible assets to be disposed of are reported at the lower of carrying amount or fair value less cost to sell.

Goodwill and intangible assets

Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in a business combination. Pursuant to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangibles ("SFAS 142"), goodwill is not amortized but rather tested annually for impairment and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable.

Intangible assets with definite lives consist primarily of acquired existing licenses and internal use software, which are amortized on a straight-line basis over the economic lives of the respective assets ranging from three to eleven years, and are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

The Group changed the date of the annual impairment testing from December 31 to October 1.

Stock-based compensation

Stock-based compensation costs are recognized in earnings using the fair-value based method for all new awards granted after July 1, 2005. Compensation costs for unvested stock options and awards that were outstanding at July 1, 2005, are recognized in earnings over the requisite service period based on the grant-date fair value of those options and awards.

Fair values of awards granted under the share option plans until December 2004 were estimated at grant or purchase dates using a Black-Scholes option pricing model. Fair value of awards granted after December 2004 was estimated by use of a Binomial Lattice option pricing model. The model input assumptions are determined based on available internal and external data sources. The risk free rate used in the model is based on the 10 year Swiss zero coupon rate. The probability of death is derived from data of the Swiss Federal Statistical Office. Expected volatility is based on equal weighting of historic and forward looking data which includes the Group's historic volatility, average peer group volatility and implied volatility on the longest outstanding convertible debt and traded warrants. Resignation, redundancy, retirement and early exercise behavior assumptions are based on the Group's historical headcount data and analyses of historical early exercises of the Group's employees, respectively. The Group recognizes compensation costs considering estimated future forfeitures and will adjust these estimates for actual forfeitures as differences occur. Amortization of total compensation costs for the standard share option plans is recognized on a straight-line basis over the requisite service period for the entire award. The Challenge Award related expenses are recognized ratably over the requisite service period for each separately vesting portion of the award. Stock-based compensation costs related to employees engaged in the production process generally are recognized in a manner similar to all other compensation paid to these employees and are capitalized as part of inventory. Due to the immateriality of such cost, no stock-based compensation cost was capitalized in the periods presented. Share option exercises are settled out of the reserved conditional capital, treasury shares or equity indexed call options which the Group purchases on the market.

In June 2007, a one-to-five split in shares of Actelion Ltd took effect. Prior year grants have been adjusted retroactively for all periods presented to reflect the change in the number of shares. Actelion shareholders had approved this stock split at their Annual General Meeting on May 4, 2007.

Pension accounting

In December 2006, the Group adopted Statement of Financial Accounting Standards No. 158, Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans ("SFAS 158"), which requires the

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recognition of the funded status of plans in the Group's balance sheet. The Group recognizes actuarial gains and losses in accumulated other comprehensive income.

Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains/losses on available-for-sale securities, currency translation adjustments, actuarial gains/losses and prior year service costs resulting from defined benefit plans. Comprehensive income (loss) for the years ended December 31, 2007 and 2006 has been reflected in the consolidated statement of changes in shareholders' equity.

Foreign currency exposure

Income, expense and cash flows of foreign subsidiaries are translated into the Group's reporting currency at monthly average exchange rates and the corresponding balance sheets translated at the period-end exchange rate. Exchange differences arising from the translation of the net investment in foreign subsidiaries and long-term internal financial debt are recorded, net of tax, in currency translation adjustment in shareholders' equity.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the subsidiary's income statements in the corresponding period.

Interest rate risk

Interest rate risk arises from movements in interest rates, which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments.

Segment information

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("SFAS 131"), establishes standards for reporting information on operating segments in interim and annual financial statements. The Group's chief operating decision-makers review the profit and loss of the Group on an aggregate basis and manage the operations of the Group as a single operating segment. Accordingly, the Group operates in one segment.

Recent accounting pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement on Financial Accounting Standards No. 141(R), Business Combinations, an amendment of FASB Statements No. 141 ("SFAS 141(R)"). As part of the conversion project with the International Accounting Standard Board (IASB) this statement implements new application rules for acquisition accounting, such as exclusion of transaction costs from the purchase price allocation and recognition of acquired In-Process Research and Development as an indefinite-lived intangible asset. The standard is effective for fiscal years beginning after December 15, 2008 and should be applied prospectively. Early adoption is not permitted. In the event of a material future acquisition subsequent to the adoption of this standard, a material effect on the Group's consolidated financial position, results of operations or cash flows may result.

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS 157”). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities, expands the required disclosures about fair value measurement, and is applicable whenever other standards require assets or liabilities to be measured at fair value. However, it does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial instruments in fiscal years beginning after November 15, 2007 and for all other assets and liabilities in fiscal years beginning after November 15, 2008. The Group does not believe that adoption of this statement related to financial instruments will have a material effect on the Group’s consolidated financial position, results of operations or cash flows. The Group is currently in the process of assessing the impact of the adoption of this statement related to non-financial assets and liabilities.

In February 2007, FASB issued Statement on Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”). This standard provides companies with an irrevocable option to report selected financial assets and liabilities at fair value. It aims reduction of complexity in accounting and volatility in earnings caused by differences in the existing accounting rules. Specifically, the standard enables companies to avoid the complex hedge accounting rules for derivatives. The standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Group does not believe that, if elected, the adoption of this standard will have a material effect on the Group’s consolidated financial position, results of operations or cash flows.

In November 2007, the Emerging Task Force (“EITF”) of FASB reached consensus on Issue 07-1, Accounting for collaborative arrangements related to the development and commercialization of intellectual property (“EITF 07-1”). This issue specifically addresses accounting and presentation issues concerning jointly development, manufacturing and marketing of a drug candidate characteristic for companies in the biotechnology or pharmaceutical industry. Such companies often collaborate without creating a separate legal entity. The consensus requires collaborators to present the result of activities for which they act as the principal on a gross basis and report any payments received from (made to) other collaborators based on other applicable GAAP. Application of this EITF Issue becomes effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Retroactive application is required. The Group has not yet evaluated the effects of adoption of this EITF on the Group’s consolidated financial position, results of operations or cash flows.

In June 2007, the EITF reached consensus on Issue 07-3, Accounting for advance payments for research and development activities (“EITF 07-3”). The consensus provides guidance on treatment of non-refundable prepayments for use in research and development activities. It requires companies to defer and capitalize prepaid, nonrefundable research and development payments to third parties over the period that the research and development activities are performed. The consensus is effective for new contracts entered into in fiscal years beginning after December 15, 2007, including interim periods of those years. Early application is not permitted. As this EITF is consistent with the Group’s current policy, the adoption of this EITF issue will not have a material effect on the Group’s consolidated financial position, results of operations or cash flows.

Note 2. Acquisitions

CoTherix

On January 9, 2007, the Group acquired 100 percent of the issued and outstanding shares of the common stock of CoTherix, Inc. (“CoTherix”) via a cash tender offer in which the Group paid cash consideration of USD 13.50 per share. The results of CoTherix’s operations have been included in the consolidated financial statements since that date. CoTherix is a biopharmaceutical company focused on licensing, developing and commercializing therapeutic products for the potential treatment of cardiovascular diseases.

CoTherix licensed the exclusive U.S. rights to Ventavis® from Schering AG. Ventavis® (iloprost) is the only approved inhaled therapy for the treatment of pulmonary arterial hypertension (“PAH”) in the United States. The

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acquisition of CoTherix consolidates the Group's leadership position in PAH and delivers operational synergies, from both a sales and expense perspective, thus enhancing value creation from Ventavis®.

The aggregate purchase price was CHF 538.6 million (USD 434.8 million) and consisted of cash paid to former CoTherix shareholders of CHF 519.2 million (USD 419.1 million), direct transaction costs of CHF 7.6 million (USD 6.2 million) and employee-related severance costs of CHF 11.8 million (USD 9.5 million). Employee-related severance costs are included as part of the purchase price, as we established a workforce reduction plan as part of the acquisition transaction in accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination ("EITF 95-3"). During 2007 all severance related accruals have been paid.

The acquisition was recorded as a business combination and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. Since the fair value of assets acquired and liabilities assumed was below the fair value of the consideration paid, the Group recorded goodwill of CHF 40.7 million (USD 32.9 million) including a net deferred tax liability of CHF 17.7 (USD 14.3 million).

In making its purchase price allocation, the Group considered present value calculations of income, an analysis of project accomplishments, an assessment of overall contributions, as well as technological and regulatory risks. The marketed product and the in-process research and development projects ("IPR&D") were valued using a variation of the Income Approach known as the Multi-Period Excess Earning Approach. This method utilizes a forecast of expected cash inflows, cash outflows, and pro-forma charges for economic returns of and on tangible assets employed. The cash outflows include direct and indirect expenses for costs to complete manufacturing, sales, marketing, routine technical maintenance, general and administrative, and taxes.

The net cash inflows were ascribed to their respective intangible assets and discounted to present value. Tax benefits resulting from the amortization of the intangible assets were then added to the present value of the excess cash flows to derive fair value. The estimated fair values of IPR&D, the identifiable intangible asset and property, plant and equipment were determined with the assistance of an independent valuation firm. The amount allocated to IPR&D with no alternative future use was CHF 224.8 million (USD 181 million) which represents the estimated fair value based on risk-adjusted cash flows related to incomplete research and development projects. At the date of the acquisition, development of these projects had not yet reached technological feasibility and the research and development in progress has no alternative future use. Accordingly, these costs were expensed as of the acquisition date. CHF 197.1 million (USD 159.1 million) of the purchase price was allocated to an intangible asset with a definite life of approximately 13 years. The intangible asset represents the estimated fair value of the marketed product Ventavis® and will be amortized over its useful life.

