



Delivering sustainable growth



Actelion at a glance

Actelion Ltd is a biopharmaceutical company with corporate **headquarters in Allschwil/Basel**, Switzerland, that focuses on the discovery, development and commercialization of innovative treatments to serve high unmet medical needs.

Founded in late 1997, Actelion is a **leading player in innovative science** related to the endothelium – the single layer of cells separating every blood vessel from the blood stream. The company currently has two approved drugs on the market.

Actelion's **lead product, Tracleer®**, an orally available dual endothelin receptor antagonist, has been approved as a therapy for pulmonary arterial hypertension (PAH), a rare, chronic, life-threatening disorder that severely compromises the functions of the lungs and heart. The **second marketed product, Zavesca®**, was in-licensed from Oxford GlycoSciences. Zavesca® is the only approved oral treatment for Type 1 Gaucher's disease, a rare debilitating metabolic disorder.

Actelion aims to **combine the innovation, entrepreneurial spirit and flexibility of biotech with the financial, risk management, regulatory and commercial discipline** of a large pharmaceutical company. In implementing this strategy, the company builds upon its proven ability to discover new compounds and to move compounds from research through development to commercialization.

The first substantial product sales were generated during 2002, followed by strong growth in 2003 and 2004. Actelion has been **profitable in seven of the past eight fiscal quarters**, and showed a full-year net profit in 2004.

Actelion's shares are listed on the **SWX Swiss Exchange (ticker symbol: ATLN)**.



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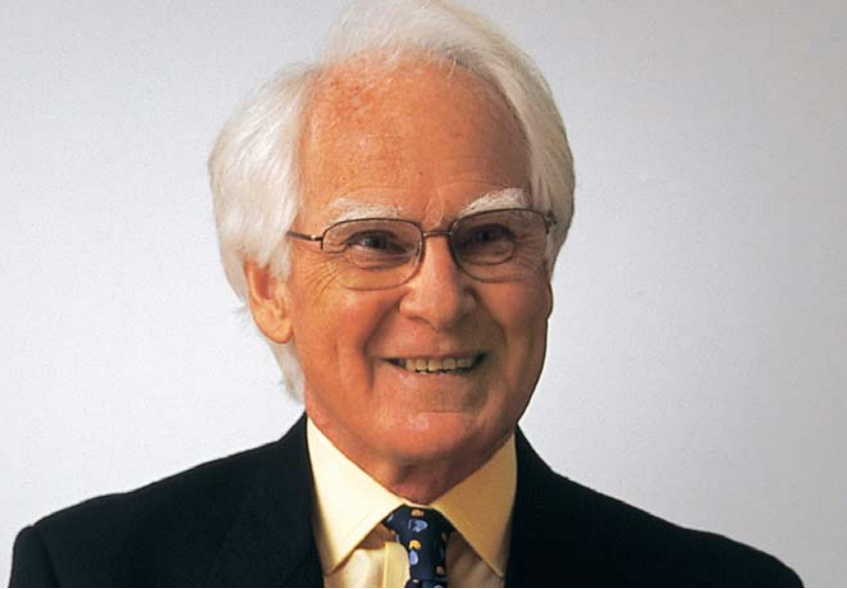
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Robert E. Cawthorn
Chairman of the Board



“We will go wherever innovation leads us.”

Letter from the Chairman of the Board

Maximizing opportunities today and tomorrow

It takes courage to be a pioneer, to pursue new scientific ideas, to evolve new ways of doing business. For those who have the conviction to choose their own path, the rewards can be exceptional. And while true innovation brings with it certain risks, these can be minimized by first-rate execution.

The results for Actelion in 2004 illustrate these points clearly. Our sales and EBIT figures exceeded our expectations. With Tracleer[®], our breakthrough oral therapy for pulmonary arterial hypertension (PAH), we have created a new market with blockbuster potential. Our second oral therapy, Zavesca[®], is growing rapidly and has considerable potential beyond its approved indication. Both of these products underscore our belief that innovation, by definition, means addressing unmet medical needs and can lead to success in the marketplace.

While our clinical trial for tezosentan in acute heart failure was a disappointment, our futility analysis allowed us to recognize this early on and shift resources into other near-term opportunities that have realistic potential to double our current sales. Only seven years after our founding, we are a solidly profitable company with a global organization well positioned for growth now and in the future.

Blending biotech and pharma

From the beginning, we envisioned Actelion as a unique type of company. We aimed to combine the innovative power, speed and flexibility of a biotech company with expertise in the pharmaceutical disciplines of clinical development, regulatory affairs and marketing. There were people who said it was impossible – that a small company could not create a sales and marketing organization in every major market, or conduct clinical trials on the same scale and level of quality as “Big Pharma.” Our ability to bring Tracleer[®] to global markets with a lean and professional sales force, as well as our success in recruiting large numbers of patients for clinical trials such as BUILD and RAPIDS demonstrate our dynamism and “can-do” spirit.

Product-driven business model

The Board of Directors gives Actelion the direction it needs to continue to evolve. Building on the success of Tracleer[®] and Zavesca[®] as orphan drugs, we are setting our sights on expanding into new areas with greater potential. Our product-driven business model encompasses the larger market of hospital drugs and the even broader market of drugs prescribed by general practitioners. We will maintain an open mind about how to exploit the potential of what our drug discovery pipeline delivers in any therapeutic area. We will go wherever innovation leads us.

At the same time, we will carefully weigh the risks and benefits at each stage of development. As projects advance through the pipeline, we will evaluate whether the maximum value for our shareholders can be generated by developing and marketing compounds ourselves or by partnering with larger companies, as exemplified by our ongoing alliance with Merck in renin inhibitors.

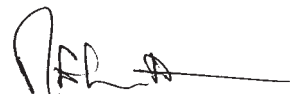
Attracting talented and motivated people

Actelion’s culture and the location of its headquarters near Basel, an international pharmaceutical hub, are some of its most important assets. We continue to attract some of the best and brightest minds in the industry, as 200 new employees joined the company in 2004, bringing the total to 850. Many of those who come to Actelion say it is because they seek an atmosphere in which the contribution of each individual counts and the results of their work have an impact on improving people’s lives.

The entrepreneurial spirit has always been part of the culture of Actelion. In order to further develop this trait, the Board decided in April 2004 to issue stock options to every employee as part of the Challenge Plan. These options will vest contingent upon the company reaching CHF 1 billion in revenues and a share price of CHF 286 not later than at the end of 2009.

The Board of Directors was strengthened in 2004 by the expertise and experience of two new members: Armin M. Kessler, former Chief Operating Officer of F. Hoffmann-La Roche in Basel and previously Head of the Pharmaceutical and Diagnostic divisions, and Jean Malo, Chief Investment Officer of Breco Management, who has a long and distinguished career as an investment advisor and financial analyst. At the same time, we bid farewell to two distinguished Board members, Rudolf Maag and Fred Meyer. Rudolf Maag, a top executive formerly with Synthes and chairman of the Straumann Holding (AG), and Fred Meyer, President of Cove Capital Corporation, former Chief Financial Officer of the Omnicom Group and CBS, and former CEO of Sandoz US. They have provided invaluable services and counsel to our young company while on the Board, for which we thank them.

As we enter 2005, I can speak on behalf of the whole Board of Directors when I say that we look to the future with confidence in the abilities of the people of Actelion and the continued success of our company.



Robert E. Cawthorn
Chairman of the Board

CEO's Letter

People are the driving force
of our success

Jean-Paul Clozel
Chief Executive Officer



Actelion's momentum in markets across the globe continued to accelerate in 2004. Net revenue rose 53% to CHF 471.9 million over the previous year, powered by a 50% surge in sales of Tracleer®. Three years after launch, this breakthrough oral therapy has already become the cornerstone treatment in pulmonary arterial hypertension (PAH), with untapped potential in related indications. Our second product on the market, Zavesca®, an oral therapy for lipid-storage disorders, rose to CHF 6.1 million, impressive in view of its currently restricted label. While the termination of our tezosentan trial in acute heart failure represented a setback, other compounds in development have moved forward to take its place, illustrating the strength of our pipeline. Our net income of CHF 87.2 million, compared to a net loss of CHF 9.9 million in 2003, is a remarkable achievement for a company established only seven years ago.

The unique culture of Actelion was at the forefront in 2004 as we continued to push the envelope of innovation in the laboratories, in terms of the professional execution of our clinical trials, new marketing and sales initiatives, and in view of the consolidation of the core values that are behind our drive and enthusiasm.

Marketing exemplifies entrepreneurial spirit

The decision to establish our own global marketing and sales organization went against conventional wisdom, but the courage to be different and entrepreneurial spirit have been the hallmarks of our young company.

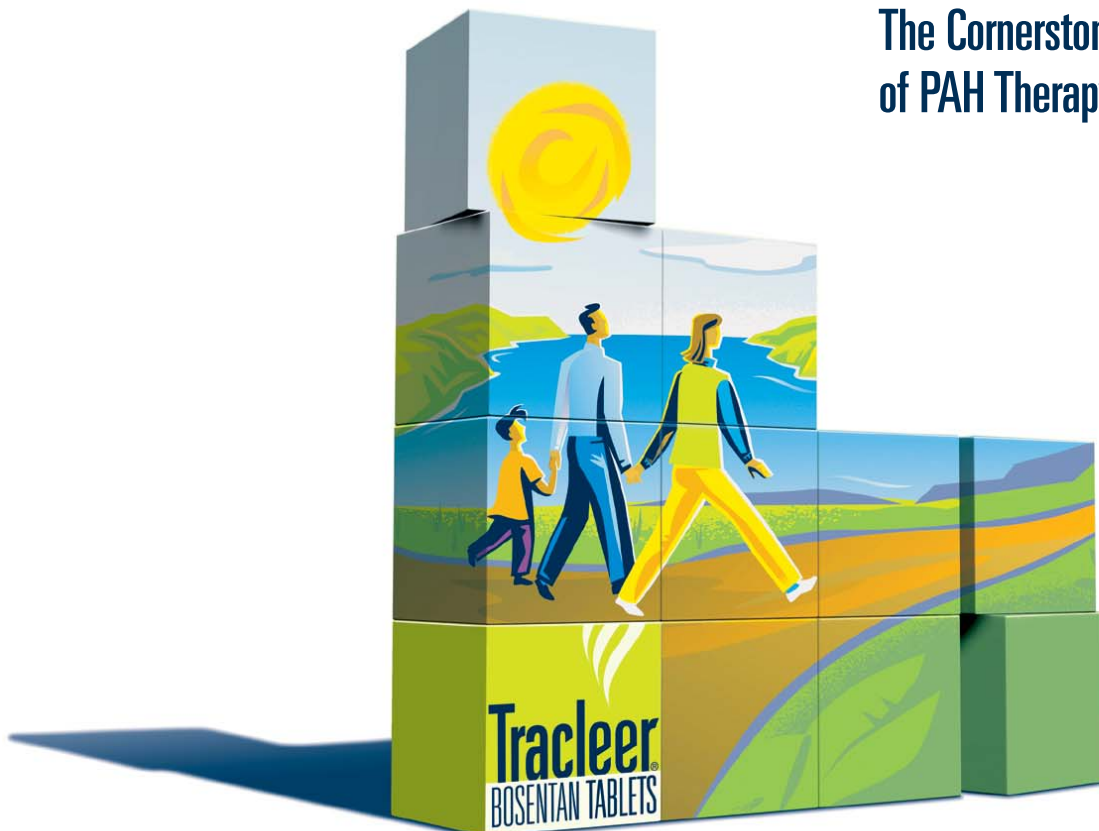
Today, we can already reap the rewards of our pioneering work. Tracleer® (bosentan), our innovative dual endothelin receptor antagonist for the treatment of pulmonary arterial hypertension, is now sold in 18 countries. We have representatives in every major market, including Japan, where we expect to launch Tracleer® in spring 2005. In addition, we are pursuing the market introduction of this breakthrough drug in the 10 new European Union member states as well as in Southeast Asia, where we have concluded a distribution agreement with PharmaLink, the marketing division of Zuellig Pharma Ltd. This international presence has allowed us to conduct a broad educational campaign on pulmonary arterial hypertension, which is still frequently misdiagnosed, and to reinforce our global branding.

