

ACTELION LTD AND SUBSIDIARIES

UNAUDITED

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR JUNE 30, 2008

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ACTELION LTD AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED INCOME STATEMENTS

<i>(in CHF thousands, except per share amounts)</i>	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Net revenue:				
Products sales	348,143	329,083	662,782	612,694
Contract revenue	6,263	6,829	13,200	13,657
Total net revenue	354,406	335,912	675,982	626,351
Operating expenses (1)				
Cost of sales	38,817	34,490	72,905	63,851
Research and development	107,322	69,453	201,240	135,195
Selling, general and administrative*	134,103	125,885	255,125	242,970
Amortization of acquired intangible assets	4,710	5,407	9,496	10,311
Write-off of acquired in-process research and development	-	-	-	224,820
Total operating expense	284,952	235,235	538,766	677,147
Operating income (loss)	69,454	100,677	137,216	(50,796)
Interest income	5,626	5,535	10,623	9,373
Interest expense	(1,806)	(16)	(3,252)	(30)
Amortization of debt discount and issuance costs	(421)	(403)	(838)	(3,270)
Other financial income (expense), net	12,805	974	(4,836)	10,240
Income (loss) before income tax	85,658	106,767	138,913	(34,483)
Income tax expense	(6,888)	(9,722)	(11,808)	(18,470)
Net income (loss)	78,770	97,045	127,105	(52,953)
Basic net income (loss) per share	0.66	0.81	1.07	(0.45)
Number of shares (in thousands) used in computation	118,845	119,590	118,605	118,112
Diluted net income (loss) per share	0.64	0.77	1.03	(0.45)
Number of shares and share options (in thousands) used in computation	123,666	125,717	123,512	118,112
(1) Includes employee stock option costs as follows:				
Research and development	6,885	6,025	12,129	12,634
Selling, general and administrative*	12,784	12,629	21,141	24,758
Total stock-based compensation	19,669	18,654	33,270	37,392

* "Selling, general and administration" includes "Marketing and advertising" expenses

ACTELION LTD AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED BALANCE SHEETS

<i>(in CHF thousands, except number of shares)</i>	June 30, 2008	December 31, 2007
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash and cash equivalents	427,529	331,586
Short-term deposits	329,015	527,415
Derivative instruments	4,437	322
Trade and other receivables, net	338,579	329,528
Inventories	36,062	42,787
Other current assets	29,457	35,386
Pension assets	2,320	-
Deferred tax asset, current portion	3,324	559
Total current assets	<u>1,170,723</u>	<u>1,267,583</u>
Long-term deposits*	107,660	-
Property, plant and equipment, net	142,605	113,993
Other assets	10,114	10,011
Intangible assets, net	165,502	187,417
Goodwill, net	77,567	81,155
Deferred tax asset	19,582	15,275
Total assets	<u>1,693,753</u>	<u>1,675,434</u>
Liabilities and shareholders' equity		
Current liabilities		
Trade and other payables	85,922	89,101
Accrued expenses	195,281	208,961
Deferred revenue, current portion	24,012	28,434
Other current liabilities	1,748	1,184
Short-term financial debt	481,200	493,000
Total current liabilities	<u>788,163</u>	<u>820,680</u>
Long-term financial debt	193,800	84,100
Deferred revenue, less current portion	98,129	106,514
Other non-current liabilities	6,129	5,213
Pension liability	-	4,000
Deferred tax liability	5,313	2,546
Total liabilities	<u>1,091,534</u>	<u>1,023,053</u>
Shareholders' equity		
Common shares (par value CHF 0.50 per share, authorized 212,926,305 and 213,275,590 shares for 2008 and 2007 respectively; issued 123,392,744 and 122,027,729 shares in 2008 and 2007 respectively)	61,696	61,014
Additional paid-in capital	519,590	569,920
Accumulated profit	408,312	281,207
Treasury shares, at cost	(330,213)	(230,627)
Accumulated other comprehensive loss	(57,166)	(29,133)
Total shareholders' equity	<u>602,219</u>	<u>652,381</u>
Total liabilities and shareholders' equity	<u>1,693,753</u>	<u>1,675,434</u>