The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations and the Internal Rate of Return implied by the fair value of the operating business enterprise value of CoTherix. Due to the risks associated with the projected cash flow forecast, a discount rate of 12.3 % was considered appropriate for the marketed product and 14.3 % for the IPR&D considering an incremental level of development risk. The selected rates reflect the inherent uncertainties surrounding the sales expectation of the marketed product, successful development of the purchased in-process technology, the useful life of such technology, and the uncertainty of technological advances that are unknown at this time.

If projects are not successfully developed, the sales and profitability of the combined companies may be adversely affected in future periods. Additionally, the value of the acquired intangible assets may become impaired. The Group believes that the research and development projects and intangible assets acquired in connection with the acquisition of CoTherix are expected to continue in line with the estimates described above.

The following table summarizes the purchase price allocation as of January 9, 2007:

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	CHF	USD*
Cash and cash equivalents	6,540	5,280
Short-term marketable securities	79,184	63,925
Accounts receivable, net	11,811	9,535
Inventory	11,830	9,550
Prepaid expenses	2,990	2,414
Property, plant and equipment, net	2,570	2,075
Purchased in-process research and development	224,205	181,000
Identifiable intangible asset	197,116	159,131
Goodwill	40,692	32,850
Other long-term assets	248	200
Total assets acquired	577,186	465,960
Accounts payables	(1,226)	(990)
Accruals	(19,089)	(15,410)
Other non-current liabilities	(564)	(455)
Deferred tax liability	(17,708)	(14,295)
Total liabilities assumed	(38,587)	(31,150)
Net assets acquired	538,599	434,810

*The US Dollar/Swiss Franc foreign exchange rate used for translation of the CoTherix's opening balance is 1.24, which is the foreign exchange rate as of the acquisition date.

The initial purchase price allocation as of January 9, 2007 has been adjusted for the completion of certain items which were not final as of that date. Specifically, accruals have been increased by CHF 3.2 million in the context of a claim against CoTherix related to a pre-existing license agreement for Fasudil, a drug which the Group decided to not further develop. Therefore the agreement was terminated by CoTherix as a result of its acquisition by Actelion. The licensor of Fasudil filed a request for arbitration against CoTherix based on alleged multiple breaches of contract, in particular (a) discontinuation of development of the licensed compound, and (b) non-payment of invoices for manufactured drug. At the time of the acquisition the anticipated penalty costs related to this claim were probable, however the amounts were not estimable. New facts became available to the Group in October 2007 which allowed for a reasonable estimate to be made for the amount of the penalty. Deferred Tax Liabilities decreased by CHF 57.2 million (net of deferred tax assets) related to the finalization of the tax accounts. The combination of both of these adjustments resulted in a decrease in Goodwill by CHF 54.0 million.

The unaudited pro forma results of operations for the year ended December 31, 2006 are summarized below. No pro forma disclosure is made for the current period 2007 as the acquisition had been completed near the beginning of the year on January 9, 2007.

	For the Twelve Months Ended December 31, 2006*
Total revenues	1,024,455
Net income	210,690
Basic earnings per share	1.86
Diluted earnings per share	1.80

*The US Dollar/Swiss Franc foreign exchange rate used for translation of the CoTherix's revenue and net loss is 1.25, which is the average foreign exchange rate for the year 2006.

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Axovan

On October 31, 2003, the Group acquired Axovan Ltd (“Axovan”), a privately-held biopharmaceutical company in Switzerland focused on the research and development of new compounds. The Group acquired Axovan to gain access to Axovan’s licenses and to expand the Group’s research capacities.

The acquisition was recorded as a business combination and, accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. The Group agreed to pay additional amounts to the shareholders of Axovan upon achievement of future product development milestones. A milestone payment of CHF 32.5 million became due to on initiation of a Phase IIb/III clinical trial was achieved in December 2004. In 2007, further milestone payments of CHF 16.7 million were triggered by an Axovan compound entering into Phase I and initiation of the Clazosentan Phase III program. The total additional value of remaining unpaid milestone payments could amount to CHF 129 million.

The Group considers all milestone payments to be performance-related measures and as such, treats them as goodwill, when paid.

Note 3. Licensing agreements

In conjunction with the acquisition of Axovan on October 31, 2003 the Group gained access to the license granted from Roche for clazosentan. No payments were made in 2007 and 2006.

On November 22, 2002 the Group entered into a license agreement with Oxford GlycoSciences (“OGS”) for miglustat, the active ingredient of Zavesca®. OGS has since been acquired by Celltech Group plc, which was subsequently acquired by UCB SA. The Group has been granted exclusive marketing rights to sell Zavesca® in all countries except Israel and the adjacent West Bank and Gaza Strip territories where the Group will ensure the drug supply to Teva Pharmaceutical Industries Ltd., the license holder of Zavesca® in Israel. In addition, full responsibility was assumed for manufacturing and supply chain, patent-related activities, clinical and pre-clinical activities of Zavesca®. The Group made an upfront payment of EUR 7.5 million to UCB, which was capitalized as an intangible asset, in exchange for a single-digit royalty rate on future Zavesca® sales in glycosphingolipid (GSL) storage disorders.

On November 4, 1998 the Group entered into a license agreement with F. Hoffman-La Roche (“Roche”) for bosentan, the active ingredient in the Group’s product, Tracleer®. The license grants the Group the exclusive worldwide rights to develop, manufacture, sell any pharmaceutical product with bosentan as its active ingredient for any human therapeutic use, and grant sub-licenses to third parties. The agreement called for the Group to make an initial payment to Roche as well as payments upon the achievement of certain milestones. All payments made to Roche prior to receiving regulatory approval were expensed as acquired in-process research and development costs. Payments made to Roche subsequent to receiving regulatory approval were capitalized and are being amortized over the life of the agreement. As of December 31, 2007 and 2006, payments of CHF 9 million are included in intangible assets and are amortized over eleven years. The agreement also calls for the Group to pay a royalty to Roche based on a percentage of net sales of products with bosentan as the active ingredient.

On March 19, 1998, the Group entered into a license agreement with Roche for tezosentan. Under this agreement, Roche granted the Group an exclusive worldwide right to manufacture and sell any product with tezosentan as its active ingredient. The license covers any human therapeutic use of tezosentan except acute renal failure and subarachnoid hemorrhage. The Group may also grant sub-licenses to third parties. The agreement called for the Group to make an initial payment to Roche as well as payments upon the achievement of certain milestones. The Group will make milestone payments upon the filing and approval of new drug applications in the United States and the European Union. If the Group is successful in obtaining regulatory approval for tezosentan, the Group will pay a royalty to Roche based on a percentage of net sales of products with tezosentan as the active ingredient. No payments were made under this agreement during 2007 and 2006.

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Note 4. Collaborative agreements

In July 2006, the Group entered into an agreement with Roche for joint development and commercialization of the Group's selective S1P1 receptor agonist. This collaboration enables the Group and Roche to combine their development and marketing capabilities to improve medical care for patients with autoimmune disorders. The S1P1 collaboration covers both the current selective S1P1 receptor agonist in Phase I as well as any other selective S1P1 receptor agonists resulting from the Group's research efforts in the field. Roche paid the Group an upfront payment of USD 75 million (CHF 92.8 million) in July 2006. In the case of future development and approval milestones being achieved, the Group will be eligible to receive payments of up to an additional USD 555 million for the first compound for all targeted indications. Further development and approval milestone payments are due for further compounds. On all product sales, Roche will pay the Group a royalty. For the current selective S1P1 receptor agonist, the Group will fully fund all development activities up to the end of Phase II for the first two indications. All subsequent development and commercialization costs will be shared equally between Roche and the Group. Both companies will co-promote any product resulting from this collaboration and, in addition to the above mentioned milestones and royalty, equally share profit. The agreement shall continue in effect until the expiration of all royalty and/or profit sharing obligations. For the years ended December 31, 2007 and 2006, the Group recognized revenue of CHF 11.1 million and CHF 5.6 million, respectively under this agreement.

In December 2003, the Group and Merck & Co., Inc. ("Merck") formed an exclusive worldwide alliance to discover, develop and market new classes of renin inhibitors. This alliance enables the Group and Merck to combine their discovery, development and marketing capabilities with the goal to efficiently provide innovative and better medicines to patients suffering from cardio-renal diseases. Development funding will be initially shared by both parties, with Merck fully responsible to fund pivotal Phase III and outcome studies. Merck will lead and fund commercialization, whereas the Group retains a worldwide option to co-promote any product resulting from this alliance as a paid-for sales force. Merck made upfront payments of USD 37 million (CHF 45.9 million) in the period through December 2006. With initiation of the Phase II program, the Group received in December 2007 a further milestone payment of USD 10 (CHF 11.5 million). In addition, the Group will be eligible to receive additional payments of up to USD 225 million for the successful commercialization of the first collaboration product. The Group will also be eligible to receive certain milestone payments for the successful commercialization of additional products. Merck will pay the Group substantial royalties on the sale of all products resulting from this alliance. For the years ended December 31, 2007 and 2006, the Group recognized revenue of CHF 7.9 million and CHF 9.1 million, respectively, under this agreement.