Actelion's educational efforts in the PAH market are supported by the expert recommendations as published recently in the Proceedings of the Third World Symposium on Pulmonary

Hypertension (*Journal of the American College of Cardiology* 2004; 43: 1S-90S) and follow the guidelines of the American College of Cardiology on the Diagnosis and Treatment of Pulmonary Arterial Hypertension (*CHEST* 2004; 126: 7S-92S). As a result of our expanded educational activities, we have not only firmly established Tracleer® as the cornerstone therapy in PAH among specialists, but also raised awareness about the need to diagnose and treat the disease early among a growing number of non-PAH expert physicians.

Tracleer® has helped thousands of patients and created a new market. We realize, however, that we will not be able to keep this market to ourselves indefinitely. Indeed, new clinical studies currently on the drawing board might one day establish that combination therapy with Tracleer® as the cornerstone medication is the preferred option to treat the debilitating disease PAH. In addition, we are leveraging our long-term safety and efficacy data (V. McLaughlin *et al.*, "Survival with first-line bosentan in patients with primary pulmonary hypertension." *European Respiratory Journal*, Volume 25, Issue 2, page 244-49. 2005) to move into new indications for Tracleer® beyond PAH.

The Cornerstone of PAH Therapy



After initial launch in April 2003, Zavesca® (miglustat) is now available in Austria, Finland, France, Germany, Greece, Ireland, the Netherlands, Spain, Sweden, the United Kingdom, and the United States. In March 2004, Zavesca® was approved in Canada, with commercial launch expected as soon as reimbursement discussions are concluded.

In the approved indication for Zavesca®, Type 1 Gaucher's disease, we face the challenge of an ensconced competitor. We are nevertheless confident that our drug's efficacy and superior patient convenience as an oral formulation (the competing product requires twice-monthly infusions in the hospital), will enable us to capture a large share of this market as we expand into new indications in parallel. We may be only beginning to exploit the full potential of this novel therapy in lipid-storage disorders.

To maximize the impact of both products in their current indications, we have added 50 territory managers to the 150 already in the field, with a particular emphasis on strengthening our presence in the United States. A newly established unit, combining Strategic and Medical Marketing, will ensure the right balance between centralized coordination and decentralized activities in support of our Global Brand Teams.

Balance by Substrate Reduction



 **ZAVESCA**[®]100mg
Hard capsules (miglustat)



Patient Story

Elise Firestone, a 22-year-old health education student and aerobics instructor from Islip, New York, was diagnosed with pulmonary arterial hypertension (PAH) at age 19. She had always loved working out and began to notice shortness of breath while she was at the gym one day. At the time, Elise didn't think much of it and attributed it to being "a little out of shape." Soon after, Elise was visiting her cousin and while walking up a flight of stairs, she passed out. It was then she knew something was wrong.

Elise went to a cardiologist, who quickly diagnosed her with primary pulmonary hypertension. She was immediately put on Tracleer®, a calcium channel blocker and warfarin.

Elise has responded incredibly well to the medication. She still keeps a busy lifestyle that includes working out at the gym every day. She is convinced that she wouldn't be able to do anything without her medication.

Elise is amazed at how well she has responded to Tracleer®: "After starting on Tracleer® I really began to feel better. I'm still able to teach dance and aerobics and will not let PAH stop me from the goals and dreams I have for myself."



Elise Firestone
Islip, New York, USA



Dr. Vallerie McLaughlin
University of Michigan, Ann Arbor, Michigan, USA

Clinical Development demonstrates efficiency in action

The tezosentan clinical trial in acute heart failure (AHF), known as VERITAS (Value of Endothelin Receptor Inhibition with Tezosentan in Acute heart failure Study), was discontinued for futility reasons in November 2004. This decision was consistent with recommendations of the independent Data Safety Monitoring Board (DSMB), which evaluated mortality/morbidity and dyspnea benefits as co-primary clinical endpoints based on a second interim analysis of data from 1,300 patients. The DSMB reported that there were no safety issues in the study. Although hemodynamic effects were observed in the treatment arm and were consistent with previous studies, there was too remote a chance for the efficacy endpoints to become statistically significant. As a result, Actelion is shifting resources to strengthen its existing brands and other projects in the R&D pipeline.

Our greatest near-term market potential is in expanding Tracleer® into new indications. As there is considerable unmet medical need in these indications, every one has the potential to double the existing market for Tracleer®. This potential rests on the shoulders of our employees in Clinical Development, who have proven that they are as efficient and devoted to quality as their counterparts in much larger pharma companies. Actelion currently has 19 ongoing trials comprising more than 2,000 patients, not only with Tracleer®, but also with several other promising agents.

On December 20, 2004, the full results of the successful clinical trial RAPIDS-1 (**RA**ndomized, double-blind, **P**lacebo-controlled, multi-center Phase III study to assess the effect of bosentan on healing and prevention of Ischemic **D**igital ulcers in patients with systemic **S**clerosis) were published in *Arthritis and Rheumatism* (Volume 50, Issue 12, page 3985-93). In this placebo-controlled multicenter trial, patients receiving Tracleer® had a 48% reduction in the number of new digital ulcers during the treatment period. Treatment with Tracleer® was also associated with significant improvement in hand functionality. In mid-September 2004, RAPIDS-2 was closed for enrollment with a total of 190 patients (target: 180 patients). This trial will have longer treatment time to assess both prevention and healing of digital ulcerations. Results are expected in late 2005 or early 2006.

In late September 2004, the Phase III clinical programs evaluating the safety and efficacy of bosentan in Idiopathic Pulmonary Fibrosis (BUILD-1: **B**osentan **U**se in Interstitial Lung **D**isease) and the scleroderma-related form of pulmonary fibrosis (BUILD-2) were closed for enrollment. BUILD-1 enrolled 158 patients (target: 132) and BUILD-2, 162 patients (target: 132). These patients will be followed for another 12 months, with final study results expected in late 2005 or early 2006.

In early October 2004, Actelion also enrolled the first Class II PAH patient in the EARLY (**E**ndothelin **A**ntagonist **t**Rial in mildly



“Our Clinical Development staff members are as efficient and devoted to quality as their counterparts in much larger pharma companies.”

symptomatic PAH patients) study. The enrollment target for this clinical trial with Tracleer® is 170 patients. Study results are expected in the first half of 2006. If successful, the data of this study would be submitted for regulatory review to expand the existing labeling in the indication of pulmonary arterial hypertension.

In 2004, Actelion also completed preparatory work to evaluate Tracleer® in chronic thrombo-embolic pulmonary hypertension (CTEPH) and pulmonary hypertension related to sickle-cell disease (SCD). Label-enabling trials in these two new indications will start to enroll patients later in 2005. In addition, a new pediatric formulation of bosentan is being tested in children with idiopathic pulmonary hypertension.

In parallel, we have now moved into Phase III clinical trials on Zavesca® (miglustat) in the lipid-storage disorders of Type 3 Gaucher's disease, Niemann-Pick Type C disease and Late Onset Tay-Sachs disease. In the latter indication, a one-year interim analysis in December 2004 confirmed the safety of miglustat at high doses. Efficacy data is expected in late 2005 or early 2006. Celltech, which originally licensed Zavesca® to Actelion in Type 1 Gaucher's disease (the currently approved indication), has granted us unrestricted licensing rights to include all glycolipid-storage disorders. All of these additional indications have significant incremental market potential. In addition, two new studies in Type 1 Gaucher's disease will be initiated in the coming

months. In 2004, Actelion concluded planning of a study evaluating the role of orally available Zavesca® as a maintenance agent in stable patients switched from i.v. Enzyme Replacement Therapy (ERT). The study (SWITCH) will be initiated during 2005 and report first results in 2007.

Farther back in the Clinical Development pipeline are a number of promising new therapies. Clazosentan, a selective ETA antagonist added to Actelion's portfolio with the acquisition of Axovan in 2003, is being evaluated for the prevention of vasospasm following surgery for cerebral bleeding events, known as subarachnoid hemorrhage (SAH). Currently, there is no effective prevention or treatment for this condition.

A Phase I trial in healthy volunteers showed that infusions of clazosentan are generally well tolerated, with no effects on blood pressure or other vital signs. Based on the successful completion of a Phase IIa study, which revealed significantly fewer and less severe cases of vasospasm in patients on clazosentan as well as fewer new cerebral infarcts, the initiation of a Phase IIb/III trial was announced in December 2004. The study CONSCIOUS-1 (Clazosentan to Overcome Neurological iSChemia and Infarct OccUrring after Subarachnoid hemorrhage) will analyze the efficacy of three dose levels of clazosentan in preventing the occurrence of cerebral vasospasm following SAH, assessed by angiography. As a secondary endpoint, the study will also assess the ability of clazosentan to reduce the occurrence of early morbidity/mortality as well as the effect of clazosentan on clinical outcome, and overall tolerability. Study results are expected in the first half of 2006. These results will determine the need, size and duration of a potential Phase III study.

Also in Phase II is Tracleer® in the indication of metastatic melanoma. Patients with this advanced form of spreading skin cancer have an average life expectancy of six to nine months – only 15–20% of patients respond to current therapies and less than 5% are cured. In July 2004, the safety analysis of a proof-of-concept study supported the clinical evaluation of Tracleer® in this indication. A first Phase II study, involving this time randomization and placebo-control in an adjuvant setting, is expected to start in mid-2005.

Actelion is a pioneer in the clinical development of the first orally active urotensin-II receptor antagonist (palosuran), with potential indications in renal failure, diabetes, cirrhosis and chronic heart failure. In mid-October 2004, Actelion concluded enrollment for its Phase IIa trials in kidney failure associated with diabetes (diabetic nephropathy). Data from these three studies should be available by mid-2005.

In late 2004, Actelion also moved an undisclosed agent (Actelion-1) into Phase I. In 2005, Actelion plans to initiate a Phase II program for this compound in cardiovascular disease.



Indications: Cardiovascular, Metabol, Onco/Immuno, CNS



“Our researchers have synthesized more than 30,000 compounds and filed over 70 priority patent applications.”

Drug Discovery focuses on innovation for patient benefit

In June 2004, the breakthrough qualities of Tracleer® and its discovery team – the Actelion founders – were honored with the French Prix Galien, one of the most prestigious awards in the pharmaceutical industry. This shows the level of scientific innovation that characterizes our daily work. Actelion’s researchers have synthesized more than 30,000 compounds and filed over 70 priority patent applications, an impressive number for a company of our size.

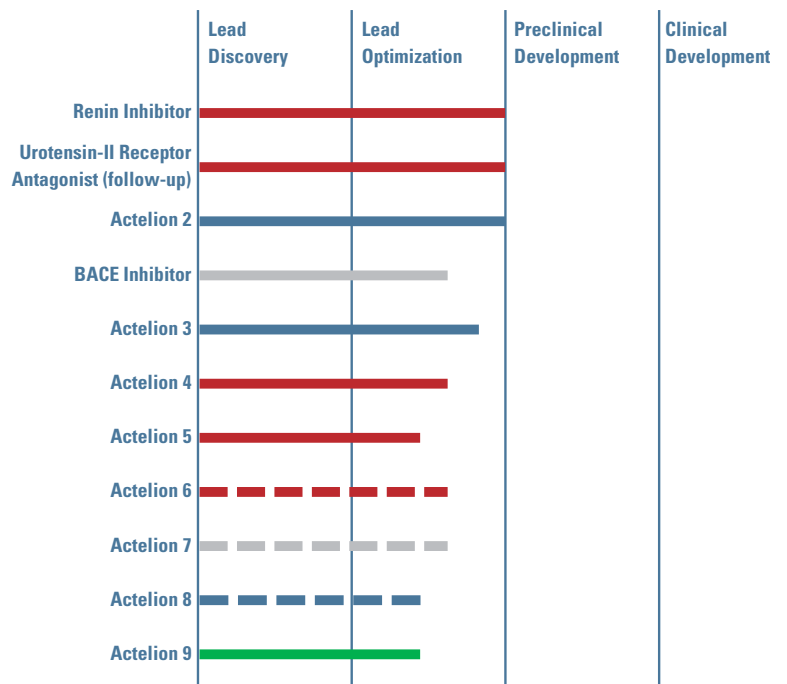
Our strategic focus in Drug Discovery is clear. We concentrate on one type of drug (low-molecular weight compounds that are orally available), two molecular platforms (G-protein coupled receptors and aspartyl proteases) and multiple therapeutic areas (e.g. cardiovascular, oncology/immunology, central nervous system).