* Cash separately classified as a deposit maintained as compensating balance

ACTELION LTD AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in CHF thousands)</i>	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Cash flow from operating activities				
Net income (loss)	78,770	97,045	127,105	(52,953)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:				
Depreciation and amortization	10,168	10,366	20,305	19,569
Stock-based compensation	20,105	19,161	33,706	37,899
Excess tax benefits from share-based payment arrangements	(920)	(2,562)	(3,744)	(5,225)
(Gains) Losses on derivative instruments	286	1,841	(3,533)	4,073
(Gains) Losses on marketable securities	-	(269)	-	(759)
Write-off of acquired in-process research and development	-	-	-	224,820
Amortization of debt discount and expense	421	403	838	3,270
Trade and other receivables	(1,757)	(46,734)	(23,763)	(66,542)
Inventories	2,217	(3,362)	6,142	(6,510)
Other current assets	7,793	1,142	(5,121)	(5,548)
Other assets	136	(966)	(9,969)	502
Trade and other payables	972	6,256	354	13,486
Accrued expenses	20,492	15,313	(9,877)	4,548
Deferred revenue	(6,082)	(6,883)	(12,744)	(13,592)
Other liabilities	(2,682)	(1,190)	9,047	(3,221)
Changes in other operating cash flow items	(10,573)	(2,217)	12,696	(4,539)
Net cash flow provided by operating activities	119,346	87,344	141,442	149,278
Cash flow from investing activities				
Purchase of short-term and long-term deposits	(539,336)	(24,648)	(682,036)	(132,795)
Withdrawal of short-term and long-term deposits	537,160	156,053	772,775	312,485
Purchase of property, plant and equipment	(24,619)	(12,332)	(35,024)	(26,728)
Proceeds from sale of marketable securities	-	65,140	-	109,125
Purchase of derivative instruments	-	-	-	(505)
Proceeds from sale of derivative instruments	-	-	-	505
Purchase of intangible assets	(1,381)	(1,313)	(4,073)	(3,132)
Increase of investment	-	(2,785)	-	(2,785)
Acquisition of subsidiary	-	-	-	(520,271)
Net cash flow provided by (used in) investing activities	(28,176)	180,115	51,642	(264,101)
Cash flow from financing activities				
Payments on capital leases	(36)	(42)	(71)	(124)
Issuance of 2006 convertible bond	-	-	-	(260)
Conversion costs 2003 convertible bond	-	-	-	(2,213)
Bank loan	-	-	97,900	-
Proceeds from exercise of stock options, net of expense	11,341	15,330	19,453	33,881
Purchase of treasury shares	(99,964)	(59,186)	(99,964)	(93,606)
Purchase of call option	-	-	(106,031)	-
Excess tax benefits from share-based payment arrangements	920	2,562	3,744	5,225
Net cash flow provided by (used in) financing activities	(87,739)	(41,336)	(84,969)	(57,097)
Net effect of exchange rates on cash and cash equivalents	4,903	2,261	(12,172)	1,963
Net change in cash and cash equivalents	8,334	228,384	95,943	(169,957)
Cash and cash equivalents at beginning of period	419,195	527,796	331,586	926,137
Cash and cash equivalents at end of period	427,529	756,180	427,529	756,180

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

(in CHF thousands, except number of shares)