In December 2000, the Group entered into an agreement with Genentech Inc. ("Genentech") for the co-exclusive, royalty-bearing right and license to research, develop, manufacture and sell bosentan, the active ingredient in Tracleer®, in the United States. Genentech receives a royalty on net sales of bosentan in the United States. Upon signing the contract the Group received an upfront payment of USD 35 million (CHF 56.4 million), a portion of which was refundable only if the Group did not complete Phase III trials for bosentan for use in the treatment of chronic heart failure. The non-refundable portion of the upfront payment is being recognized over the agreement period, which began in December 2000. In December 2001, the Group received FDA approval for bosentan in the United States for the treatment of pulmonary arterial hypertension and began paying Genentech a royalty on net sales. In January 2002, the Group completed Phase III trials for bosentan for the use in the treatment of chronic heart failure and received neutral results. Upon completion of Phase III trials and receipt of the neutral results, the Group began recognizing the refundable portion of the upfront payment over the life of the agreement, estimated to be twelve years. For each of the years ended December 31, 2007 and 2006 the Group recognized revenue of CHF 4.9 million related to this agreement.

In February 2000, the Group entered into an agreement with Genentech for the co-exclusive, royalty-bearing right and license to research, develop, manufacture and sell tezosentan in the United States. Genentech may elect to co-promote the drug for certain indications in the United States or receive a royalty on net sales of tezosentan in the United States. Upon signing the contract the Group received an upfront payment of USD 15 million (CHF 24.7

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million), which is being recognized over the life of the agreement, estimated to be 17 years. For each of the years ended December 31, 2007 and 2006 the Group recognized revenue of CHF 1.5 million related to this agreement.

Note 5. Income taxes

The following table sets forth the income before taxes:

	For the Twelve Months Ended December 31	
	2007	2006
Switzerland.....	368,997	235,487
Foreign	(200,723)	43,239
Total income before taxes	168,274	278,726

The following table sets forth the current and deferred income tax expense:

	For the Twelve Months Ended December 31	
	2007	2006
Current tax expense:		
Switzerland.....	22,676	21,136
Foreign	26,261	14,742
Total current tax expense.....	48,937	35,878
Deferred tax (benefit) expense:		
Switzerland.....	18	757
Foreign	(5,267)	1,001
Total deferred tax (benefit) expense.....	(5,249)	1,758
Total income tax expense	43,688	37,636

Income taxes payable and accrued as of December 31, 2007 and 2006 amounted to CHF 55.4 million and CHF 30.6 million, respectively. Significant components of the Group's deferred tax assets as of December 31, 2007 and 2006 are shown below. As of December 31, 2007 and 2006 a valuation allowance of CHF 22.9 million and CHF 19.9 million, respectively, has been recognized for certain Group companies based on their historical cumulative operating losses.

	2007	2006
Deferred tax assets:		
Net benefit from operating loss carry forwards	56,728	24,591
Deferred revenue	3,125	3,261
Fair value option expense	10,460	5,689
Accrued expenses	4,175	3,143
Intangible assets	9,933	-
Other temporary differences	15,662	3,396
Total deferred tax assets.....	100,083	40,080
Valuation allowance for deferred tax assets.....	(22,925)	(19,893)
Deferred tax assets	77,158	20,187

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	<u>2007</u>	<u>2006</u>
Deferred tax liabilities:		
Intangible assets.....	63,357	-
Other temporary differences.....	513	932
Deferred tax liabilities	63,870	932

Deferred tax assets and liabilities are presented net in the balance sheet. The total offset amount is CHF 61.3 million.

The gross value of unused tax loss carry forwards with their expiry dates is as follows:

	<u>Tax Losses</u>
One year.....	637
Two years	698
Three years	824
Four years	1,928
Five years.....	11,941
Six years	-
Seven years	-
More than seven years	137,510
Total	153,538

On January 9, 2007, the Company purchased 100 percent of the outstanding stock of CoTherix, Inc. For financial reporting purposes, the Company accounted for this acquisition as a business combination with a purchase price allocation to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. For tax purposes, however, historic tax bases and attributes carried over, thereby creating a net deferred tax liability upon acquisition of USD 14.3 million. CoTherix's pre-acquisition tax losses totaled USD 67.8 million.

Reconciliation between the effective income tax expense and expense computed using the Swiss statutory tax rate of 25%:

	<u>2007</u>	<u>2006</u>
Tax at Swiss statutory tax rate of 25%.....	42,069	69,682
Non deductible expenses, non taxable income.....	1,678	(2,835)
IPRD charge.....	89,974	-
Tax rates different from the Swiss statutory rate	(91,153)	(30,173)
Utilization of unrecognized tax losses	(117)	(1,904)
Change in valuation allowance	3,032	(1,699)
Prior year adjustments and other items	(1,795)	4,565
Effective income tax expense	43,688	37,636

As of January 1, 2007, the Group adopted FIN 48 and the effect of adoption was not material. As of January 1, 2007 the total uncertain tax positions were zero and as of December 31, 2007, the total uncertain tax positions were CHF 4 million. Future recognition of this amount would effect the effective tax rate. The changes in uncertain tax positions during the year are as a result of gross increases to current year tax positions. It is the Group's policy to recognize interest and penalties related to tax positions as tax expense, however, there were no such material amounts for the financial year 2007. The statute of limitations for assessment in the major jurisdictions in which the Group operates are open for the years 2004-2007. We have not identified any tax positions for which it is reasonably possible that a significant change will occur during the next 12 months.

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Note 6. Earnings per share

At the Annual General Meeting on May 4, 2007, the shareholders approved a share split of one-to-five, that became effective as of June 6, 2007. The number of shares used for computation and disclosure in the current annual report has been adjusted accordingly.

Basic and diluted earnings per share are based on weighted average common shares and exclude anti-dilutive shares relating to employee share options of 7,576,863 and 12,933,025 for the years ended December 31, 2007 and 2006, respectively. The following table sets forth the basic and diluted earnings per share calculations:

	2007		2006	
	Basic	Diluted	Basic	Diluted
Numerator				
Income from continuing operations	124,586	124,586	241,090	241,090
Effect of assumed conversion of 2003 convertible debt	-	-	-	8,248
Net income available for earnings per share calculation	124,586	124,586	241,090	249,338
Denominator				
Weighted average shares	118,098,177	118,098,177	113,268,600	113,268,600
Incremental shares for assumed conversion:				
Convertible bonds	-	560,028	-	4,685,465
Share options	-	6,150,739	-	3,672,825
Total average equivalent shares	118,098,177	124,808,944	113,268,600	121,626,890
Earnings per share	1.05	1.00	2.13	2.05

Note 7. Cash and cash equivalents

Cash and cash equivalents consisted of the following at December 31:

	2007	2006
Cash	238,832	923,938
Short-term bank deposits	92,754	2,199
Total	331,586	926,137

Note 8. Investments

Marketable securities

During 2006, the Group purchased structured debt instruments, consisting of a straight bond and embedded derivative instrument linked to the development of the CHF Libor interest rate, for CHF 20.0 million, which were classified as available-for-sale securities. In connection with the acquisition of CoTherix on January 9, 2007, a part of the purchase price was allocated to a marketable security portfolio with a fair value of CHF 79.2 million (USD 63.9 million), which was classified within available-for-sale securities. During 2007 all marketable security investments were sold. On December 31, 2006 the aggregated fair value of available-for-sale marketable securities was CHF 29.8 million, consisting of debt securities, with unrealized gains and losses being immaterial.

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In 2007 proceeds from the sales of available-for-sale securities totaled CHF 109.1 million and gross realized gains totaled CHF 0.7 million. There have been no sales of available-for-sale marketable securities during 2006.

Derivative financial instruments

The following tables reflect the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract as of December 31, 2007 and 2006. Contract or underlying principal amounts indicate the volume of outstanding positions at the balance sheet date and do not represent amounts at risk.

In December 2006, the Group entered into a forward foreign exchange rate contract to economically hedge the US Dollar currency exposure related to the anticipated acquisition of CoTherix. The forward contract was contingent on the consummation of the acquisition. On January 9, 2007 the contingent forward foreign exchange rate contract was exercised with a net realized gain of CHF 10.8 million recorded in other financial income (expense).

Fair values are determined using external price quotations or standard pricing models at December 31, 2007 and 2006.

<u>Derivative financial instruments</u>	Contract or underlying principal amount	Positive fair values	Negative fair values
2007			
Foreign currency options	97,692	-	375
Forward rate contracts	79,618	322	360
Total	177,310	322	735
2006			
Foreign currency options	211,890	1,425	984
Forward foreign exchange rate contract to manage foreign currency exposure of anticipated acquisition of CoTherix	510,321	2,119	-
Other contracts	-	123	-
Total	722,211	3,667	984

Changes in the fair value of these derivatives are recognized in other financial income (expense), as they do not meet the definition of a hedge.

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Note 9. Trade and other receivables

Trade and other receivables consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Trade receivables.....	310,842	208,980
Other receivables.....	19,172	9,235
Trade and other receivables, gross	330,014	218,215
Bad debt allowance.....	(486)	(493)
Unamortized discount ¹	-	(346)
Total trade and other receivables, net	329,528	217,376

¹ The unamortized discount related to certain trade receivables and was amortized as interest expense over the expected payment term.

In 2007 and 2006, the Group sold without recourse certain trade accounts receivables from one of its subsidiaries to VIEs, unrelated to the Group, in one time securitization programs. The net book value of the receivables sold was EUR 6.8 million (CHF 11.3 million) and EUR 4.1 million (CHF 6.4 million) for 2007 and 2006, respectively, which was received in cash. Loss on sale and fees paid were not material. These transactions were accounted for as a sale and consequently the related receivables have been excluded from the accompanying consolidated balance sheets. There is no continuing involvement of the Group with respect to the sold receivables. The VIEs are not required to be consolidated in accordance with FIN 46(R).