Highlights of our Drug Discovery pipeline include groundbreaking work on orexin, peptides produced by neurons that are implicated in the regulation of wakefulness and feeding behavior. Synthetic substances that block the G-protein-coupled orexin receptors in the brain hold promise as novel sleep and appetite regulators. One particular orexin antagonist has been selected for preclinical development based on its overall favorable profile. In 2005, Actelion will initiate a clinical program evaluating an orexin receptor antagonist in sleep disorders (insomnia).

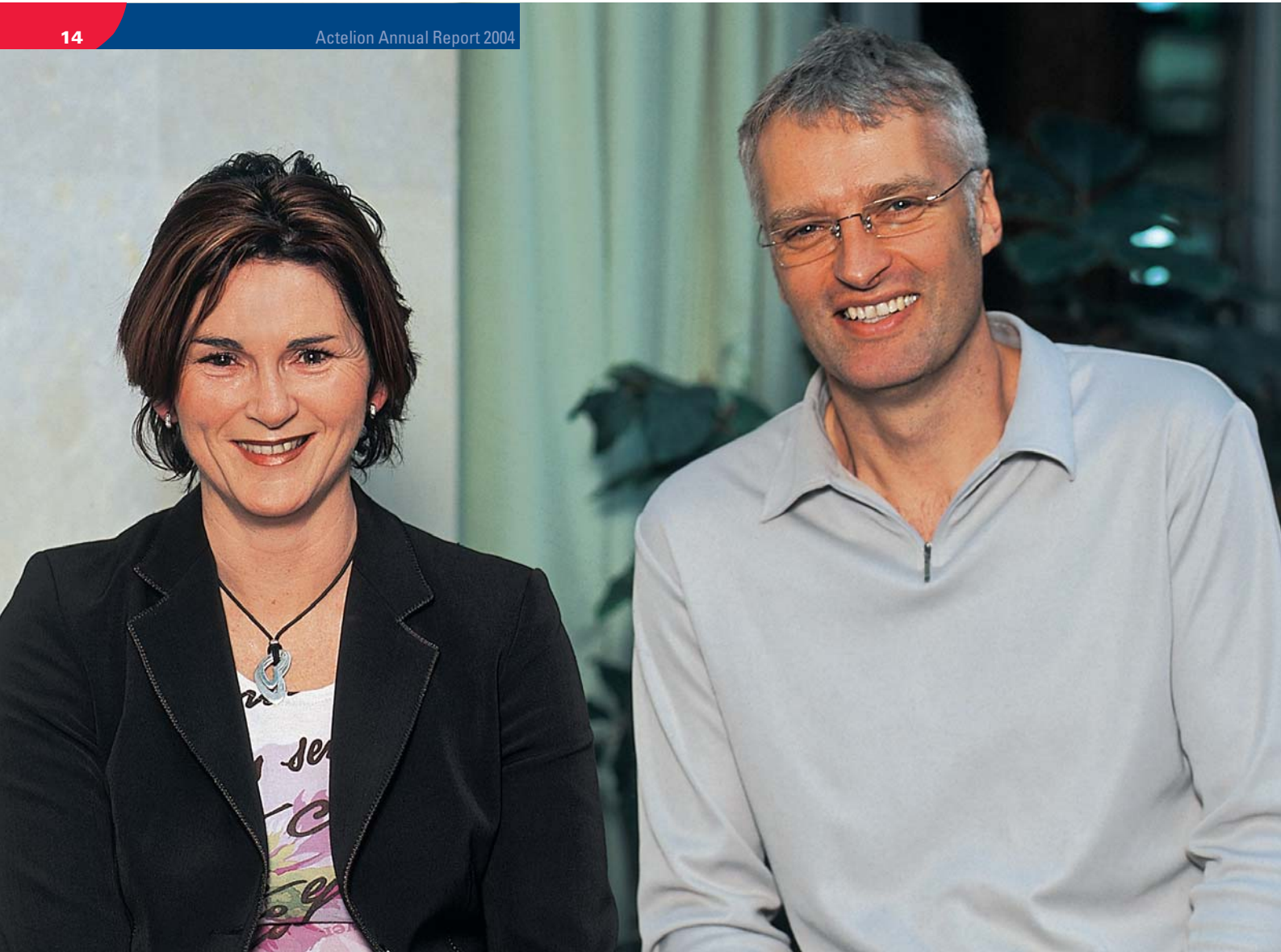
BACE 1 (Beta-site APP-Cleaving Enzyme 1), a membrane-bound aspartyl proteinase produced by neurons and other cells, is a key enzyme responsible for generating amyloid-beta peptides, thought to play a major role in Alzheimer’s disease. Actelion’s Drug Discovery efforts are focused on finding BACE 1 inhibitors as a possible breakthrough therapy for Alzheimer’s, which affects some 16 million people worldwide.

Other Drug Discovery projects include urotensin-II receptor antagonist follow-up compounds (complementing the ongoing clinical trial on palosuran), renin inhibitors (see following section) and a number of other promising compounds such as novel antibiotics that cannot be revealed for competitive reasons.

Actelion’s ongoing construction of a new R&D facility in Allschwil underscores our commitment to innovative research targeted at addressing unmet medical need. This state-of-the-art facility, which is to be completed by 2006, will house all our scientists under one roof and facilitate sharing of knowledge and the latest advances in technology.



Indications: **Cardiovascular**, **Onco/Immuno**, **CNS**, **Antibacterials**



“The courage to be different and entrepreneurial spirit have been the hallmarks of our young company.”

Mutual dedication to success with Merck

Our exclusive worldwide alliance with the global pharmaceutical company Merck to discover, develop and market new classes of renin inhibitors deserves special mention. Established in December 2003, this alliance included an upfront payment of USD 10 million to Actelion and the potential of milestone payments of up to USD 262 million as well as substantial royalties for our proprietary knowledge. Actelion is now pooling all its brain power

and technical know-how in this area with Merck in a true team effort dedicated to success. The working atmosphere is very collegial and productive – it doesn't matter which scientist makes the actual breakthrough because we will share the results. In fact, this business model may solve the "not-invented-here syndrome" that plagues so many collaborations in our industry.

Management leads by example

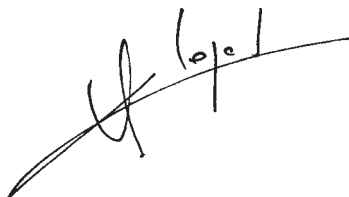
Many companies speak about a culture of empowerment. At Actelion, we believe it is real. Perhaps it is because we are a small company with minimal bureaucracy, where people can exchange ideas openly and spend their time on science rather than on administrative work. Perhaps it is because our managers set an example by foregoing special privileges or exorbitant

salaries, or because we think that employees have a right to share in our success through stock options plans. Perhaps it is because we are all driven by the same desire to see scientific ideas translated into medical therapies that help people in need. Many people at Actelion do believe we can, in our own way, change the world.

Strong financial growth reflects excellence of people

In 2004, our total net revenues were up 53% to CHF 471.9 million (2003: 307.5 million). Net income rose to CHF 87.2 million (2003: net loss of 9.9 million). This profitability is of critical importance because it gives us freedom of choice. We are now in a position to control our own destiny in terms of where we focus our scientific efforts and our business initiatives.

The positive results of 2004 reflect increased striving for excellence throughout the company. More than any other single factor, it is the quality of the people of Actelion that gives me the unshakeable confidence in our ability to expand on our uniquely successful track record in the biopharmaceutical industry.



Jean-Paul Clozel
Chief Executive Officer

“Every decision you take in the lab is important, every hour counts.”



Inside Story

Orexin antagonists as a potential therapy for sleep disorders

In 1998, scientists at the University of Texas, Dallas, discovered two new peptides in the brain called orexins, which were thought to play a role in sleep-wake balance and the control of feeding behavior. Researchers at Actelion, which had just begun operations as a new company, were intrigued by that discovery. A small team began trying to synthesize small molecules that would function as orexin antagonists. Based on existing scientific literature, three-dimensional computer modeling tools and their own knowledge and instincts, the team members came up with the first leads in a short time.

"In our search for orexin antagonists that were orally available and had low potential for drug-drug interaction, we synthesized some molecules that were absolutely inactive pharmacologically," remembers Ralph Koberstein, Lead Chemist for the orexin project. "Just as a matter of scientific curiosity, we passed them on to the research group in urotensin II receptor antagonists. From those molecules, they found a potent lead compound that would become a promising candidate for clinical development, palosuran. Vice-versa, the urotensin group passed derivative molecules back to us that would become some of our lead candidates as orexin antagonists. This scientific ping-pong game went on for one-and-a-half years."

The fertile period of creativity, however, was followed by years of drought as one potential orexin antagonist after another was eliminated for probable drug-drug interaction or was not active after oral administration. "It was a tough time," remembers Francois Jenck, Head of CNS Pharmacology, "but we believed in the concept, and we don't run out of ideas quickly at Actelion." Then in November 2003, a compound went through the tests and passed with flying colors. The laboratories echoed with the sound of popping champagne corks in both the orexin and urotensin project teams.

"For me, this is proof of the unique culture of Actelion," said Mike Scherz, Vice President, Project Management. "There is a spirit of shared discovery in our research laboratories. We have an open and easy exchange of information; in addition to regular meetings, our scientists discuss the latest lab results when they see each other in the hallway or sit together over a quick sandwich at lunch. There is a real sense of urgency, and we're all pulling together in the same direction. Every decision you take in the lab is important, every hour counts."

"This story and others like it reflect the innovative power of our strategic focus on families of drug targets such as G-protein coupled receptors or aspartyl proteases," said Martine Clozel, Head of Drug Discovery, Pharmacology and Preclinical Development. "Being able to harvest the results is a function of the quality and commitment of our scientists and the dynamic culture that makes us unique as a company."

Work is proceeding at a fast pace on Actelion's new orexin antagonist, which promises to be quite different from traditional sedatives in treating sleep disorders, if it clears the hurdles necessary to become a marketed drug. Animal experiments have shown promising results and the first clinical trials in human volunteers are scheduled for 2005. The original multidisciplinary project team of circa 25 medicinal chemists, biochemists and pharmacologists has grown substantially as the project moves forward.

"The science is compelling," adds Mike, "but for me the best part of working on this project is the people. When I look around the room in a staff meeting and see the brainpower and the dedication, it inspires me. Of course, we all have our own personality quirks and individual ways of working – that's what makes it fun."



CFO's Letter

Moving into a new era of profitability

Andrew J. Oakley
Chief Financial Officer



Dear Shareholders,

The continued dynamic growth of Actelion in markets around the globe was reflected in our strong financial performance in 2004, when our company crossed the threshold of profitability according to US GAAP criteria. To have reached this milestone so early in the company's life is a remarkable achievement. It is also testimony to our commitment to shareholders to realize financial independence so that Actelion can fully capitalize on the long-term growth opportunities arising from our Research and Development activities.

The 2004 operating profit of CHF 85.6 million and a net profit after tax of CHF 87.2 million compares to an operating loss for 2003 of CHF 1.7 million and a net loss of CHF 9.9 million. The improvement in profitability was achieved as a result of stronger than initially foreseen growth in sales revenues, from CHF 300.3 million in 2003 to CHF 455.3 million in 2004. Commensurate with this growth, operating expenses increased in a controlled manner from CHF 309.2 million in 2003 to 386.3 million in 2004.

Revenue growth fueled by Tracleer® sales performance

Net revenue for 2004 totaled CHF 471.9 million, compared to total net revenues in 2003 of CHF 307.5 million, an increase of 164.4 million or 53%. Tracleer® was again the main contributor to both the revenue line and to growth, as the product continued to build on its position as market leader and cornerstone therapy in pulmonary arterial hypertension (PAH). These impressive results were achieved with the addition of only one major market: Australia.

Zavesca® sales in 2004 started to show momentum, with sales growing to 6.1 million from CHF 0.7 million in 2003. During the year under review, Zavesca® became commercially available in several European Union member states. In the United States, the product was launched in early 2004.