	Common shares		Additional	Accumulated	Treasury	Other	Shareholders'
	Shares	Amount	paid-in- capital	profit	shares	comprehensive income (loss)	equity
At January 1, 2007	114,500,935	57,390	394,090	156,621	(11,118)	(18,851)	578,132
Comprehensive income net of tax effect:							
Net income				(52,953)			(52,953)
Other comprehensive income:							
Currency translation adjustment						207	207
Not recognized components of net periodic benefit costs							-
Unrealized gain on marketable securities						70	70
Comprehensive income							<u>(52,676)</u>
Excess tax benefit from share-based payment			5,099				5,099
Exercise of stock options	1,585,159	792	33,089				33,881
Equity increase from debt conversion	4,685,340	2,343	163,330				165,673
Transactions in treasury shares	(1,672,025)		367		(93,774)		(93,407)
Options related to own shares							-
Stock-based compensation expense, net			37,392				37,392
At June 30, 2007	119,099,409	60,525	633,367	103,668	(104,892)	(18,574)	674,094
Comprehensive income net of tax effect:							
Net income				177,539			177,539
Other comprehensive income:							
Currency translation adjustment						(24,733)	(24,733)
Not recognized components of net periodic benefit costs						14,157	14,157
Unrealized gain on marketable securities						17	17
Comprehensive income							<u>166,980</u>
Excess tax benefit from share-based payment			2,110				2,110
Exercise of stock options	977,810	489	24,791				25,280
Equity increase from debt conversion	-	-	-				-
Transactions in treasury shares	(1,990,000)		-		(125,735)		(125,735)
Options related to own shares			(117,054)				(117,054)
Stock-based compensation expense, net			26,706				26,706
At December 31, 2007	118,087,219	61,014	569,920	281,207	(230,627)	(29,133)	652,381
Comprehensive income net of tax effect:							
Net income				127,105			127,105
Other comprehensive income:							
Currency translation adjustment						(28,033)	(28,033)
Not recognized components of net periodic benefit costs						-	-
Unrealized gain on marketable securities						-	-
Comprehensive income							<u>99,072</u>
Excess tax benefit from share-based payment			3,601				3,601
Exercise of stock options	1,365,015	682	18,771				19,453
Transactions in treasury shares	(1,747,139)		59		(99,586)		(99,527)
Options related to own shares			(106,031)				(106,031)
Stock-based compensation expense, net			33,270				33,270
At June 30, 2008	117,705,095	61,696	519,590	408,312	(330,213)	(57,166)	602,219

ACTELION LTD AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(CHF thousands, except share and per share amounts)

Note 1. Basis of presentation

The unaudited condensed interim financial statements for Actelion Group ("The Group") have been prepared on the basis of accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information. Accordingly, such financial statements do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These interim financial statements should be read in conjunction with the audited financial statements of the Group for the year ended December 31, 2007.

Note 2. Adoption of new accounting policies

As of January 1, 2008, we adopted on a prospective basis certain required provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*. These provisions relate to our financial assets and liabilities carried at fair value and our fair value disclosures related to financial assets and liabilities. SFAS 157 defines fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements - Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. Observable market data should be used when available.

Many, but not all, of our financial instruments are carried at fair value. Substantially all of our cash equivalents, short-term investments and derivative financial instruments are carried at fair value, with changes in fair value reported in other financial income/ expense. Virtually all of our valuation measurements are Level 1 measurements. The adoption of SFAS 157 did not have a significant impact on our consolidated financial statements. We did not elect to adopt SFAS 157 for acquired non-financial assets and assumed non-financial liabilities.

Note 3. Acquisition CoTherix Inc.

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 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

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recorded goodwill of CHF 40.7 million (USD 32.9 million) including a net deferred tax liability of CHF 17.7 million (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 were 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.

Note 4. License agreements

Following the binding letter of intent, signed February 26, 2008, on April 18, 2008, the Group entered into an exclusive license agreement with Nippon Shinyaku Co., Ltd. ("Nippon") on a novel orally available PGI2 receptor agonist NS-304 originally discovered and synthesized by Nippon Shinyaku for the treatment of pulmonary arterial hypertension (PAH). Under the terms of the letter of intent and the license agreement, Nippon received from Actelion an initial payment of USD 8 (CHF 8.3) million and an upfront payment of USD 22 (CHF 22) million, which have been expensed and disclosed as research and development cost (R&D). Depending on development stage the Group will make further milestone payments upon initiation of the first phase III study as well as upon filing and approval of new drug applications in the United States and the European Union. If the Group is successful in obtaining regulatory approval, the Group will pay royalties to Nippon on a percentage of net sales of products with NS-304 as the active ingredient.

Note 5. Financial assets and liabilities

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As of January 1, 2008, we adopted on a prospective basis certain required provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, as amended by Financial Accounting Standards Board (FASB) Financial Staff Position (FSP) No. 157-2. (See Note 2. Adoption of New Accounting Policies).