In addition, the Group factored receivables without recourse with a net-book value of EUR 1.9 million (CHF 3.1 million). The related receivables have been excluded from the accompanying consolidated balance sheet. Transaction costs were immaterial.

Note 10. Inventories

Inventories consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Semi-finished products.....	17,676	13,040
Finished products.....	25,111	11,280
Total	42,787	24,320

Note 11. Other current assets

Other current assets consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Unearned income.....	2,209	1,026
Prepaid expenses	26,136	16,791
Commission on convertible bond	7,041	9,818
Total	35,386	27,635

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Note 12. Goodwill and intangible assets

Changes in the net carrying amount of goodwill in 2007 are as follows:

Balance at January 1	Translation effects	Additions	Balance at December 31
27,385	(3,629)	57,399	81,155

The goodwill increase in 2007 is due to the acquisition of CoTherix and further milestone payments associated with Axovan (see Note 2, "Acquisitions").

Intangible assets consisted of the following at December 31:

	2007			2006		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired licenses	199,952	(21,507)	178'445	20,659	(5,616)	15,043
Acquired software and other	17,531	(8,559)	8'972	9,463	(5,347)	4,116
Total	217,483	(30,066)	187'417	30,122	(10,963)	19,159

Amortization expense of intangible assets was CHF 19.9 million and CHF 4.5 million in 2007 and 2006, respectively.

The expected future annual amortization expense of other intangible assets is as follows:

For the year ending December 31,	Amortization expense
2008	20,327
2009	19,316
2010	17,908
2011	16,235
2012	15,957
Thereafter	97,674
Total expected future amortization.....	187,417

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Note 13. Property, plant and equipment

Property, plant and equipment consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
At cost:		
Land	11,217	7,471
Buildings.....	18,338	400
Furniture and fixtures and lab equipment.....	91,753	71,908
Computers	20,951	16,459
Other tangible assets.....	6,801	4,653
Less: accumulated depreciation.....	(63,983)	(48,217)
Construction in progress.....	28,916	29,296
Property, plant and equipment, net	113,993	81,970

In 2007, the Group invested CHF 60.5 million in tangible assets. CHF 5.1 million of those were unpaid as of December 31, 2007, and appropriately excluded from presentation in the consolidated statement of cash flows. Depreciation expense of property, plant and equipment including capital leases was CHF 20.0 million and CHF 15.0 million in 2007 and 2006, respectively.

Note 14. Accrued expenses

Accrued expenses consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Personnel and compensation costs.....	76,625	61,801
Accrued taxes	57,493	32,434
Rebates and allowances	19,187	10,050
Research and development	26,425	7,824
Marketing and royalties.....	11,447	6,968
Professional services	6,790	3,374
Process development	-	922
Other accrued expenses	10,994	7,521
Total.....	208,961	130,894

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Note 15. Borrowings

The aggregate contractual maturities of all debt obligations due subsequent to December 31, 2007 are as follows:

Maturity date	Financing arrangement	Convertible bond	Total
2008.....	33,000	-	33,000
2009.....	51,000	-	51,000
2010.....	33,100	-	33,100
2011.....	-	460,000	460,000
Total.....	117,100	460,000	577,100

As of December 31, 2007, the total book value of outstanding debt obligations was CHF 577.1 million and consisted of CHF 460 million convertible bond obligation and CHF 117.1 million bank loan.

Credit facilities

In 2007, the Group entered into a financing arrangement for CHF 215 million. The arrangement is split into two facilities of CHF 100 million (unsecured) and CHF 115 million (secured). The CHF 115 million facility is secured with a general deed of pledge in the amount of CHF 119 million, which covers all of the Group's assets held at the pledger. The interest rates are based on the 3-months-LIBOR rate plus an average margin of 22.5 basis points for the secured and 52.5 basis points for the unsecured facility. As of December 31, 2007, CHF 117.1 million of the CHF 215 million financing arrangement were utilized. The financing arrangement contains financial and non-financial covenants. As of December 31, 2007, the Group is in compliance with all applicable covenants.

As of mid January 2008, the total financing arrangement of CHF 215 million was utilized.

At December 31, 2007 the Group had a credit line of CHF 10 million as margin cover for over-the-counter trades as well as senior mortgage certificates (ISB and NSB) in the total amount of CHF 12.7 million. Both credit facilities were unused as of December 31, 2007.

Convertible bonds

Book value of the outstanding convertible bonds consisted of CHF 460 million and CHF 626.8 million as of December 31, 2007 and 2006, respectively.

2006 convertible bond

In November 2006, the Group issued CHF 460 million in convertible bonds ("2006 convertible bond"). The 2006 convertible bond is structured as a zero coupon convertible bond with a yield to maturity of zero percent. The conversion price is CHF 54.17 per share, issue and redemption price were set at 100% and is non-callable for life. On or after June 30, 2007 and until the 30th trading day prior to the maturity date on November 22, 2011, the 2006 convertible bond is, in accordance with its terms, convertible free of charge into cash up to the principal amount and any conversion value above the principal amount may be settled, at the option of the Group, into cash or shares or a combination of cash and shares. The shares to be delivered to bondholders upon conversion were initially capped at 5,314,535 shares corresponding to the available conditional capital of the Group as of the issuance date of the convertible bond. The annual general meeting on May 4, 2007, authorized the creation of sufficient additional conditional capital to remove the cap. The fair value at December 31, 2007 is 118.52 % of the principal amount (CHF 545.2 million). Debt issuance costs of CHF 8.5 million were recorded in other current assets and are being amortized using the effective interest method.

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As the 2006 convertible bond is convertible since June 30, 2007 for cash up to the principal amount and there are no contingencies to be met for the bondholders to be able to convert, the 2006 convertible bond is classified as short-term debt.

2003 convertible bond

In October 2003, the Group issued CHF 143.8 million in convertible bonds (“2003 convertible bond”). The 2003 convertible bond was convertible into shares of the Group up to October 1, 2008 and carried a zero coupon with a yield to maturity at the time of issuance of 4.75%. The conversion price was CHF 30.68 per share. On January 18, 2007, the Group exercised its right to call for an early redemption of the 2003 convertible bond. The redemption date was February 19, 2007, with a redemption price of 116.79% of the principal amount. All 2003 convertible bondholders elected to convert their bonds into shares. The 2003 convertible bond was converted into 4,685,340 shares. Conversion expense amounted to CHF 2.2 million. Debt issuance costs of CHF 3.2 million were recorded in other current assets and amortized using the effective interest method. Debt issuance costs were fully expensed as of February 19, 2007, upon redemption of the 2003 convertible bond.

Note 16. Lease commitments

Operating leases

The Group has several operating leases for its office space, research and development facilities and various equipment. The leases expire between 2008 and 2027, most of them with options to extend for one to ten years. The aggregate of the minimum annual operating lease payments are expensed on a straight-line basis over the term of the related lease. The amount by which straight-line rent expense differs from actual lease payments is recognized as either pre-paid rent or deferred rent liability and is amortized in later years.

Future minimum payments under non-cancelable operating and capital leases at December 31, 2007 are as follows:

Year ended December 31,	Operating leases	Capital leases
2008	29,749	178
2009	25,149	136
2010	22,273	45
2011	18,264	-
2012	15,481	-
Thereafter	70,489	-
Total minimum payments.....	181,405	359
Less amounts representing interest.....		(51)
Present value of future lease payments		308
Less current portion of lease payments		(142)
Non-current portion of lease payments		166

Rent expense under operating leases was CHF 27.2 million and CHF 25.2 million for the years ended December 31, 2007 and 2006, respectively.

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Note 17. Commitments and guarantees

In the context of its ongoing construction work, the Group has entered into capital commitments totaling CHF 40.7 million, with the majority of this amount expected to be paid during 2008.

In connection with the acquisition of CoTherix, the Group entered into a manufacturing and supply agreement with Schering AG for Ventavis®. Under the agreement, the Group has a purchase commitment for the product in the amount of EUR 3 million for 2008, EUR 2.2 million for 2009 and EUR 0.5 million for 2010.

Within the framework of its dilution management program the Group bought stock indexed instruments of CHF 7 million in December 2007 with a value date in January 2008, which were consequently not recorded on the balance sheet as of December 31, 2007.

The Group issued a letter of indemnity to a financial institution in the amount of CHF 10 million to secure its obligations from derivative trading and forward transactions in foreign currencies.

In the ordinary course of business the Group has entered into certain guarantee contracts and letters of credit. The guarantees primarily relate to operating leases and credit lines for subsidiaries in foreign jurisdictions. Due to the nature of these arrangements, the Group has never been required to make payments under these contracts and does not expect any potential required future payments to be material.

Note 18. Pension plans

The Group maintains a pension plan (the "Plan") covering all of its employees in Switzerland. In addition to retirement benefits, the plan provides benefits on death or long-term disability of its employees. The Group and its employees pay retirement contributions, which are defined as a percentage of the employees' covered salaries, to a collective pension fund operated by an insurance company. Interest is credited to the employees' accounts at the minimum rate provided in the Plan, payment of which is guaranteed by an insurance contract, which represents the Plan's primary asset. Future benefit payments are managed by the insurance company. The Group has entered into this Plan with a third party insurance company to minimize the risk associated with a pension obligation. This investment strategy was adopted as a means to reduce the uncertainty and volatility of the Plan's assets for the Group. Fair value of the Plan's assets is the estimated cash surrender value at the respective balance sheet date. Investment strategy and policies are determined by the insurance company.