Contract revenues grew substantially in 2004 to CHF 16.5 million from CHF 7.2 million in 2003. This growth can be entirely attributed to the global collaboration in the field of renin inhibition with Merck, Inc. Actelion received the first payment of USD 10 million from this collaboration in December 2003 and earned its first milestone payment of USD 15 million in March 2004. Revenues from this collaboration are being recognized over a three-year period from the agreement date, which is the expected period of Actelion's lead in development.

Further improvement in gross margins

Cost of sales in 2004 was CHF 45.9 million or 10.1% of sales revenues, an improvement in margin terms from 2003 when cost of sales was CHF 31.8 million or 10.6%. The absolute increase in cost of sales is attributable to the growth in sales revenues, while the margin improvement is attributable to the increasing proportion of Tracleer® sales outside the United States, as US sales entail a higher rate of royalty payment. At the end of 2004, we were successful in terms of gaining regulatory approval for our second-generation production process for Tracleer®, which achieves two important goals. First, it will reduce the cost of manufacture for this product. Second and more importantly, it ensures overlapping production capacity to further increase supply chain flexibility.

Operating expenses – balancing current and future needs

Strategically, the company is committed to maintaining a balance between short-term growth in profitability and the long-term need of investing in our pipeline to deliver innovative products that meet high unmet medical needs. In 2004 this revenue-based expenditure release strategy saw operating expenses, excluding cost of goods sold, increase to CHF 340.4 million from 277.4 million in 2003, an increase of 23%, compared to an increase in revenues of 53%.

Research and Development expenses in 2004 increased to CHF 136.3 million, from CHF 79.2 million, an increase of CHF 57.1 million. A major cost factor in 2004 was the VERITAS trial, which evaluated tezosentan in acute heart failure. This program was stopped for futility at the second interim analysis point in November 2004. The year under review also saw significant progress in many other clinical trials, with several that involve potential line extensions for Tracleer® and Zavesca® successfully completing enrollment. The Phase IIa program with palosuran also completed patient recruitment and the Phase IIb/III program with clazosentan was commenced late in 2004. Significant progress was also made in research, with one new compound beginning clinical trials in the second half of 2004. A number of research projects also neared the decision point for full preclinical development stage, which substantially increased costs.

Marketing and advertising expenses in 2004 increased to CHF 101.7 million from CHF 79.8 million in 2003, an increase of CHF 21.9 million. Included in these costs are our promotional efforts for both Tracleer® and Zavesca®, including participation at major medical congresses throughout the year, medical marketing operations and Phase IIIb/IV clinical trials. All of these activities, as in the past, focused on increasing disease and product awareness in physicians with a high likelihood of treating patients at high risk of developing PAH. The company will continue to focus its activities on expanding the market for its products, particularly in view of expected new therapeutic options available to PAH patients.

Selling, general and administrative expenses in 2004 increased to CHF 95.7 million from CHF 69.6 million in 2003. In the second half of 2004, we announced a substantial increase in our sales force, from 150 to 200 territory managers. This had only a minor impact in 2004 in terms of costs; the full effect both in terms of costs and revenues will be felt in 2005. In an environment increasing in both complexity and oversight, basic expenses of general management and administration are also increasing. Nevertheless, Actelion is applying strong measures to limit overhead infrastructure and keep costs under control.

Non operating income driven by convertible bond costs

Interest expense in 2004 amounted to CHF 0.4 million, which practically offset interest income of CHF 1.0 million. This compares to interest expense in 2003 of 0.9 million and interest income of CHF 0.9 million.

A full year's amortization of debt discount and bond issuance costs in 2004 resulted in a non cash expense of CHF 7.4 million compared to two months of costs in 2003 for an expense of CHF 1.5 million.

Other financial income in 2004 was CHF 3.1 million, compared to CHF 2.6 million in 2003. This includes foreign exchange gains and losses from hedging operations and intercompany accounts payable balances. Despite satisfactory insurance hedging operations in 2004, the fall in the US dollar resulted in the net translation exposure at the operating profit level being higher than the gains from transactional hedging. This is an exposure that the company has limited ability to control.

Income tax expense in 2004 was CHF 4.3 million, compared to CHF 0.8 million in 2003. In the fourth quarter of 2004, given that there was sufficient evidence of sustainability of profit, the company was required to book a deferred tax asset, which resulted in a reduction of the overall tax rate for 2004.

The first quarter of 2004 saw the completion of the sale of our contract research subsidiary Hesperion to Cerep. Correspondingly, the gain from discontinuing operations included the profit on disposal of CHF 9.6 million. This compares to a loss from discontinued operations in 2003 of CHF 7.5 million.

Net profit and earnings per share

Net profit for 2004 was CHF 87.2 million, compared to a net loss in 2003 of CHF 9.9 million. Non-diluted earnings per share increased in 2004 to CHF 3.96 per share compared to a loss per share in 2003 of 0.46. On a fully diluted basis, earnings per share in 2004 were CHF 3.78.

Balance sheet – improving net worth

With a strong operational performance in terms of net profit, the major balance sheet effect was an improvement in net equity and a general strengthening of the financial position of the company.

Expansion as seen in 2004 generally places working capital management in clear focus and this was certainly the case for Actelion. Overall cash increased markedly despite an increase in net working capital. In particular, trade and other receivables increased dramatically to CHF 109.6 million at the end of December 2004 from CHF 66.7 million. This is partly due to an overall increase in the level of sales, but also because of the deterioration in the average terms of trade throughout the year. This deterioration is solely due to an increasing proportion of sales coming from territories with longer payment terms.

In the second quarter of 2004, the company opportunistically acquired land adjacent to the new research building, which is currently being constructed on behalf of Actelion. This acquisition, at a cost of CHF 7.8 million, will ensure that sufficient space is available to Actelion for future expansion in Allschwil, Switzerland. In the near- to mid-term, our strategy is to remain monocentric in terms of both Research and Development. Actelion believes that substantial synergies exist from focusing on a single center of excellence.

During the year under review, Actelion repaid, in accordance with the loan agreement, the CHF 40 million loan from Basel Kantonal Bank undertaken in late 2002. As of 31 December 2004, the company had no financial debt other than the convertible bond issued in October 2003.

Cash generation at the operational level

A major feature of 2004 was the company's ability to generate cash from operations, despite the increasing investment in working capital. During 2004, the company generated CHF 91.7 million in cash from operations, an increase of 53.4 million from 2003, when cash from operations was CHF 38.3 million. This increase in cash is obviously predominantly driven by increased profitability. Another factor was the receipt in the first quarter of a USD 15 million milestone payment from Merck as part of the global renin inhibitor alliance.

Concluding remarks and outlook

The year 2004 has seen the company make many improvements in both infrastructure and processes necessary to continue to ensure full financial accountability, also in view of changes to US GAAP such as accounting for employee stock options in the profit and loss statement using the fair value methodology.

I would like to take this opportunity to thank the entire finance team at Actelion for the tireless dedication shown throughout the year. We have all benefited from the oversight and input from the Finance and Audit Committee, headed in 2004 first by Rudolf Maag and then by Fred Meyer. Both of them have now left the Actelion Board of Directors. I would like to express my deeply felt gratitude towards both of these highly experienced and dedicated individuals.

In 2005, I expect Actelion to continue its expansion. I anticipate that Actelion will further increase both total net revenues as well as operating expenses to appropriately invest into long-term growth opportunities.

The company is well prepared to manage expected growth so as to further improve profitability in absolute terms.

I look forward to documenting our progress throughout the year.



Andrew J. Oakley
Chief Financial Officer

Corporate Governance

A. The following sections of the Directive on Information Relating to Corporate Governance are included by reference, are not applicable or could be answered with "none." The sections that are dealt with in detail are stated in point B below. The numbering follows that of the Directive. The **articles of incorporation** and the details of the **Board of Directors** and of the **management** can be found on www.actelion.com, under "Investors", "Corporate Governance".

Point	Item	Reference	N/A
1.	Group Structure and Shareholders		
1.1.3	The non-listed companies belonging to the issuer's consolidated entities	Financial Section, note 2, page 52	
1.2	Significant shareholders	Financial Section, note 8, page 53	
1.3	Cross-shareholdings		none
2.	Capital Structure		
2.1	Capital	Financial Section, note 3, 4 + 5 page 52 + 53	
2.2	Authorized and conditional capital in particular		
	Conditional share capital	Financial Section, note 4, page 53 and article 3a of the articles of incorporation	
	Authorized share capital	Financial Section, note 5, page 53 Article 3b of the articles of incorporation	
2.3	Changes in capital	Financial section, page 34 + 35 and financial statements 2003	
2.4	Shares and participation certificates		
	Shares	Financial Section, note 3, page 52	
	Participation certificates		none
2.5	Profit sharing certificates		none
2.6	Limitations on transferability and nominee registrations		
2.6.1	Limitations on transferability for each share category, along with an indication of statutory group clauses, if any, and – rules on making exceptions.	Article 5 of the articles of incorporation	none
2.6.2	Reasons for making exceptions in the year under review.		N/A
2.6.3	Admissibility of nominee registrations, along with an indication of percent clauses, if any, and registration conditions.	Article 5 of the articles of incorporation	
2.6.4	Procedure and conditions for canceling statutory privileges and limitations on transferability.	Article 5 of the articles of incorporation	
2.7	Convertible bonds and options		
	Convertible bonds	Financial Section, note 16, page 44	
	Options	Financial Section, note 20, page 46 + 47	
3.	Board of Directors		
3.3	Cross-involvement		none
4.	Senior Management		
4.2	Other activities and vested interests		none
4.3	Management contracts		none
5.	Compensation, shareholdings and loans		
5.3	Compensations for former members of governing bodies		none
5.7	Additional fees and remunerations		none
5.8	Loans granted by governing bodies		none
6.	Shareholders' Participation		
6.1	Voting rights and representation restrictions	Article 5 + 11 of the articles of incorporation	
6.2	Statutory quorums	Article 15 of the articles of incorporation	law
6.3	Convocation of the general meetings of shareholders	Article 9 +13 of the articles of incorporation	law

Corporate Governance

B. The following items are handled directly in this section:

1. Group Structure and Shareholders

1.1 Group Structure

1.1.1 Description of Actelion's operational group structure

Actelion Ltd is the holding and finance company of the Group.

Actelion Pharmaceuticals Ltd, based in Allschwil, a 100% subsidiary of Actelion Ltd, is in charge of discovery, development, registration, production, quality assurance, safety, marketing coordination, group management and coordination. Actelion Pharmaceuticals Ltd further holds the intellectual property rights of the Group.

Actelion Registration Ltd, based in London, a 100% subsidiary of Actelion Ltd, holds the marketing authorizations for products marketed by Actelion in the EU.

Axovan Europe Ltd, based in London, a 100% subsidiary of Actelion Pharmaceuticals Ltd, holds the marketing authorization for products marketed by Actelion in the EU.

Actelion Percurex AG, based in Basel, a 100% subsidiary of Actelion Ltd., performs research and development services on behalf of the Group.

Actelion Clinical Operations, Inc. based in New Jersey, a 100% subsidiary of Actelion Ltd, performs clinical operations on behalf of the Group.

Actelion Pharmaceuticals Israel Ltd, based in Ramat-Gan, a 100% subsidiary of Actelion Ltd, performs clinical operations on behalf of the Group.

Actelion Paris Organisation SAS, based in Paris, a 100% subsidiary of Actelion Ltd, performs administrative and marketing services in Europe for the Group.

Actelion Finance SCA and Actelion Partners SNC, both based in Luxembourg, and Actelion Participation GmbH, based in Allschwil, all three 100% subsidiaries of Actelion Ltd, as well as Actelion Luxembourg SARL, based in Luxembourg, a 100% subsidiary of Actelion Participation GmbH, perform financing for the Group.

The remaining group companies serve as import, marketing and sales companies for the Group.

1.1.2 All listed companies belonging to the Issuer's Group

Actelion Ltd
Gewerbstrasse 16
CH-4123 Allschwil
Switzerland

Listed on the SWX Swiss Exchange under the code ATLN
ISIN CH0010532478

Market capitalization as of
Dec 31, 2004: CHF 2,594,122,510.40

3. The Board of Directors

3.1 Board members

3.2 Other activities and functions of the members of the Board of Directors

Robert E. Cawthorn

Education: degree in agriculture, Cambridge University, England
Professional background: Managing Director of Global Health Partners, DLJ Merchant Banking; Chairman and CEO of Rhone-Poulenc-Rorer, Inc. (formerly Rorer Group) President of Biogen S.A.; various executive positions at Pfizer International; former Board member of CBS, Charles River Laboratories, Sunoco and the Vanguard Group.