Information about certain of our financial assets and liabilities are as follows:

	June 30, 2008	Level 1
Financial assets carried at fair value:		
Short-term deposits.....	329,015	329,015
Derivative financial instruments (a).....	4,437	4,437
Long-term deposits	107,660	107,660
Total	441,112	441,112

Financial liabilities carried at fair value:

Derivative financial instruments (a),(b).....	1,317	1,317
Total	1,317	1,317

Financial liabilities carried at historical proceeds:

Short-term financial debt.....	481,200
Long-term financial debt.....	193,800
Total	675,000

(a) Includes gross unrealized gains of CHF 4.1 million and gross unrealized losses of CHF 0.6 million, which has been recorded in other financial income and expense

(b) Included in other short-term liabilities

Note 6. Trade and other receivables

Trade and other receivables consisted of the following at:

	June 30, 2008	December 31, 2007
Trade receivables	311,578	310,842
Other receivables	27,474	19,172
Trade and other receivables, gross	339,052	330,014
Bad debt allowance.....	(473)	(486)
Trade and other receivables, net	338,579	329,528

Note 7. Inventories

Inventories consisted of the following at:

	June 30, 2008	December 31, 2007
Semi-finished products.....	17,017	17,676
Finished products.....	19,045	25,111

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Inventories.....	36,062	42,787
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Note 8. Property, plant and equipment

Property, plant and equipment consisted of the following at:

	June 30, 2008	December 31, 2007
At cost:		
Land.....	11,217	11,217
Building.....	18,339	18,338
Furniture and fixtures and lab equipment.....	99,948	91,753
Computers.....	22,632	20,951
Other tangible assets.....	8,505	6,801
Less: accumulated depreciation.....	(72,485)	(63,983)
Construction in progress.....	54,449	28,916
Property, plant and equipment, net.....	142,605	113,993

Note 9. Accrued expenses

Accrued expenses consisted of the following at:

	June 30, 2008	December 31, 2007
Personnel and compensation costs.....	59,518	76,625
Accrued taxes.....	57,215	57,493
Rebates and allowances.....	21,223	19,187
Research and development expense.....	5,696	26,425
Marketing and royalties.....	37,880	11,447
Professional services.....	4,722	6,790
Other accrued expenses.....	9,027	10,994
Accrued expenses.....	195,281	208,961

Note 10. Guarantees

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 11. 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.

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As of January 1, 2008, the Group established a pension foundation and transferred the plan assets previously managed by a collective pension fund operated by an insurance company. In order to minimize the risk associated with the pension obligation, the Group entered into a re-insurance contract with an independent third party aiming to reduce the uncertainty and volatility of the Plan's assets for the Group. In addition, the Group prospectively amended the Plan provisions thus increasing pension and risk coverage for all employees. Correspondingly, the Group re-measured the funded status and the expected net periodic benefit costs as of January 1, 2008, resulting in an increase of net periodic benefit costs of CHF 3.7 million (compared to the actuarial valuation as of December 31, 2007) and no impact on the funded status as all Plan changes would be applied prospectively and neither benefits have been earned nor contributions have been paid as of January 1, 2008.

In addition, the Group maintains pension plans in France, Italy and Japan, which are insignificant to the Group. Net periodic benefit costs for the Group's pension plans include the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Service cost.....	3,227	2,057	6,455	4,113
Interest cost.....	887	590	1,774	1,181
Expected return on plan assets.....	(1,028)	(658)	(2,057)	(1,315)
Amortization of net (gain) loss.....	8	261	16	521
Net periodic pension cost.....	3,094	2,250	6,188	4,500

For the full year 2008 the Group expects to contribute a total of CHF 12.6 million to its pension plans. All contributions have been prepaid and amortized over twelve months.

Note 12. Treasury shares

At June 30, 2008, the Group held 5,687,649 treasury shares, which were acquired at an average price of CHF 58.06. In the course of the year to date, the Group acquired 1,754,609 treasury shares at an average price of CHF 56.97.

Note 13. Stock-based compensation relating to Actelion's "Share Challenge 2011 Plan" and to the "Challenge Award"

The Actelion Share Challenge 2011 Plan

In December 2007, the Group initiated the Actelion Share Challenge 2011 Plan (the Plan). Under the Plan, the Group allocates restricted stock units (RSUs) of its publicly traded shares to all permanent employees who join Actelion by the end of 2009 at the latest, whereas an RSU corresponds to a right of one Group share. The maximum number of shares, which may be issued under the plan, shall not exceed 1.5 million shares. 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. The Plan is based on three performance criteria which relate strictly to the Group's performance in the area of revenues and product development.