In addition, the Group maintains other pension plans outside Switzerland, which are insignificant to the Group. The Group uses a measurement date of December 31 for all pension plans. Net periodic benefit costs for the Group's pension plans include the following components:

	<u>2007</u>	<u>2006</u>
Service cost.....	9,074	6,681
Interest cost.....	2,453	2,047
Expected return on plan assets.....	(2,665)	(2,144)
Amortization of net (gain) loss	1,044	(62)
Net periodic pension cost.....	9,906	6'522

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The following table provides the weighted average assumptions used to calculate net periodic benefit cost and the actuarial present value of projected benefit obligations:

	<u>2007</u>	<u>2006</u>
Weighted average discount rate	3.72%	2.73%
Expected long-term rate of return on plan assets	3.51%	3.50%
Rate of increase in compensation levels (salary)	2.63%	2.77%

The expected long-term rate of return on plan assets represents a weighted average of expected returns per asset category. It considers historical and estimated future risk-free rates of return as well as risk premiums for the relevant investment categories.

The following tables set forth the change in present value of obligations and change in fair value of plan assets at December 31, for the Group's pension plans:

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	<u>2007</u>	<u>2006</u>
Change in present value of obligations		
Present value of obligations – beginning of year	89,895	56,782
Plan amendments	-	1,719
Service cost	9,074	6,681
Interest cost	2,453	2,047
Plan participant contributions	5,367	4,234
Actuarial loss (gain)	(12,425)	17,046
Benefits paid	(98)	(57) ¹⁾
Transfers in/out	4,324	3,721 ¹⁾
Premiums paid	(2,912)	(2,313)
Foreign currency translation	51	35
Present value of obligations – end of year	95,729	89,895
Change in fair value of plan assets		
Plan assets at fair value – beginning of year	70,060	55,886
Actual return on plan assets	1,829	1,325
Group contributions	10,522	6,592
Plan participant contributions	5,367	4,234
Benefits paid	(98)	(57) ¹⁾
Premiums paid	(2,912)	(2,313)
Transfers in/out	4,430	4,393 ¹⁾
Adjustments	2,507	-
Foreign currency translation	24	-
Fair value of plan assets – end of year	91,729	70,060

¹⁾ Changes in presentation have been performed to better reflect substance of transactions without impact on present value of the pension liability or on fair value of plan assets

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The movement in the net asset or liability and the amounts recognized in the balance sheet were as follows:

	<u>2007</u>	<u>2006</u>
Present value of obligations	(95,729)	(89,895)
Fair value of plan assets	91,729	70,060
Present value of net obligation (funded status)	(4,000)	(19,835)
 Changes in other comprehensive income (expense)		
Components of net periodic benefit costs – beginning of year	(17,985)	-
Net gain (loss) arising during the period.....	14,370	(2,524)
Amortization of net gain (loss) ¹⁾	962	-
Transition asset (obligation)	-	(16,940)
Taxes.....	(1,175)	1,479
Total included in other comprehensive income (expense) - end of year	(3,828)	(17,985)

¹⁾ In financial year 2008, the Group does not expect a further amortization of not recognized components of net periodic benefit costs.

As of December 31, 2007, an amount of CHF 3.8 million net of tax related to the pension plans has been recognized in other comprehensive income (2006: CHF 18 million). The liability represents not yet recognized components of net periodic benefit costs such as not amortized actuarial gains/ losses, not recognized prior year service costs as well as transition obligations arisen at initial adoption of SFAS 158 in 2006.

The expected future cash flows to be paid by the Group in respect of the pension plans as of December 31, were as follows:

Employer contributions

2008 (estimated) 8,704

Expected future benefit payments

2008 721
2009 864
2010 1,102
2011 1,332
2012 1,700
Next 5 years thereafter..... 21,795

Certain of the Group's subsidiaries sponsor defined contribution plans with Group's contributions fixed at 2.25% to 7% of the employee's annual salary. These plans are structured as saving schemes without further obligation of the

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Group. Total expense of these defined contribution plans was CHF 4.4 million and CHF 2.5 million in 2007 and 2006, respectively.

In January 2008, the Group decided to implement changes in its pension plans becoming effective as of January 1, 2008. Plan changes will primarily consist in changes of the legal structure and increased pension and risk coverage for all employees. Accordingly, the Group will re-calculate its projected benefit obligation as of January 1, 2008 and reflect changes to net periodic benefit costs and other comprehensive income prospectively.

Note 19. Shareholders' equity

Authorized capital

The Annual General Meeting on May 4, 2007 authorized the creation of authorized share capital to be used for strategic and/or financial business purposes. The board of directors is authorized until May 4, 2009 to increase the Group's share capital to an amount of not more than CHF 17.5 million by issuance of not more than 35 million fully paid-in registered shares with a nominal value of CHF 0.50 per share.

Conditional capital

Since inception, the Group has created conditional capital for the establishment of share option plans, convertible bonds and similar forms of financing. At December 31, 2007, the Group has conditional capital of CHF 28.1 million of which CHF 16.2 million relate to share option plans and CHF 11.9 million to convertible bonds and similar forms of financing.

Movements in conditional capital are as follows:

January 1, 2006	19,653
Creation of conditional capital for employee share option plans	-
Exercise of options	(1,026)
December 31, 2006	18,627
Creation of conditional capital for convertible bonds and similar forms of financing	9,250
Creation of conditional capital for employee share option plans	4,160
Forfeited Challenge Award options	(289)
Exercise of options	(1,281)
Conversion of 2003 convertible bond	(2,343)
December 31, 2007	28,124

Treasury shares

At December 31, 2007 the Group held 3,940,510 treasury shares, which were acquired at an average price of CHF 58.53. During 2007, the Group acquired 3,671,375 treasury shares at an average price of CHF 59.83 and members of the board of directors received 9,350 treasury shares at an average price of CHF 54.30 as compensation.

Treasury shares are deducted from equity at their cost value and are shown as a separate component of shareholders' equity.

In February 2007, the Group completed the first stock repurchase program with a total amount of shares repurchased of 0.9 million for an aggregate cost of CHF 45.3 million. Under the second stock repurchase program, completed in August 2007, the Group repurchased 3.0 million shares at an aggregate cost of CHF 185.2 million. The Group

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intends to use the repurchased stock to offset dilution caused by the issuance of shares related to the Group's share-based payment plans and shares issued upon conversion of the 2006 convertible bond.

Call options

In connection with the 2006 convertible bond, the Group used a portion of the proceeds to purchase call spread options on its own shares from an international financial institution to mitigate the exposure to potential dilution from conversion of the 2006 convertible bond. The total premium paid was CHF 20.6 million, which has been recorded as a reduction in shareholder's equity. The number of options purchased is 8.5 million with a lower strike price at CHF 54.17 and an upper strike price at CHF 58.92. The call spread will expire in tranches during November and December 2011.

In December 2007, the Group committed to a program to purchase several financial instruments indexed to its own stock in order to manage the potential dilution of earnings per share caused by exercises of employee stock options. The Group committed to purchase 2.66 million physically settled calls with an exercise price of CHF 53. Each call option permits the Group to acquire one share. These options expire serially, in varying amounts, through December 2011. In addition, the Group committed to purchase 2.66 million net share settled capped call options with a lower strike price of CHF 5 and a higher strike price of CHF 42.40 (0.27 million options), CHF 47.70 (0.53 million options) and CHF 53 (1.86 million options). Each net share settled option represents the right to the share equivalent of the profit differential on the option contract up to the price cap at the time of exercise. These options expire serially, in varying amounts, through December 2011.

The net premiums paid through December 31, 2007, of this option structure were CHF 117.1 million. This amount is classified in shareholders' equity. As of mid-January 2008, the Group completed the purchase of these options with an additional premium of CHF 106 million, which amount will also be reflected in shareholders' equity.

Note 20. Stock-based compensation

Share-based payment arrangements

The Group has several share-based payment plans for employees and members of the board of directors. Total compensation costs recognized in the consolidated financial statements with respect to these plans were CHF 64.1 million and CHF 32.7 million in 2007 and 2006, respectively. Total related tax benefits of CHF 6.9 million and CHF 3.8 million were recognized in 2007 and 2006, respectively. The following assumptions have been applied in the valuation model:

	Year ended December 31,	
	2007	2006
Expected term	6 years	6years
Interest rate	2.87%	2.47 %
Volatility	40.2%	44.3%
Expected dividend yield.....	-	-

Standard share option plan

The Group granted standard share options to employees and directors, which generally vest over a four-year period with 25% of the options becoming exercisable each year. Options granted to members of the board out of the Group's Director Share Option Plan vest immediately. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the plan issuance date.

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In 2007, the shareholders approved an increase in conditional capital of 8,320,075 shares. In addition, 1,679,925 unallocated shares, which were originally reserved for the Challenge Award, will be used in connection with standard employee stock option plans. At December 31, 2007, there were 11,503,695 conditional shares available for grant of future share options.