Other activities and functions: Member of the Board of Directors of the following unlisted companies: Coley Pharmaceutical Group, Leerink Swann & Company, NextPharma Technologies, H2O Technologies (Chairman) and Chairman of the Trustees of The Bermuda Biological Station for Research, a not-for-profit oceanographic research organization.

Jean-Paul Clozel

Education: medical degree in France; further training in pharmacology and physiology at the University of Montreal, Canada, and the University of California, San Francisco.

Professional background: Practicing Cardiologist for 11 years; Head of Drug Discovery Group in the Cardiovascular Department of F. Hoffmann-La Roche for 12 years; Founder and Chief Executive Officer of Actelion.

Other activities and functions: None

Werner Henrich

Education: Chemist and European Patent Attorney

Professional background: Former Head of Global Intellectual Property and Pharmaceutical Licensing, F. Hoffmann-La Roche Ltd., Basel.

Other activities and functions: Member of the Board of Directors of the listed company Basilea Pharmaceutica, a biotechnology company involved in antibiotics, and of the following unlisted companies: Addex Pharmaceuticals, an R&D company focusing on central nervous system disorders, TLT Medical, TET Systems and Ophthalmopharma.

Fred Meyer*

Education: M.B.A. with distinction from the Harvard Business School and an M.S., cum laude, from the Swiss Federal Institute of Technology.

Professional background: President of Cove Capital Corp.; senior management positions with Omnicom Group Inc. (Chief Financial Officer, Vice Chairman, Special Advisor/Executive); Senior Vice President, Finance and Chief Financial Officer of CBS Inc.; senior management positions with Sandoz Ltd, including President and Chief Executive Officer, Sandoz United States.

Other activities and functions: Member of the Board of Directors of the following unlisted entities: Novartis Corp., Partners Group (USA) Inc. and Earthjustice Legal Defense Fund.

André J. Mueller

Education: Chartered Chemical Engineer, Superior Technical College, Geneva (1964); Lincenciate in Business Economics, University of Geneva (1970), MBA, INSEAD Fontainbleau (1971).

Professional background: Process Engineer with CIBA Ltd.; after completion of university, management positions in planning and finance at Sandoz (now Novartis) in Switzerland and the US; five years as the first Chief Financial Officer of Biogen; Co-Founder of Genevest venture capital group; member of the management consulting practice of Deloitte and Touche from 1993 to 1997; member of founding team of Actelion and Chief Financial Officer until 2003.

Other activities and functions: Member of the Board of Directors of the listed company Synthes Inc. and of the following unlisted companies: Addex Pharmaceuticals (Chairman), an R&D company focusing on central nervous system disorders, Apoxis SA and Arpida Ltd, an R&D company focusing on antibiotics.

Jean Malo

Education: M.B.A. from ESSEC Business School in Paris in 1977.

Professional background: Chartered Financial Analyst and a member of the Association for Investment Management and Research and the Houston Society of Financial Analysts. Chief Investment Officer for Vaughan Nelson Scarborough and McCullough, including managing several equity portfolios between 1997 and 2000. From 1989 to 1997, managed both equity and fixed income portfolios for Daniel Breen and Company in Houston. From 1978 to 1989, Corporate Banker for Banque Indosuez in Saudi Arabia, Houston, and New York. Between 1977 and 1978, Financial Analyst at the French Embassy in Singapore.

Other activities and functions: As of 2000, Senior Partner and Chief Investment Officer at Breeco Management L.P., a registered investment advisor.

Armin Kessler

Education: degree in physics and chemistry from Pretoria University in South Africa, degree in chemical engineering from the University of Cape Town, South Africa and a juris doctorate from Seton Hall University.

Professional background: Chief Operating Officer of F. Hoffmann-La Roche Ltd., in Basel, Switzerland, from 1990 to 1995. Prior to appointment as COO, senior management positions at Roche, including Head of the Diagnostics and Pharmaceutical divisions. Earlier positions included Director of Pharmaceutical Marketing Worldwide at Sandoz (now Novartis) and President of Sandoz KK in Tokyo.

Other activities and functions: Member of the Board of Directors at The Medicines Co., Gen-Probe and Spectrum Pharmaceuticals; formerly on the Board of Syntex Chemicals and Genentech.

*Board member until 31 December 2004

Corporate Governance

3.4 Elections and terms of office

3.4.1 Principles of the election procedure and limits of the terms of office

According to article 16 of the Articles of Association, the 5 to 11 members of the Board of Directors are elected by the meeting of the shareholders for a term of office of three years. One year of office is understood to be the period from one ordinary meeting

of the shareholders to the next ordinary meeting of the shareholders. The Board of Directors is renewed each year by one third. The term of office of newly elected members shall be fixed at the time of the election under due consideration of the renewal cycle. In addition, the by-laws currently foresee that members, who have completed their seventy-fourth year of age, shall retire per the next ordinary meeting of the shareholders.

Name of Board member	Executive member	Nationality	3.4.2 Time of first election and the remaining term of office for each member of the Board of Directors		
			Date of annual general meeting of first election	Date of annual general meeting of renewal	Annual general meeting of end of term of office
Robert E. Cawthorn	No	British	2000	2002	2005
Jean-Paul Clozel	Yes	French	2000	2002	2005
Werner Henrich	No	French	2000	2004	2007
Armin Kessler	No	Swiss	2004	N/A	2007
Jean Malo	No	French	2004	N/A	2007
Fred J. Meyer*	No	Swiss	2000	2003	2006
André J. Mueller	No	Swiss	2001	2003	2006

3.5 Internal organizational structure

Name of Board member	3.5.1 Allocation of tasks within the Board of Directors			3.5.2 Members list, tasks and area of responsibility of each committee of the Board of Directors		
	Chairman	Vice-Chairman	Delegate	Compensation Committee	Finance and Audit Committee	Nominating and Governance Committee
Robert E. Cawthorn	×			×		×
Jean-Paul Clozel**			×	×		
Werner Henrich				×		
Armin Kessler				×		
Jean Malo					×	
Fred J. Meyer*					×	×
André J. Mueller		×			×	×

*Fred Meyer resigned from the Board of Directors (and from the Committees of the Board) per year-end 2004.

**Jean-Paul Clozel resigned from the Compensation Committee in December 2004.

3.5.2 Members list, tasks and area of responsibility of each committee of the Board of Directors (continued)

The *Compensation Committee* reviews matters related to the compensation of the CEO and other top managers, as well as the general employee compensation, benefit policies and HR practices of the Company. This Committee also proposes to the Board of Directors goals for global incentive plans and annual objectives and evaluates performance against these, and issues the Compensation Committee Report to the Board of Directors. The management keeps the Compensation Committee informed of other global HR projects and policies, which are being implemented or considered. In 2004, the Compensation Committee met 3 times.

The *Finance and Audit Committee* reviews the internal controls and finances of the Group as part of its mandate to examine risks confronted by the Group. The Chief Financial Officer (CFO) of the Company is responsible for the minutes and attends the meeting of the Finance and Audit Committee. The Finance and Audit Committee has the following responsibilities: (i) monitoring the efficiency of the Management Information Systems (MIS) and other relevant control systems and processes; (ii) the appointment of internal and external Auditors and definition of their tasks; (iii) the evaluation of the Audit Program and the Audit Results; (iv) the monitoring, evaluation and control of the period's accounts prior to their submission to the full Board of Directors; (v) the preparation of proposals for cash and other asset management; (vi) review of the budget and explaining action for decision to the full Board of Directors and performing risk assessment functions. The Finance and Audit Committee reports to the full Board of Directors at regular intervals and submits proposals for board resolutions, if necessary. In 2004, the Finance and Audit Committee met 7 times.

The *Nominating and Governance Committee* reviews considerations relating to Board composition, including size of the Board and the criteria for membership on the Board of Directors, identifies, reviews, considers, recommends to the Board qualified candidates to serve as Board members and members of the various committees of the Board. It further reviews directorships and consulting agreements of Board members for conflicts of interest, reviews and recommends corporate governance policies and principles for the company, annually oversees an evaluation of the Board of Directors and makes related recommendations to the Board. The Nominating and Governance Committee was established in 2004 and met at one occasion in 2004.

3.5.3 Work methods of the Board of Directors and its committees

In 2004, the Board of Directors met 6 times and a majority (if not all) members were present at each board meeting. When the situation so warrants, the Board of Directors holds additional ad hoc meetings or telephone conferences to discuss specific issues. Any member can request a meeting.

The management presents a status report and the Board of Directors makes the decisions on the relevant issues requiring board approval.

In the case of committees, after presentation of the issue by the management, the committee takes a preliminary decision for approval to the full Board of Directors, which will be reported along with the details of the issue, to the entire Board of Directors, who will take the final decision.

3.6 Definition of areas of responsibility

The Board of Directors has delegated the management of the Company's business to the CEO of the Company and to the Business Executive Board and has granted the CEO the power to appoint the members of the Business Executive Board.

The Board of Directors carries out the tasks reserved to it by law. The Business Executive Board takes all other management decisions.

The Board of Directors has set up a Scientific Advisory Board, with the task of reviewing the Company's progress in research and clinical development and evaluating new scientific perspectives alongside the Company's management. On December 31, 2004, the Scientific Advisory Board was composed of the following four external experts of worldwide reputation: Prof. Donald Hilvert, Prof. Joël Ménard, Prof. Craig Pratt and Prof. Richard Tsien.

3.7 Information and control instruments vis-à-vis the senior management

Currently, the Board of Directors receives monthly reports about the financial situation of the Company and quarterly reports made by the CEO. On a quarterly basis, the Board of Directors receives in addition the reports that are subsequently released to the public.

The management produces a monthly financial report, which is sent to the Board of Directors.

The risk management systems consist of quality control, which ensures that the products have the required quality to be marketed, internal review of clinical development, to ensure the safe development of the product and an extensive postmarketing surveillance ensuring the continuing safety of the marketed product. In the financial area, the Board of Directors is informed regularly about financial risk and the proposed actions to be taken to mitigate this risk.

During 2004, the Finance and Audit Committee has established an Internal Audit Department. A program of internal audit reviews will provide a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group.

Corporate Governance

4. Senior Management

4.1 Members of the senior management

On December 31, 2004, the Business Executive Board ("BEB") was composed of:

Simon Buckingham

Title and function: President, Head of US, Canada and Asia Pacific
Nationality: Australian

Education: Bachelor of Veterinary Science (Honors), University of Sydney, Australia; Doctor of Philosophy, University of Melbourne, Australia; Graduate Management Qualification, Australian Graduate School of Management, University of New South Wales.
Professional background: Sales and Marketing Director, F. Hoffmann-La Roche, Switzerland; Product Marketing Manager and Territory Manager, F. Hoffmann-La Roche, Australia.

Christian Chavy

Title and function: President, Head of Europe, Latin America, Middle-East & Africa

Nationality: French

Education: ESSEC Business School (Ecole Supérieure des Sciences Economiques et Commerciales) in Paris; Master's Degree in Business Management from ICG (Institut de contrôle de Gestion) in Paris.

Professional background: Vice-President and Head of Global Therapeutic Area Reproductive Health at Serono International in Geneva; Managing Director of Serono France; Managing Director of Rorer France, Rhone-Poulec Rorer, President of RPR Canada Inc.; Marketing Manager at Bristol-Myers France, Smith-Kline and Merck Sharp & Dohme.

Jean-Paul Clozel

Title and function: Chief Executive Officer

See section 3, p. 23

Louis de Lassence

Title and function: Vice President, Head of Corporate Services

Nationality: French

Education: Business School in Paris in 1976 and degrees in accounting

Professional background: External Auditor. From 1982 to 2000, worked for F. Hoffmann-La Roche, mainly in Finance and Administration; Internal Auditor; Finance Manager of Roche, Brussels; Assistant of the Vice-Chairman of the Roche Group; Finance Manager of Pharma International.