If the three goals are achieved on or before December 31, 2011, 100% of the allocated RSUs will vest, be converted into Group's shares and be transferred to the employees, readily available for transactions (Full Achievement). If only one or two of the three goals are achieved by December 31, 2011, the allocated RSUs will partially vest and be transferred to the participants on January 2, 2012, whereas the unvested portion of the allocated RSUs will become null and void (Partial Achievement).

The allocation of the awards to employees begun on January 1, 2008, with total RSUs granted as of June 30, 2008, of 792,470. Total expense related to the Plan amounted to CHF 4.3 million with a corresponding income tax benefit recognition of CHF 0.7 million.

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Challenge Award

In 2004, the Group set up a special incentive plan ("Challenge Award") linked to specific achievements by the Group. The two conditions to be met were a) cumulative net revenues for four consecutive calendar quarters reach CHF 1 billion and b) the market share price equals at least CHF 286 (post split CHF 57.20) and remains at an average of that level for at least twenty consecutive trading days. The exercise price of all options granted under the Challenge Award was CHF 286 (post split CHF 57.20). In the event that the two conditions had not been met before December 31, 2009, the Challenge Award would have been cancelled.

As of March 31, 2007, both conditions have been met and granted options related to the first three tranches vested and became exercisable as of April 2, 2007, October 2, 2007, and as of April 2, 2008. The last tranche will vest and become exercisable on October 2, 2008. The early achievement of the two conditions as of March 31, 2007, resulted in an accelerated vesting of the Challenge Award options as compared to the originally estimated achievement date of December 31, 2009. Total expense related to the Challenge Award as of June 30, 2008, amounted to CHF 4.7 million (half-year 2007 CHF 18.7 million) and a related increase in income tax benefit of CHF 0.6 (half-year 2007 CHF 2.2 million)

Note 14. Segment and geographic information

The Group operates in one segment, which is the business of discovering, developing and commercializing drugs for human health care. The chief operating decision makers review the profit and loss of the Group on an aggregated basis and manage the operations of the Group as a single operating segment. The Group currently derives product revenue from sales of Tracleer[®] and Ventavis[®] for the treatment of pulmonary arterial hypertension and Zavesca[®] for the treatment of Type I Gaucher's disease. 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:

June 30, 2008:	Switzerland	United States	Europe	Other	Total
Product revenue from external customers	10,283	265,414	304,117	82,968	662,782
Contract revenue from external customers	13,200	-	-	-	13,200
Long-lived assets	191,737	183,060	7,296	3,580	385,673
June 30, 2007:	Switzerland	United States	Europe	Other	Total
Product revenue from external customers	8,359	293,994	246,267	64,074	612,694
Contract revenue from external customers	13,657	-	-	-	13,657
Long-lived assets	130,484	289,762	6,933	3,230	430,409

15. Subsequent events

Effective July 12, 2008, the Group entered into an exclusive worldwide collaboration agreement (excluding Japan) with GlaxoSmithKline (LSE and NYSE: GSK) to develop and commercialize Actelion's almorexant, an orexin receptor antagonist in phase III development with first-in-class potential as a treatment for primary insomnia. Under the terms of the agreement, GSK will receive exclusive worldwide rights to co-develop and co-commercialize almorexant. The Group will continue to lead the ongoing development program and potential registration for almorexant in the first indication, primary insomnia, with GSK contributing 40 per cent of the costs. Almorexant will also be studied in other orexin-related disorders and all costs related to these programs will be shared equally.

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The Group will receive an upfront payment of CHF 150 million and will be eligible for additional potential milestone payments of up to CHF 415 million in regards to the successful development and approval of almorexant in primary insomnia. In addition, the Group will be eligible to receive additional milestone payments, pending successful development of two other major indications for almorexant yet to be evaluated through clinical investigation. If all three indications were successfully registered, approved and commercialized, and exceptional sales targets met for all these indications, the Group would be eligible to receive additional potential milestone payments of up to CHF 2.735 billion. Costs and profits resulting from this collaboration will be shared equally between the two companies.