The following table summarizes activities under the standard share option plan for the twelve months ended December 31:

	2007		2006	
	Share options	Weighted average exercise price	Share options	Weighted average exercise price
Outstanding, beginning of year.....	12,906,725	21.32	12,691,960	18.98
Granted.....	3,197,050	56.81	2,700,735	28.10
Forfeited.....	(353,690)	34.89	(434,285)	24.51
Exercised.....	(2,341,267)	20.31	(2,051,685)	15.12
Outstanding, end of year	13,408,818	29.60	12,906,725	21.32
Exercisable, end of year.....	6,458,993		6,456,270	

The following is a summary of standard share options outstanding and exercisable at December 31, 2007:

<u>Range of Exercise Prices</u>	Share options outstanding			Share options exercisable		
	Share options outstanding	Weighted average remaining contractual life in years	Weighted average exercise price	Share options exercisable	Weighted average remaining contractual life in years	Weighted average exercise price
0.00 - 5.00.....	863,445	0.95	0.80	863,445	0.95	0.80
5.01 - 10.00.....	387,665	4.39	9.56	252,425	4.21	9.40
10.01 - 15.00.....	1,846,313	4.41	12.35	1,341,068	4.16	12.34
15.01 - 20.00.....	491,219	5.54	18.60	287,344	5.54	18.57
20.01 - 25.00.....	1,021,700	5.45	22.67	647,480	4.72	22.55
25.01 - 30.00.....	5,150,026	7.18	27.41	2,427,211	6.58	27.33
30.01 - 35.00.....	126,660	3.50	32.41	113,260	2.90	32.53
35.01 - 45.00.....	420,440	3.49	38.07	383,860	2.98	37.85
45.01 - 60.00.....	2,994,350	9.25	56.55	142,900	9.33	56.75
60.01 - 75.00.....	107,000	9.41	63.25			
Total	13,408,818			6,458,993		

The Group recorded stock-based compensation expense for the standard share option plans of CHF 35.4 million and CHF 25.8 million for the years ended December 31, 2007 and 2006, respectively, which is being amortized in accordance with SFAS 123(R) over the vesting periods of the related options, which is generally four years. The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was CHF 86.3 million and CHF 42.0 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2007 was CHF 315.8 million and CHF 204.7 million, respectively. The fair value of options vested was CHF 29.3 million and CHF 24.4 million in 2007 and 2006, respectively. There were no expirations during the periods presented.

The weighted-average grant date fair values of options granted during the years ended December 31, 2007 and 2006 were CHF 23.70 and CHF 12.46, respectively, and equaled the market price of the Group's shares at the grant date.

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A summary of the status of non-vested share options and changes during the year is presented below:

	2007	
	Share options	Weighted average grant date fair values
Outstanding non-vested, beginning of year	4,944,660	12.28
Granted.....	3,197,050	23.70
Forfeited	(315,300)	16.37
Vested.....	(2,391,570)	12.27
Outstanding non-vested, end of year.....	5,434,840	18.77

As of December 31, 2007, there was CHF 69.0 million of total unrecognized compensation cost related to non-vested options which is expected to be recognized over a weighted average period of 1.6 years.

Challenge Award

In 2004, the shareholders approved an increase in the total number of conditional shares by 10,000,000 to be used in connection with a special one-time incentive plan (“Challenge Award”) linked to specific achievements by the Group.

The two conditions to be met were a) cumulative net revenues on four consecutive calendar quarters reach CHF 1 billion and b) the market share price equals at least CHF 57.20 and remains at an average of that level for at least twenty consecutive trading days. The achievement date was defined as the first trading day following the day both conditions were fulfilled. On that date, the first quarter of the granted options would vest and become exercisable. Of the remaining three quarters, the first quarter would vest and become exercisable after six months, the second quarter after twelve months and the third quarter after eighteen months after the achievement date. The exercise price of all options granted under the Plan was CHF 57.20. Both conditions were fulfilled by March 31, 2007 and the first quarter of the granted options vested on April 2, 2007, the second quarter on October 2, 2007. Options generally expire ten and a half years after the grant date. There were no expirations during the periods presented. No further options will be granted under this plan.

The following table summarizes activities under the Challenge Award for the years ended December 31, 2007:

	2007	2006
	Share options	Share options
Outstanding, beginning of year.....	7,897,200	7,656,050
Granted.....	422,875	986,800
Forfeited.....	(577,685)	(745,650)
Exercised.....	(221,702)	-
Outstanding, end of year.....	7,520,688	7,897,200
Exercisable, end of year.....	3,694,298	-

Weighted average remaining contractual life for options outstanding and exercisable at December 31, 2007 was 7.24 and 7.25 years respectively. The total intrinsic value of options exercised during the year ended December 31, 2007 was CHF 1.7 million.

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A summary of the status of non-vested share options and changes during the year is presented below:

	2007	
	Share options	Weighted average grant date fair values
Outstanding non-vested, beginning of year	7,897,200	5.59
Granted.....	422,875	22.34
Forfeited.....	(539,700)	6.90
Vested.....	(3,953,985)	6.44
Outstanding non-vested, end of year.....	3,826,390	6.39

The weighted average grant date fair value of options granted in the year ended December 31, 2006 was CHF 4.0. Total fair value of options vested in 2007 was CHF 25.4 million.

The Group recorded stock-based compensation expense for the Challenge Award of CHF 28.7 million for the year ended December 31, 2007. As of December 31, 2007, there was CHF 5.1 million of total unrecognized compensation cost related to non-vested options. That cost is expected to be recognized during 2008. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2007 was zero.

The Actelion Share Challenge 2011 Plan

In December 2007, the Group initiated the Actelion Share Challenge 2011 Plan. The plan is intended to promote a long-term perspective on managing business in alignment with shareholder interests and to reward long-term employee dedication if the Group's performance is outstanding having resulted in the achievement of certain goals by December 31, 2011. There were no options granted under this plan in 2007.

Note 21. Accumulated other comprehensive income (loss)

Accumulated other comprehensive income (loss) consists of the following for the years ended:

	Pre-tax	Income tax	After Tax
December 31, 2007:			
Foreign currency translation adjustments ¹⁾	(25,305)	-	(25,305)
Not recognized components of net periodic benefit costs.....	(4,132)	304	(3,828)
Unrealized losses on available-for-sale securities.....	-	-	-
Total accumulated other comprehensive income (loss).....	(29,437)	304	(29,133)
December 31, 2006:			
Foreign currency translation adjustments ¹⁾	(779)	-	(779)
Not recognized components of net periodic benefit costs	(19,464)	1,479	(17,985)
Unrealized losses on available-for-sale securities.....	(87)	-	(87)
Total accumulated other comprehensive income (loss).....	(20,330)	1,479	(18,851)

¹⁾ Income taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.

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Note 22. Concentrations

Cash and cash equivalents, marketable securities and accounts receivables are financial instruments, which potentially subject the Group to concentrations of credit risk. The Group has not experienced any significant credit losses and does not generally require collateral on receivables.

For the years ended December 31, 2007 and 2006, three distributors accounted for approximately 42% and 43%, respectively, of total sales. At December 31, 2007 and 2006, CHF 54.1 million and CHF 25.1 million, respectively, of trade accounts receivable related to these distributors. Management believes other distributors could be identified which would purchase the Group's products on comparable terms; however, the establishment of new distributor relationships could take several months. The Group performs ongoing credit evaluations of its customers' financial condition and extends credit, generally without collateral. In 2007 and 2006, the Group did not record any significant additions to, or losses against, its allowance for doubtful accounts.

The Group is dependent upon toll manufacturers to manufacture its products. For the year ended December 31, 2007, one supplier accounted for approximately 40% of total purchases, while in 2006 another supplier accounted for approximately 25% of total purchases. Management believes other suppliers could provide similar products on comparable terms. A change in suppliers, however, could cause a delay in fulfillment of customer orders and a possible loss of sales, which could adversely affect operating results. Management believes that the Group maintains sufficient inventory levels to minimize the impact that a change in suppliers would have on operating results.

Note 23. Segment and geographic information

The Group operates in one segment of discovering, developing and commercializing drugs for unmet medical needs. The chief operating decision-makers, which are comprised of the Group's executive committee, review the profit and loss of the Group on an aggregated basis and manage the operations of the Group as a single operating unit. The Group currently derives product revenue from sales of Tracleer®, Zavesca and Ventavis®. Contract revenue is derived from collaboration and service agreements with third parties. Product revenue attributable to individual countries is based on location of the customer.

The Group's geographic information is as follows:

December 31, 2007:	Switzerland	United States	Europe	Other	Total
Product revenue from external customers.....	17,166	617,393	513,406	144,118	1,292,083
Contract revenue from external customers	25,309	-	-	-	25,309
Long-lived assets	162,334	209,919	7,186	3,126	382,565
December 31, 2006:					
Product revenue from external customers.....	14,716	422,201	392,680	94,544	924,141
Contract revenue from external customers	21,265	-	-	267	21,532
Long-lived assets	114,843	4,939	5,727	3,005	128,514

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Note 24. Related party transactions

During 2007, one of our board members held a board seat with Pharmaceutical Research Associates International Inc. ("PRA"), a clinical research organization. In the ordinary course of business the Group entered into arm's-length transactions with PRA in the amount of CHF 2.2 million (USD 2 million) of which CHF 0.5 million (USD 0.5 million) were outstanding as of December 31, 2007.

The detailed disclosures regarding executive remuneration that are required by Swiss Company Law are included in the statutory financial statements of Actelion Ltd, Allschwil (Holding Company Statements).