Isaac Kobrin

Title and function: Senior Vice-President, Head of Clinical Development

Nationality: Israeli

Education: Internist educated in Israel with further training (Fulbright Fellowship) at the Ochsner Medical Foundation in New Orleans (US) in the cardiovascular field.

Professional background: Senior Physician and Lecturer in Internal Medicine at Hadassah Hospital in Jerusalem, Israel. Group Leader of the Cardiovascular Development Group, F. Hoffmann-La Roche.

Andrew J. Oakley

Title and function: Vice President, Chief Financial Officer

Nationality: Australian

Education: MBA from London Business School

Professional background: Member of the Australian Institute of Chartered Accountants since 1987, following several years with a major accounting firm. Prior to joining Actelion, served in a senior finance capacity for the global holding companies of Accenture. Previously held executive positions in major multinational building material companies, and spent several years as an equity analyst with banks in Australia, the United Kingdom and the United States.

Satoshi Tanaka

Title and function: President and Representative Director, Japan

Nationality: Japanese

Education: Hematologist and Medical Doctor, Kyoto Prefectural University of Medicine; Master's Course at Kyoto Pharmaceutical University with certification as a Pharmacist; Behring Institute and University of Mainz in Germany (hematology and immunology); MBA from London Business School, Business Management at Cranfield University in the UK.

Professional background: Knoll AG in Germany (member of the Global R&D Management as President of Knoll Japan); Senior Managing Director of Hokuriku Seiyaku. Member of the Swiss Chamber of Commerce and Industry in Japan.

In addition to the above-named persons of the BEB, the Senior Management comprised the following individuals on December 31, 2004.

Frédéric Bodin

Title and function: Senior Vice-President, Head of International Medical Marketing

Nationality: French

Education: Cardiologist educated in France

Professional background: Clinical Leader for the development of benazepril and valsartan, Ciba-Geigy; Medical Marketing Leader, F. Hoffmann-La Roche; Medical Marketing Leader, Novartis.

Martine Clozel

Title and function: Senior Vice-President, Head of Drug Discovery, Pharmacology & Preclinical Development.

Nationality: French

Education: Pediatrician specialized in neonatal intensive care, University of Nancy, France; training in physiology and pharmacology at McGill University, Montreal, and at the University of California, San Francisco.

Professional background: Scientific Expert, Leader Drug Discovery Projects, F. Hoffmann-La Roche.

Walter Fischli

Title and function: Senior Vice-President, Head of Drug Discovery, Molecular Biology & Biochemistry.

Nationality: Swiss

Education: Biochemist educated at the Swiss Institute of Technology (ETH) in Zurich with further training in molecular biology and organic chemistry; Research fellowship at the Addiction Research Foundation, Stanford University.

Professional background: Leader of Drug Discovery Projects at F. Hoffmann-La Roche, including development of new screening systems. Co-Founder of Actelion, including establishment of new Discovery units.

5. Compensation, Shareholdings and Loans

5.1 Content and method of determining the compensation and the shareholding programs

Non-executive members of the Board of Directors receive a yearly fixed compensation (retainer) and meeting fees according to their individual attendance at Board and committee meetings as well as an allotment of shares and stock options.

Generally, the executive directors receive an allotment of shares and/or options from their directorship, and a cash compensation under their employment agreement.

Management members receive (i) fixed pay, determined according to the labor market following a survey, (ii) a yearly bonus, which is determined by the Board of Directors, upon recommendation of the Compensation Committee according to certain criteria that include the Company's, unit's and the individual's personal performance, as determined by the Board of Directors from time to time, and (iii) under the ESOP (Employee Stock Option Plan), stock options, the number of which is determined according to a grid agreed by the Board of Directors and which takes into account the functions of the management member in question.

5.2 Compensations for acting members of governing bodies

5.4 Share allotment

In 2004, in aggregate, the executive members of the Board of Directors and the members of the management received a cash compensation of CHF 5,240,938.30 and a total of 17,600 (ESOP) and 30,000 (DSOP) options (see 5.6 for details).

In aggregate, the 6 non-executive members of the Board of Directors received in 2004 a cash compensation of CHF 250,000 and options and shares for a value of 268,666.67 CHF. Each director will decide in which form this compensation will be paid (options or shares).

5.5 Share ownership

As of 31 December 2004 the executive members of the Board of Directors and the members of the management held an aggregate of 2,170,044 shares.

As of 31 December 2004 the non-executive members of the Board of Directors held a total of 381,751 shares.

5.6 Options

As of 31 December 2004 the executive members of the Board of Directors and the members of the management held a total of 297,065 (ESOP) and 30,000 (DSOP) options. The allotment year and exercise price were as follows:

Number of options	Allotment year	Exercise price
72,000	1999	7.50
34,560	2000	7.50
40,000	2000	137.50
13,564	2001	42
13,768	2001	58.75
2,875	2001	60
22,045	2002	50
25,225	2002	62
3,828	2002	67
27,600	2003	62
10,400	2003	93
13,600	2003	94
6,800	2004	139
10,800	2004	148
30,000 (DSOP)	2004	142

As of 31 December the non-executive members of the Board of Directors held a total of 26,045 (ESOP) and 3,000 (DSOP) options. The allotment year and exercise price were as follows:

Number of options	Allotment year	Exercise price
2,920	1998	0.15
3,125	2001	42
11,250	2002	62
7,500	2002	42
1,250	2002	66
3,000 (DSOP)	2003	62

The subscription ratio for all options is 1/1 and the duration is generally 10 years as of the approval of the plan.

5.9 Highest total compensation

The member of the Board of Directors receiving the highest total compensation in 2004 has received:

Cash compensations:	CHF 777,700
Option allotment:	30,000 options (DSOP, value 15.60)
Share allotment:	none

Corporate Governance

6. Shareholders' Participation

6.4 Agenda

Shareholders holding more than CHF 1 million worth of shares are entitled to add items to the agenda of the general meeting of shareholders. Proposals for the annual general meeting of shareholders must be sent to the Company to arrive approximately 40 days prior to the date of the annual general meeting of shareholders. The exact deadline for sending in proposals is made public approximately 2 months prior to the date of the annual general meeting.

6.5 Inscriptions into the share register

Only shareholders who are registered in the shareholders register of the company on the date falling 20 to 30 days prior to the annual general meeting of shareholders are entitled to vote at the AGM. The exact deadline for being registered in the shareholders register is made public with the press release following the presentation of the financials to the public for the year-end December 31.

7. Changes of Control and Defence Measures

7.1 Duty to make an offer

There are no opting-out or opting-up provisions in the articles of incorporation.

7.2 Clauses on change of control

There are addendums to the employment agreements of a certain number of employees in key positions providing for compensation in case of loss of position due to a change of control. Overall, 67 members of the senior management (including executive members of the board of directors) and of the other management as well as other key employees of the Actelion group worldwide have employment agreements with change of control clauses. Managerial positions are not necessarily congruent with key functions; therefore, it is unclear where to draw the line between other management and non-management functions.

Key employees may receive a severance payment for 24 months of salary. However, this severance payment would only be due if, within six (6) months prior to or two (2) years after the effective date of a Change in Control, the employing Actelion company terminates the employee's employment without Cause or the employee terminates his employment with Good Reason (Good Reason being either (a) a reduction in the Key Employee's salary, or (b) a material reduction or adverse or substantive change in the Key Employee's duties or responsibilities, or (c) the requirement that the Key Employee relocate to a worksite more than fifty (50) kilometers from the employing company's current principal office).

The ESOP provides that in case of change of control all options vest immediately.

8. Auditors

8.1 Duration of the mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Basel has been the Head Auditor of the Company since its incorporation. Their mandate as Head Auditor was renewed for the financial year 2004 by resolution of the shareholders of April 30, 2004.

Mr Clive Bellingham was appointed as head auditor in 2004.

8.2 Auditing fees

On an accruals basis, the auditing fees for the year under review are as follows:

Audit fees	
PricewaterhouseCoopers	CHF 866,254
Audit-related fees	
PricewaterhouseCoopers	CHF 977,999

8.3 Additional fees

In addition to the fees described above, aggregate fees of CHF 313,411 were billed by PricewaterhouseCoopers during the year ended December 31, 2004, primarily for income tax compliance and related tax services.

8.4 Supervisory and control instruments pertaining to the audit

The *Finance and Audit Committee* deals with the review of the internal control of the accounts and finances of the Company. (see 3.5.2)

The auditors sign an engagement letter, meet with the Finance and Audit Committee to present their plan, scope, approach and after the audit, their auditing results. The Finance and Audit Committee reviews the scope of the work of the auditors and their fees and makes a risk analysis. The auditors present, in addition to their opinion, a report and a management letter. The Company has ensured that the auditor's partner in charge has unrestricted access to the Chairman of the Finance and Audit Committee.

9. Information Policy

The management comments publicly on the company's progress on a quarterly basis, at the same time that financials are made public. The shareholders are regularly informed of Actelion's business via ad-hoc releases, internet announcements, roadshows, major news agencies, Swiss Official Commercial Gazette. The Investor Relations & Public Affairs department is available to respond to shareholders' or potential investors' queries.

The Company's website can be accessed at www.actelion.com. The site contains information useful to investors, including media releases, financial statements and background information on marketed products as well as clinical and preclinical projects.

Consolidated Financial Statements

Report of the group auditors

To the general meeting of Actelion Ltd
Allschwil

As auditors of the group, we have audited the accompanying consolidated financial statements of Actelion Ltd and its subsidiaries, consisting of the consolidated balance sheets as of December 31, 2004 and 2003, the consolidated statements of operations, of cash flows, of changes in shareholders' equity for the years ended December 31, 2004 and 2003 and the notes to the consolidated financial statements as presented on pages 31 to 48.

These consolidated financial statements are the responsibility of the board of directors of Actelion Ltd. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We confirm that we meet the Swiss legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and auditing standards generally accepted in the United States of America, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

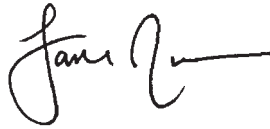
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Actelion Ltd and its subsidiaries at December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Clive Bellingham



James Rymer

Basel, February 18, 2005

Consolidated Statements of Operations

				For the year ended
				December 31
(in CHF thousands, except share and per share amounts)	Note	2004	2003	
Net revenue:				
Products sales	2	455,346		300,315
Contract revenue	2	16,534		7,229
Total net revenue		471,880		307,544
Operating expenses				
Cost of sales		45,873		31,816
Research and development		136,288		79,173
Marketing and advertising		101,710		79,828
Selling, general and administration		95,703		69,645
Amortization of acquired intangible assets	13	1,721		1,756
Write-off of acquired in-process research and development	3/5	5,000		46,990
Total operating expense		386,295		309,208
Operating income (loss)		85,585		(1,664)
Interest income		1,036		946
Interest expense		(405)		(885)
Amortization of debt discount and issuance costs		(7,448)		(1,500)
Other financial income, net		3,079		2,567
Income (loss) from continuing operations before income tax expense and share in loss of affiliate		81,847		(536)
Income tax expense	7	(4,276)		(830)
Income (loss) from continuing operations before share in loss of affiliate		77,571		(1,366)
Share in loss of affiliate	3	–		(1,089)
Income (loss) from continuing operations		77,571		(2,455)
Income (loss) from discontinued operations, net of tax and minority interest	4	9,648		(7,461)
Net income		87,219		(9,916)
Basic income per share:				
Continuing Operations	8	3.52		(0.11)
Discontinued Operations		0.44		(0.35)
Net income (loss)		3.96		(0.46)
Diluted income per share:				
Continuing operations	8	3.36		(0.11)
Discontinued operations		0.42		(0.35)
Net income		3.78		(0.46)