HOLDING COMPANY STATEMENTS

Balance sheets

(in CHF thousands)

	December 31	
	2007	2006
Assets		
Current assets		
Cash and cash equivalents	121,991	281,397
Marketable securities	-	19,855
Derivative instruments	-	2,119
Other receivables	561	643
Other receivables with group companies	324,765	55,329
Prepayments and accrued income.....	688	1,038
Total current assets	448,005	360,381
Non-current assets		
Investments in subsidiaries	762,031	194,535
Derivative instruments	136,871	20,562
Treasury shares	965	11,118
Long-term loans to subsidiaries.....	134,010	156,981
Total non-current assets	1,033,877	383,196
Total assets	1,481,882	743,577
Liabilities and Shareholders' Equity		
Current liabilities		
Short term financial debt.....	33,000	-
Trade and other payables	98	66
Trade and other payables with group companies	11,817	223
Accrued expenses.....	951	716
Other short term liabilities with group companies	-	17,025
Total current liabilities	45,866	18,030
Non-current liabilities		
Long term financial debt.....	84,100	-
Other non-current liabilities with group companies.....	81,823	66,991
Total non-current liabilities	165,923	66,991
Total liabilities	211,789	85,021
Shareholders' Equity		
Common shares (par value CHF 0.50 per share, authorized 213,275,590 and 207,033,200 shares; issued 122,027,729 and 114,779,420 shares in 2007 and 2006, respectively).....	61,014	57,390
Legal reserves – share premium	628,032	343,543
Treasury shares reserve.....	230,626	11,118
Accumulated profit	350,421	246,505
Total Shareholders' Equity	1,270,093	658,556
Total Liabilities and Shareholders' Equity	1,481,882	743,577

HOLDING COMPANY STATEMENTS

Income statements

	Twelve Months Ended	
	December 31	
	2007	2006
<i>(in CHF thousands)</i>		
Financial income.....	391,063	222,472
Total income	391,063	222,472
Administrative expense	(6,926)	(3,049)
Financial expense	(49,595)	(21,111)
Total expense	(56,521)	(24,160)
Income before and after taxes (net income)	334,542	198,312

HOLDING COMPANY STATEMENTS

Notes to the Financial Statements 2007

1. Accounting principles

The financial statements of Actelion Ltd have been prepared in accordance with the accounting principles as prescribed by Swiss Company Law.

2. Material investments

Company	Country	Location	Ownership Interest	Consolidation method	Function	Share Capital
Actelion Pharmaceuticals Australia Pty Ltd	Australia	Sydney	100 %	Full	Sales	AUD 2,016,667
Actelion Pharmaceuticals Austria GmbH	Austria	Vienna	100%	Full	Sales	EUR 35,000
Actelion Pharmaceuticals do Brasil Ltda	Brazil	Rio de Janeiro	100%	Full	Sales	BRL 7,375,973
Actelion Pharmaceuticals Canada Inc	Canada	Laval	100 %	Full	Sales	CAD 100,000
Actelion Pharmaceuticals France SAS	France	Paris	100 %	Full	Sales	EUR 200,000
Actelion Pharmaceuticals Deutschland GmbH	Germany	Freiburg	100 %	Full	Sales	EUR 1,000,000
Actelion Pharmaceuticals Hellas SA	Greece	Chalandri	100 %	Full	Sales	EUR 421,500
Actelion Pharmaceuticals Italia S r l	Italy	Milan	100 %	Full	Sales	EUR 15,000
Actelion Pharmaceuticals Japan Ltd	Japan	Tokyo	100 %	Full	Sales	JPY 95,000,000
Actelion Pharmaceuticals Nederland BV	Netherlands	Woerden	100 %	Full	Sales	EUR 50,010
Actelion Pharmaceuticals Espana SL	Spain	Barcelona	100 %	Full	Sales	EUR 127,100
Actelion Pharmaceuticals Sverige AB	Sweden	Danderyd	100 %	Full	Sales	SEK 1,000,000
Actelion Ilac Ticaret L.S	Turkey	Istanbul	100 %	Full	Sales	TRY 2,633,275
Actelion Pharmaceuticals Ltd (CH)	Switzerland	Allschwil	100 %	Full	Research, Development, Prod., Marketing, Sales	CHF 614,610
Actelion Pharmaceuticals UK Ltd	United Kingdom	London	100 %	Full	Sales	GBP 250,000
Actelion Registration Ltd	United Kingdom	London	100 %	Full	Holder marketing authorization EU	GBP 1
Actelion Pharmaceuticals US Inc	United States	South San Francisco	100 %	Full	Sales	USD 5,000
Actelion Pharma Schweiz AG	Switzerland	Baden	100 %	Full	Marketing	CHF 100,000
Actelion Paris Organisation SAS	France	Paris	100%	Full	Marketing	EUR 200,000
Actelion Clinical Operations, Inc.	United States	Cherry Hill, New Jersey	100%	Full	Clinical Research	USD 1,000
Actelion Finance SCA	Luxembourg	Luxembourg	100%	Full	Financing	CHF 62,000
Actelion Partners SNC	Luxembourg	Luxembourg	100%	Full	Financing	USD 1,000

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Actelion Lux. SARL	Luxembourg	Luxembourg	100%	Full	Financing	EUR 12,500
Actelion Participation GmbH	Switzerland	Allschwil	100%	Full	Financing	CHF 20,000
Actelion Pharmaceuticals Israel Ltd.	Israel	Ramat-Gan	100%	Full	Development	NIS 100
Actelion Pharmaceuticals Portugal	Portugal	Lissboa	100%	Full	Sales	EUR 5,000
Actelion Pharmaceuticals Belgium NV	Belgium	Wilrijk	100%	Full	Sales	EUR 600,000
Actelion Pharmaceuticals Korea Ltd.	South Korea	Seoul	100%	Full	Sales	KRW 100,000,000
Actelion US Holding Co.	United States	Delaware	100%	Full	US Holding	USD 1
Cotherix Inc.	United States	South San Francisco	100%	Full	Sales	USD 1
Actelion Cyprus Limited	Cyprus	Nicosia	100%	Full	Financing	EUR 2,000
Actelion Pharmaceuticals Singapore PTE Ltd	Singapore	Singapore	100%	Full	Sales	SGD 1

3. Share capital

At December 31, 2007, the issued share capital amounts to CHF 61,013,865 consisting of 122,027,729 common shares (including 3,940,510 treasury shares) with a nominal value of CHF 0.50 each. The shares are registered and fully paid-up. Each share is entitled to one vote.

4. Conditional capital

Since inception the Company has created conditional capital for the establishment of share option plans, convertible bonds and similar forms of financing. At December 31, 2007, the Company has conditional capital of CHF 28.1 million of which CHF 16.2 million relate to share option plans and CHF 11.9 million to convertible bonds and similar forms of financing.

Movements in conditional capital are as follows (in CHF thousands):

January 1, 2006	19,653
Creation of conditional capital for employee share option plans	-
Exercise of options	(1,026)
December 31, 2006	18,627
Creation of conditional capital for convertible bonds and similar forms of financing..	9,250
Creation of conditional capital for employee share option plans	4,160
Forfeited Challenge Award options	(289)
Exercise of options	(1,281)
Conversion of 2003 convertible bond	(2,343)
December 31, 2007	28,124

5. Authorized capital

The Annual General Meeting on May 4, 2007 authorized the creation of authorized share capital to be used for strategic and/or financial business purposes. The board of directors is authorized to increase the share capital to an amount of not more than CHF 17.5 million by issuance of not more than 35 million fully paid-in registered shares with a nominal value of CHF 0.50 per share until May 4, 2009.

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6. Treasury shares

At December 31, 2007, the Company and its affiliates held 3,940,510 treasury shares, which were acquired at an average price of CHF 58.53. During 2007, the Company acquired 3,671,375 treasury shares at an average price of CHF 59.83 and members of the board of directors received 9,350 treasury shares at an average price of CHF 54.30 as compensation. The treasury shares are considered as long-term investment and therefore valued at lower of cost or market.

7. Long-term derivative instrument

In connection with the 2006 convertible bond, the Company used a portion of the proceeds to purchase call spread options on its own shares from an international financial institution to mitigate the exposure to potential dilution from conversion of the 2006 convertible bond. The total premium paid was CHF 20.6 million, which has been recorded as a long-term derivative instrument. The number of options purchased is 8.5 million with a lower strike price at CHF 54.17 and an upper strike price at CHF 58.92. The call spread will expire in tranches during November and December 2011.

Call and capped call options

In December 2007, the Company committed to a program to purchase several financial instruments indexed to its own stock in order to manage the potential dilution of earnings per share caused by exercises of employee stock options. The Company committed to purchase 2.66 million physically settled calls with an exercise price of CHF 53. Each call option permits the Company to acquire one share. These options expire serially, in varying amounts, through December 2011. In addition, the Company committed to purchase 2.66 million net share settled capped call options with a lower strike price of CHF 5 and a higher strike price of CHF 42.40 (0.27 million options), CHF 47.70 (0.53 million options) and CHF 53 (1.86 million options). Each net share settled option represents the right to the share equivalent of the profit differential on the option contract up to the price cap at the time of exercise. These options expire serially, in varying amounts, through December 2011.

The net premiums paid through December 31, 2007, of this option structure were CHF 117.1 million. This amount is classified in long-term derivative instruments. As of mid-January 2008, the Company completed the purchase of these options with an additional premium of CHF 106 million, which amount will also be reflected in long-term derivative instruments.

8. Guarantees and commitments

In 2007, Actelion Ltd has issued a first demand guarantee of up to USD 1,786,715 to Deutsche Bank Mortgage Capital, USA, for securing the rent obligations of Actelion Clinical Operations, USA.

In 2007, Actelion Ltd has increased the stand-by letter of credit from JPY 39,571,200 to JPY 45,506,880 for securing office rent obligations of Actelion Pharmaceuticals Japan Ltd.

In 2007, the Company issued a letter of indemnity to a financial institution in the amount of CHF 10 million to secure its obligations from derivative trading and forward transactions in foreign currencies.

In addition, as of December 31, 2007, other guarantees in the amount of CHF 831,997 exist.

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In November 2006, Actelion Finance SCA issued a CHF 460 million convertible bond (the "Bond"). Under the guarantee agreement signed on November 22, 2006, Actelion Ltd unconditionally guarantees the due payment of the amounts payable by Actelion Finance SCA pursuant to the terms of the Bond, or, upon conversion of the bonds, the due delivery of the shares and/or cash payment for fractions. Actelion Ltd also guarantees that Actelion Finance SCA will earn both before and after conversion of the Bonds into shares and irrespective of an effective on-lending of the proceeds of the Bonds, on all Company Financing except loans granted to Actelion Partners SNC a net spread of 12.5 basis points in respect of such Company Financing.

In 2004, Actelion Ltd has issued a stand-by letter of credit of JPY 90,000,000 for securing the rent obligations of Actelion Pharmaceuticals Japan Ltd.

In 2003, Actelion Ltd has issued a first demand guarantee of up to EUR 1,100,000 to Deutsche Bank for their credit facility with Actelion Pharmaceuticals Germany GmbH.

The Company belongs to the Swiss value-added tax (VAT) Group of Actelion Pharmaceuticals Ltd., and thus carries a joint liability to the Swiss federal tax authority for value-added tax.

Financing arrangement

In 2007, the Company entered into a financing arrangement for CHF 215 million. The arrangement is split into two facilities of CHF 100 million (unsecured) and CHF 115 million (secured). The CHF 115 million facility is secured with a general deed of pledge in the amount of CHF 119 million, which covers all of the Group's assets held at the pledger. The interest rates are based on the 3-months-LIBOR rate plus an average margin of 22.5 basis points for the secured and 52.5 basis points for the unsecured facility. As of December 31, 2007, CHF 117.1 million of the CHF 215 million financing arrangement were utilized. The financing arrangement contains financial and non-financial covenants. As of December 31, 2007, the Company is in compliance with all applicable covenants.

As of mid January 2008, the total financing arrangement of CHF 215 million was utilized.

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9. Significant shareholders

According to the information available to the board of directors the following shareholders held a significant percentage of shares:

Name	2007		2007		2006 ¹⁾	
	Percentage of share capital	Percentage of voting rights	Percentage of purchase positions	Percentage of sale positions	Percentage of share capital	Percentage of voting rights
Members of the board of directors, the AEC and Senior Management	>5%	>5%	<3%		>10%	>10%
Actelion Ltd	>3%	>3%	<3%			
Rudolf Maag	>5%	>5%			>5%	>5%
BB Biotech Invest SA	>5%	>5%			>5%	>5%
Fidelity Management & Research Co.	>5%	>5%			>10%	>10%
MFS Investment Management	>3%	>3%			>5%	>5%
Credit Suisse Group ²⁾	<3%	<3%	>5%			

¹⁾ This information is based on the thresholds applicable in 2006 (minimum threshold: 5%).

²⁾ According to Credit Suisse's disclosure notification

10. Compensation and shareholdings of the members of the board of directors and AEC

Only members of the Actelion Executive Committee are members of the management within the relevant meaning of Art 663b^{bis} of the Swiss Code of Obligations (SCO) and as such disclosed in the following tables.

Compensation board of directors

Total compensation

In 2007, the 7 non-executive members of the board of directors received a total compensation of CHF 1,275,020 consisting of a cash compensation of CHF 403,000, social security contributions of CHF 57'474, 17'900 options at a fair value at grant date of CHF 17.54 and 9'350 shares at fair value at grant date of CHF 53.538. Each director can decide in which manner this last compensation should be paid (options or shares).

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Individual compensation of the members of the board of directors

Name	Functions	Total compensation		Options (DSOP) ¹⁾		Shares	
				Total number	Grant-date fair value (CHF) ²⁾	Total number	Grant date fair value (CHF) ²⁾
Robert E. Cawthorn	Chairman Member of the Compensation Committee Member of the Nominating & Governance Committee	244,316	83,450	4,135	17.54	1,650	53.538
André J. Mueller	Vice Chairman Chairman of the Finance & Audit Committee Member of the Nominating & Governance Committee	169,202	72,644	5,505	17.54	-	-
Juhani Anttila	Member Member of the Finance & Audit Committee	179,426	61,642	-	-	2,200	53.538
Carl Feldbaum	Member Chairman of the Nominating & Governance Committee	161,917	54,704	2,755	17.54	1,100	53.538
Werner Henrich	Member Member of the Compensation Committee	176,274	58,490	-	-	2,200	53.538
Armin Kessler	Member Chairman of the Compensation Committee Member of the Nominating & Governance Committee	185,913	68,130	-	-	2,200	53.538
Jean Malo	Member Member of the Finance & Audit Committee	157,972	61,414	5,505	17.54	-	-
Jean-Paul Clozel	Delegate	See Section "Highest total compensation"					
Total (excluding Jean-Paul Clozel)		1,275,020	460,474	17,900		9,350	

¹⁾ The Company has a share-based payment plan for the board of directors (DSOP). Options granted to members of the board out of the Company's Director Share Option Plan vest immediately. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the plan issuance date.

²⁾ The fair value of the options granted in 2007 was estimated by use of a Binomial Lattice option pricing model. The model input assumptions are determined based on available internal and external data sources..

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AEC compensation

Total compensation

In 2007, the executive members of the board of directors and the AEC received a total compensation of CHF 13,756,582 consisting of actual cash payments of CHF 6,738,195; social security contributions of CHF 703,827; 172,500 options (ESOP³⁾) at fair value at grant date of CHF 23.896 and 125,000 (DSOP) options at a fair value at grant date of CHF 17.54 in aggregate.

³⁾ The Company has a share-based payment plan for employees (ESOP). Granted standard share options within ESOP generally vest over a four-year period with 25% of the options becoming exercisable each year. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the plan issuance date.

Highest total compensation

In 2007, Jean-Paul Clozel, Chief Executive Officer and member of the board of directors, received the highest total compensation amounting to CHF 4,300,546, composed of the following:

Effectively paid cash remuneration: CHF 1,869,496

Social Security Contributions: CHF 238,550

Option allotment: 125,000 (DSOP, fair value at grant date: CHF 17.54).

Share allotment: none

This compensation relates to both functions (Chief Executive Officer and member of the board of directors) and cannot be distinguished.

Loans and other payments to members of the board of directors, AEC and related parties

Loans

No loans were granted to current or former members of the board of directors, of the AEC or to “Related Parties” as per Article 663b^{bis} SCO during 2007. No such loans were outstanding as of December 31, 2007.

Other payments

During 2007, no payments (or waivers or claims) other than those set out above were made to current members of the board of directors, of the AEC or to “Related Parties” as per Article 663b^{bis} SCO.

Payments to former members of the board of directors

During 2007, no payments (or waivers or claims) were made to former members of the board of directors, of the AEC or to “Related Parties” as per Article 663b^{bis} SCO.

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Shares owned by the members of the board of directors as of December 31, 2007

Name	Function	Number of shares (related voting rights)	Number of option rights (related potential voting rights)
Robert E. Cawthorn ¹⁾	Chairman Member of the Compensation Committee Member of the Nominating & Governance Committee	915,420 (0.76%)	98,375 (<0.1%)
André J. Mueller	Vice Chairman Chairman of the Finance & Audit Committee Member of the Nominating & Governance Committee	687,505 (0.57%)	125,505 (0.10%)
Jean-Paul Clozel ¹⁾	Delegate	6,026,805 (5.04%)	532,065 (0.44%)
Juhani Anttila	Member Member of the Finance & Audit Committee	8,825 (<0.1%)	17,145 (<0.1%)
Carl Feldbaum ¹⁾	Member Chairman of the Nominating & Governance Committee	4,100 (<0.1%)	32,845 (<0.1%)
Werner Henrich	Member Member of the Compensation Committee	9,990 (<0.1%)	26,450 (<0.1%)
Armin Kessler	Member Chairman of the Compensa- tion Committee Member of the Nominating & Governance Committee	5,325(<0.1%)	15,000 (<0.1%)
Jean Malo	Member Member of the Finance & Audit Committee	---	37,025 (<0.1%)
Total		7,657,970 (6.41%)²⁾	884,410 (0.74%)²⁾

¹⁾ Including Related Parties

²⁾ Share of the Company's registered capital

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Shares owned by the members of the AEC as of December 31, 2007

Name	Title and Function	Number of shares (related voting rights)	Number of option rights (related po- tential voting rights)
Jean-Paul Clozel	Chief Executive Officer	See table "Shares owned by the members of the board of directors"	
Simon Buckingham	President, Corporate and Business Development	236,875 (0.19%)	198,685 (0.17%)
Christian Chavy	President, Business Operations	120(<0.1%)	457,695 (0.38%)
Louis de Lassence	Vice President, Head of Corporate Services	40,100 (<0.1%)	312,800 (0.26%)
Roland Haefeli	Vice President, Head of Investor Relations and Public Affairs	-	229,355 (0.19%)
Isaac Kobrin	Senior Vice President, Head of Clinical Development	-	189,345 (0.15%)
Andrew J. Oakley	Vice President, Chief Financial Officer	-	153,000 (0.13%)
Total (excluding Jean-Paul Clozel)		277'095 (0.23%)²⁾	1,540,880 (1.28%)²⁾

²⁾ Share of the Company's registered capital

12. Change in accounting policies

The Company has changed the methodology to recognize financial income from the option sold to Actelion SCA in 2006. Starting from 2007 total financial income will be recognized upon conversion of the bond instead of amortizing it as deferred revenue on a straight-line basis over the period of the agreement.

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Proposed appropriation of available earnings

	2007	2006
Retained earnings at beginning of the year	246,505	48,193
Reserves for own shares	(230,626)	-
Net income for the year	334,542	198,312
Total available earnings carried forward	350,421	246,505
Balance to be carried forward	350,421	246,505