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

Consolidated Financial Statements

Consolidated Balance Sheets

(in CHF thousands, except share and per share amounts)	Note	2004	December 31 2003
Assets			
Current assets			
Cash and cash equivalents	9	300,336	258,770
Investments	10	2,422	2,199
Trade and other receivables, net	11	109,649	66,711
Inventories	12	17,903	21,455
Other current assets		5,992	3,966
Current assets of discontinued operations	4	–	10,385
Total current assets		436,302	363,486
Property, plant and equipment, net	14	35,221	18,982
Other assets		7,014	6,687
Intangible assets, net	13	8,610	8,813
Goodwill, net	3/13	27,318	3,784
Deferred tax asset	7	5,256	–
Non-current assets of discontinued operations	4	–	1,091
Total assets		519,721	402,843
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables		42,821	27,535
Accrued expenses	15	53,438	37,601
Deferred revenue, current portion	6	17,399	10,821
Financial debt	16	–	41,161
Other current liabilities	10/23	33,024	2,019
Contingent consideration	3	–	6,641
Current liabilities of discontinued operations	4	–	8,758
Total current liabilities		146,682	134,536
Long-term financial debt, less current portion	16	152,042	145,147
Deferred revenue, less current portion	6	60,233	64,468
Other non-current liabilities		2,678	1,963
Non-current liabilities of discontinued operations	4	–	1,785
Total liabilities		361,635	347,899
Minority interest of discontinued operations	4	–	517
Commitments and contingencies	17		
Shareholders' Equity			
Common shares (par value CHF 2.50 per share, authorized 33,406,640 and 30,506,640 shares; issued 22,209,953 and 21,751,148 shares in 2004 and 2003, respectively)		55,525	54,378
Additional paid-in-capital		316,844	302,817
Accumulated deficit		(210,007)	(297,226)
Unearned compensation		(2,256)	(5,369)
Treasury shares, at cost	19	(871)	(1,018)
Accumulated other comprehensive income (loss)	21	(1,149)	845
Total shareholders' equity		158,086	54,427
Total liabilities, minority interest and shareholders' equity		519,721	402,843

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

Consolidated Statements of Cash Flows

(in CHF thousands)	2004	December 31 2003
Cash flows from operating activities		
Net income (loss)	87,219	(9,916)
Income (loss) from discontinued operations, net of minority interest	(9,648)	7,461
Income (loss) from continuing operations	77,571	(2,455)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	9,925	7,549
Share in loss of affiliate	–	1,089
Stock-based compensation	4,773	4,819
Realized (gain) loss on sale of marketable securities	–	(602)
Gain on derivative instruments	143	(937)
Write-off of acquired in-process research and development	5,000	46,990
Amortization of debt discount and issuance costs	7,448	1,500
Increase in trade and other receivables	(44,970)	(44,837)
Decrease (increase) in inventories	3,552	(7,633)
Increase in other current assets	(2,326)	(951)
Increase in other assets	(4,086)	(461)
Increase in trade and other payables	16,032	8,592
Increase in accrued expenses	17,366	18,290
Increase in deferred revenue	2,342	5,891
Increase (decrease) in other liabilities	(1,090)	1,484
Net cash flow provided by operating activities	91,680	38,328
Cash flows from investing activities		
Proceeds from sale of marketable securities	–	12,794
Purchase of property, plant and equipment	(24,643)	(7,114)
Purchase of derivative instruments	(1,287)	(1,621)
Proceeds from sale of derivative instruments	1,311	1,477
Purchase of intangible assets	(6,575)	(7,101)
Proceeds from sale of subsidiary	9,242	–
Acquisition of subsidiary	–	(40,148)
Net cash flow used in investing activities	(21,952)	(41,713)
Cash flows from financing activities		
Payments on capital leases	(146)	(607)
Proceeds from issuance of financial debt	–	141,677
Repayment of financial debt	(41,119)	–
Proceeds from exercise of stock options	13,661	7,553
Net cash flow provided by financing activities	(27,604)	148,623
Net effect of exchange rates on cash and cash equivalents	(558)	(993)
Net effect of discontinued operations	–	(1,676)
Net change in cash and cash equivalents	41,566	142,569
Cash and cash equivalents at beginning of year	258,770	116,201
Cash and cash equivalents at end of year	300,336	258,770
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	527	972
Taxes	962	168

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

Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

	Shares	Common Shares Amount	Additional Paid-in- Capital
(in CHF thousands, except share amounts)			
At January 1, 2003	21,363,059	53,441	289,671
Comprehensive loss net of tax effect:			
Net loss			
Other comprehensive income (loss):			
Currency translation adjustment			
Comprehensive loss			
Changes in underlying equity of affiliate			93
Exercise of stock options	374,589	937	6,616
Stock-based compensation expense, net			653
Issuance of stock options			6,023
Stock option forfeitures and cancellations			(239)
At December 31, 2003	21,737,648	54,378	302,817
Comprehensive loss net of tax effect:			
Net income			
Other comprehensive income (loss):			
Currency translation adjustment			
Comprehensive income			
Exercise of stock options	458,805	1,147	12,514
Transactions in treasury shares	1,950		118
Stock-based compensation expense, net			1,556
Issuance of stock options			372
Stock option forfeitures and cancellations			(533)
At December 31, 2004	22,198,403	55,525	316,844

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

Accumulated Deficit	Unearned Compensation	Treasury Shares	Other Comprehensive Loss	Shareholders' Equity
(287,310)	(3,936)	(1,018)	(528)	50,320
(9,916)				(9,916)
			1,373	1,373
				(8,543)
				93
				7,553
	4,351			5,004
	(6,023)			—
	239			—
(297,226)	(5,369)	(1,018)	845	54,427
87,219				87,219
				—
			(1,994)	(1,994)
				85,225
				13,661
		147		265
	2,952			4,508
	(372)			—
	533			—
(210,007)	(2,256)	(871)	(1,149)	158,086

Consolidated Financial Statements

Notes to the Consolidated Financial Statements (CHF thousands, except share and per share amounts)

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 accounting principles generally accepted in the United States of America ("US GAAP") and are presented in Swiss francs ("CHF"). On October 27, 2003, the Group announced its intention to adopt US GAAP for its financial reporting and to restate all periods since inception. All periods presented are accounted for under US GAAP. Prior to the conversion, the Group's consolidated financial statements were prepared in accordance with International Financial Reporting Standards including International Accounting Standards and Interpretations as issued by the International Accounting Standards Board.

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 reported in the financial statements and accompanying notes. On an on-going basis, management evaluates its estimates, including those related to revenue recognition for contract revenue, stock based compensation, purchase accounting and impairment. 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 which 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.

Principles of consolidation

The consolidated financial statements include the accounts of the Group and its wholly-owned subsidiaries as well as affiliated companies in which the Group has a controlling financial interest and exercises control over their operations. All material inter-company transactions and balances have been eliminated in consolidation. Investments in affiliated companies which are 50% or less owned and where the Group exercises significant influence over operations are accounted for using the equity method.

Consistent with our policy for purchases or sales of equity by an investee, at the time a less than wholly-owned consolidated subsidiary sells its stock to unrelated parties at a price different than its book value, the Group's net investment in that subsidiary changes. The Group records the resulting increase or decrease in its net investment as a gain or loss to the Group's additional paid-in-capital.

Segment information

Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information", 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.

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 collectibility is reasonably assured. Allowances are established for estimated uncollectible amounts, product returns and discounts. Generally, the Group ships products to its customers fully insured with shipping terms of DDU destination point.

Contract Revenue

Contract revenue includes license fees and milestone payments associated with collaborations with third parties. The Group recognizes revenue from collaborative agreements when the services are performed and collectibility 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 changed 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.

Shipping and handling costs

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

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 5, "Licensing Agreements".

Advertising costs

The Group expenses the costs of advertising, including promotional expenses, as incurred. Advertising expenses were CHF 46.3 million in 2004 and CHF 37.0 million in 2003.

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 uses the liability method to account for income taxes as required by SFAS No. 109, "Accounting for Income Taxes". 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 records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. 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. 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 pretax earnings.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common and diluted common equivalent shares outstanding during the period using the treasury stock method for options, unless amounts are anti-dilutive.

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. The Group has not paid any cash dividends since inception and does not anticipate a dividend in the near to medium term.

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.

Marketable securities

The Group categorizes 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 and situations change, such that there is an indication that the carrying amounts may not be recovered. 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 U.S. dollars and Euros. The inherent exposure 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 SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities". Changes in the fair value of any derivative instruments are recognized immediately in other financial income (expense) in the consolidated statements of operations. See Note 10, "Investments" for further information on the Group's accounting for derivatives.

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 outlined in SFAS No. 133 to determine if the derivative is required to be bifurcated and accounted for separately. See Note 10, "Investments" for further information on the Group's accounting for these embedded derivatives.

Accounts receivable

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.

Inventories

Inventories are stated at the lower of cost or market with cost determined by the first-in first-out (FIFO) method. Inventories consist of intermediaries and finished products. If inventory costs exceed the expected market value due to obsolescence or unmarketability, a reserve is recorded for the difference between the cost and the market value.

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 amortized over the useful life of the asset. Expenditures for maintenance and repairs are charged to expense as incurred.

Consolidated Financial Statements

The depreciation periods in years 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
Building	2 to 25 years

The carrying values of the Group's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the asset may not be recoverable. Specific potential indicators of impairment include:

- a significant decrease in the fair value of an asset;
- a significant change in the extent or manner in which an asset is used or a significant physical change in an asset;
- a significant adverse change in legal factors or in the business climate that affects the value of an asset;
- an adverse action or assessment by the U.S. Food and Drug Administration or another regulator;
- an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset; and
- operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an income-producing asset.

Should there be indication of impairment, an assessment will be made by comparing the estimated future cash flows expected to result from the use of the asset and its eventual disposition to the carrying amount of the asset. In estimating these future cash flows, assets are grouped at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows generated by other asset groups. If the sum of the expected future cash flows (undiscounted and without interest changes) is less than the carrying amount of the asset, an impairment loss, measured as the excess of the carrying value of the asset over its fair value, will be recognized. The cash flow estimates used in such calculations are based on management's best estimates, using appropriate and customary assumptions and projections at the time.

Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired in a business combination. Pursuant to SFAS 142, "Goodwill and Other Intangibles", goodwill is not amortized and is regularly reviewed for impairment.

Intangible assets consist primarily of acquired existing licenses and internal use software, which is amortized on a straight-line basis over the economic lives of the respective assets, estimated at 11 and 3 years, respectively.

Stock-based compensation

The Group accounts for stock-based awards to employees and directors using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees." Accordingly, the Group does not recognize compensation expense for employee stock options granted with an exercise price equal to the market value of the underlying common stock

at the date of grant. In instances where an option is granted to an employee with an exercise price below the market value of the underlying common stock at the date of grant, the option is expensed in accordance with Financial Accounting Standards Board ("FASB") Interpretation Number 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans an interpretation of APB Opinions No. 15 and 25". For purposes of disclosures pursuant to SFAS No. 123 as amended by SFAS No. 148, the estimated fair value of options is amortized to expense over the options' vesting period. Equity instruments issued to non-employees are measured at fair value over the period of performance using the Black-Scholes option pricing model.

Comprehensive loss

Comprehensive loss is comprised of net loss and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and currency translation adjustments. Comprehensive income (loss) for the years ended December 31, 2004 and 2003 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 quarterly 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 financing 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 statement of operations 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.

Recent accounting pronouncements

On December 15, 2004, the Financial Accounting Standards Board (FASB or the "Board") released its final revised standard entitled FASB Statement No. 123R, Share-Based Payment (FAS 123R), the key requirement of which is that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award (with limited exceptions). Cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the requisite service period. The standard provides guidance on how to account for changes in the fair value of the award, which models may be used to assess fair value and the tax effect of such

awards. It also requires additional disclosure requirements to help understand the nature of share-based payment transactions and the effects of those transactions on the financial statements. The standard is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005.

On December 15, 2004 the FASB issued Statement No. 153 (FAS 153), Exchanges of Nonmonetary Assets – Accounting Principles Board Opinion No. 29, Accounting for Nonmonetary Transactions (APB 29). FAS 153 is based on the principle that (with certain exceptions) nonmonetary asset exchanges should be recorded and measured at the fair value of the assets exchanged. It also clarifies how to account for exchanges of productive assets. The new standard is the result of the convergence project between the FASB and the International Accounting Standards Board (IASB) and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005.

On November 24, 2004, the FASB issued Statement No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 (FAS 151). The standard adopts the IASB view related to inventories that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the Board made the decision to clarify the meaning of the term “normal capacity”. The provisions of FAS 151 are applicable to inventory costs incurred during fiscal years beginning after June 15, 2005.

Management is considering the effect the above standards will have on adoption.

On December 23, 2003 the FASB released revised FASB Statement No. 132 (FAS 132), Employers’ Disclosures about Pensions and Other Postretirement Benefits. The revised standard is designed to improve disclosure transparency in financial statements. It replaces existing pension disclosure requirements concerning assets, obligations, cash flows, and net periodic costs of defined benefit pension plans and other postretirement benefit plans.

The requirements of the standard were effective for public entities for fiscal years ending after December 15, 2003.

On January 17, 2003, the FASB issued FASB Interpretation No. 46, (FIN 46 or the “Interpretation”), Consolidation of Variable Interest Entities. FIN 46 was intended to provide guidance in determining (1) whether consolidation is required under the “controlling financial interest” model of Accounting Research Bulletin No. 51 (ARB 51), Consolidated Financial Statements (or other existing

authoritative guidance) or, alternatively, (2) whether the variable interest model under FIN 46 should be used to account for existing and new entities. However, the guidance contained in FIN 46 for making such a determination resulted in many more questions than it did answers. As a result in July 2003, the FASB added a limited-scope project to its agenda to modify FIN 46. In December 2003, the FASB released a revised version of FIN 46 (hereafter referred to as FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46.

In September 2004, the EITF issued EITF 04-10, which addresses how an entity should evaluate the aggregation criteria in paragraph 17 of Statement 131, Disclosures about Segments of an Enterprise and Related Information, when determining whether operating segments that do not meet the quantitative thresholds may be aggregated in accordance with paragraph 19 of Statement 131. The consensus reached was that operating segments must always have similar economic characteristics and meet a majority of the remaining five aggregation criteria, items (a)-(e), listed in paragraph 17, in order to be aggregated under paragraph 19. The consensus should be applied for fiscal years ending after October 13, 2004 with corresponding information for earlier periods, including interim periods, restated unless it is impractical to do so.

The above standards adopted did not have a material impact on the Group.

Note 2. 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 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:

December 31, 2004:	Switzerland	United States	Europe	Other	Total
Product revenue from external customers	7,873	200,058	224,558	22,857	455,346
Contract revenue from external customers	16,534	–	–	–	16,534
Long-lived assets	62,075	3,128	3,818	2,128	71,149
December 31, 2003:	Switzerland	United States	Europe	Other	Total
Product revenue from external customers	6,763	160,760	122,988	9,804	300,315
Contract revenue from external customers	7,229	–	–	–	7,229
Long-lived assets	24,476	1,130	3,812	2,161	31,579

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Note 3. 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 all of the remaining common stock of Axovan for CHF 53 million. 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. Since the fair value of assets acquired and liabilities assumed exceeded the fair value of the consideration paid the Group then recorded a liability for contingent consideration for the difference.

The Group agreed to pay additional amounts to the shareholders of Axovan upon achievement of future product development milestones. In December 2004, a milestone payment of CHF 32.5 million became payable to former Axovan shareholders upon initiation of a Phase IIb/III clinical trial. This milestone payable was allocated to contingent consideration with the exceeding amount allocated to goodwill. The total additional value of remaining milestone payments could total CHF 146 million. The Group considers all milestone payments to be performance-related measures and as such, treats them as goodwill.

In 2003, the Group has allocated CHF 47 million of the purchase price to in-process research and development projects and other intangible assets with no alternative future use. This allocation represented the estimated fair value based on risk-adjusted cash flows related to the 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. In making its purchase price allocation, the Group considered present value calculations of income, an analysis of project accomplishments and remaining outstanding items, an assessment of overall contributions, as well as technological and regulatory risks. The value assigned to purchased in-process technology was determined by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. The revenue projection used to value the in-process research and development was based on estimates of relevant market sizes and growth factors, expected trends in technology, and nature and expected timing of new product introductions by Axovan and its competitors.

The rates utilized to discount the net cash flows to their present value were based on estimated cost of capital calculations. Due to the risks associated with the projected cash flow forecast, a discount rate of 15% was considered appropriate for the in-process research and development. The selected rate reflects the inherent uncertainties surrounding the 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 these projects are not successfully developed, the sales and profitability of the combined companies may be adversely affected in future periods. Additionally, the value of other acquired

intangible assets may become impaired. The Group believes that the research and development projects acquired in connection with the acquisition of Axovan are expected to continue in line with the estimates described above.

Note 4. Sale of Hesperion

On February 9, 2004 the sale of Hesperion to Cerep SA was successfully completed at a total sales price of CHF 16.1 million. Of the total sales price, the Group is entitled to receive CHF 11.1 million for its 69% ownership in Hesperion, resulting in a gain of CHF 9.6 million. The Group has so far received CHF 10 million with CHF 1.1 million remaining in escrow. The escrow balance, which is included in other receivables, will be paid to the Group at the earlier of March 31, 2005 or upon Cerep SA's approval of Hesperion's 2004 financial statements. The financial statements as of and for the years ended December 31, 2004 and 2003 reflect Hesperion as a discontinued operation.

Note 5. Licensing agreements

On March 19, 1998, the Group entered into a license agreement with F. Hoffman-La Roche ("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 Veletri, 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 2004 and 2003.

On November 4, 1998 the Group entered into a license agreement with 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, 2004 and 2003, payments of CHF 9 million are included in intangible assets and are amortized over 11 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 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. In 1998, OGS in-licensed miglustat from G.D. Searle & Co. Under the Group's license agreement with OGS, the Group has been grant-

ed exclusive marketing rights to sell Zavesca in all countries except Israel and the adjacent West Bank and Gaza Strip territories. For the period from January 1, 2003 through the expiration of the agreement, the Group will pay Celltech a royalty on net sales of Zavesca. The agreement also provides that Celltech is the Group's sole supplier of Zavesca.

In conjunction with the acquisition of Axovan on October 31, 2003 the Group gained access to the license granted from Roche for Clazosentan. In June 2004, the Group incurred a CHF 5 million in-process research and development charge in form of a milestone payment to Roche relating to this agreement.

Note 6. Collaborative agreements

In July 1999, the Group entered into an agreement with a subsidiary of Johnson and Johnson ("J&J"). For the first three years of the agreement, J&J paid the Group for certain research and development costs incurred under the agreement. In October 2003, the agreement was amended to the effect that the Group would be the best place to continue development of the compounds covered by the collaboration. The Group therefore, has now sole rights for the ongoing development and potential commercialization of these compounds. If successful, the Group will pay J&J a small royalty on sales generated from these compounds.

In February 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 tezoesentan 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 tezoesentan in the United States. Upon signing the contract the Group received an upfront payment, which is being recognized over the life of the agreement. For each of the years ended December 31, 2004 and 2003 the Group recognized revenue of CHF 1.5 million related to this agreement.

In December 2000, the Group entered into an agreement with 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, a portion of which was refundable 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 remaining agreement period. For each of the years ended December 31, 2004 and 2003 the Group recognized revenue of CHF 4.9 million related to 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. The Group retains a worldwide option to co-promote any product resulting from this alliance as a paid-for sales force. Merck made an upfront payment of USD 10 million and USD 15 million following completion of technology transfer to Merck. In addition, the Group will be eligible to receive additional payments of up to USD 247 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, 2004 and 2003, the Group recognized revenue of CHF 9.9 million and CHF 0.3 million, respectively, under this agreement.

Note 7. Income taxes

The following table sets forth the income before taxes:

	For the Year Ended December 31,	
	2004	2003
Switzerland	79,249	19,287
Foreign	2,598	(19,823)
Total income before taxes	81,847	(536)

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

	For the Year Ended December 31,	
	2004	2003
Current tax expense:		
Switzerland	60	105
Foreign	7,169	725
Total current tax expense	7,229	830
Deferred tax (benefit) expense:		
Switzerland	(2,953)	–
Foreign	–	–
Total deferred tax (benefit) expense	(2,953)	–
Total income tax expense	4,276	830

Taxes payable and accrued as of December 31, 2004 amounted to CHF 6.6 million (2003: CHF 0.6 million). Significant components of the Group's deferred tax assets as of December 31, 2004 and 2003 are shown below. A valuation allowance of CHF 27.7 million (2003: CHF 42.6 million) has been recognized for certain Group companies based on their historical cumulative operating losses.

	2004	2003
Deferred tax assets:		
Net benefit from operating loss carry forwards	24,924	29,909
Deferred revenue	3,317	6,927
Other temporary differences	4,677	5,794
Total deferred tax assets	32,918	42,630
Valuation allowance for deferred tax assets	(27,662)	(42,630)
Net deferred tax assets	5,256	–

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

	Not capitalized	Capitalized	Total 2004
One year	–	–	–
Two years	780	–	780
Three years	–	–	–
Four years	1,504	–	1,504
Five years	6,844	2,811	9,655
Six years	6,446	9,719	16,165
Seven years	12,705	–	12,705
More than seven years	40,054	–	40,054
Total	68,333	12,530	80,863

Reconciliation between the effective income tax expense and the Swiss statutory tax rate, which is 25%:

	2004	2003
Tax at Swiss statutory rate of 25%	20,462	(134)
Non deductible expenses, non taxable income	(533)	8,099
Different effective tax rates	(9,281)	(1,365)
Utilization of unrecognized tax losses	(8,280)	–
Change in valuation allowance	3,224	(5,702)
Prior year adjustments and other items	(1,316)	(68)
Effective income tax expense	4,276	830

Note 8. Earnings per share

Earnings per basic and diluted share are based on weighted average common shares and exclude anti-dilutive shares relating to employee stock options of 601,324 for the year ended December 31, 2004 and excludes diluted shares of 1,100,407 for the year ended December 31, 2003 as they would be anti-dilutive due to the reported loss in 2003. The following table sets forth the basic and diluted earnings per share calculation:

	2004	2003
Income (loss) on continuing operations	77,571	(2,455)
Gain (loss) on discontinued operations	9,648	(7,461)
Net income (loss)	87,219	(9,916)
<i>Weighted average number of shares outstanding</i>	<i>22,017,656</i>	<i>21,567,195</i>
Basic income (loss) per share of continuing operations	3.52	(0.11)

Derivative financial instruments

	Contract or underlying principal amount	Positive fair values	Negative fair values
2003			
Foreign exchange rate options	49,979	1,942	2
Forward foreign exchange rate contracts	10,335	257	–
Total	60,314	2,199	2
2004			
Foreign exchange rate options	58,182	1,024	64
Forward foreign exchange rate contracts	63,597	1,398	328
Total	121,779	2,422	392

Changes in the fair value of these derivatives are recognized in earnings, as they do not meet the definition of a hedge.

Basic income (loss) per share of discontinued operations	0.44	(0.35)
Basic income (loss) per share of net loss	3.96	(0.46)
Weighted average number of shares outstanding		
	23,051,406	22,667,602
Diluted income (loss) per share of continuing operations	3.36	(0.11)
Diluted income (loss) per share of discontinued operations	0.42	(0.35)
Diluted income (loss) per share of net income	3.78	(0.46)

Note 9. Cash and cash equivalents

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

	2004	2003
Cash	111,040	154,385
Short-term bank deposits	184,138	102,932
Money market funds	5,158	1,453
Total	300,336	258,770

Note 10. Investments

Marketable Securities

During September 2003, management changed its investment strategy and decided to sell investments of CHF 11.8 million previously classified as held-to-maturity for a realized gain of CHF 409,676. In accordance with US GAAP, as a result of selling these investments prior to their maturity, the Group is precluded from classifying any security as held-to-maturity until 2006. At December 31, 2004 the Group maintained no investments in marketable securities.

Financial Instruments

The following tables show the contract or underlying principal amounts and fair values of derivative financial instruments at December 31, 2004 and 2003. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by the markets or standard pricing models at December 31, 2004 and 2003, respectively.

Note 11. Trade and other receivables

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

	2004	2003
Trade receivables	100,885	62,594
Other receivables	8,764	4,117
Total	109,649	66,711

In 2004 the Group recorded a bad debt allowance of CHF 0.16 million.

Note 12. Inventories

Inventories consisted of the following at December 31:

	2004	2003
Intermediaries	14,132	18,331
Finished products	3,771	3,124
Total	17,903	21,455

Note 13. Goodwill and other intangible assets

Changes in the net carrying amount of goodwill in 2004 are as follows:

Balance at January 1	Translation effects	Additions	Balance at December 31
3,784	(16)	23,550	27,318

The total amount allocated to goodwill arising from the December milestone payment to former Axovan shareholders of CHF 25.9 million was subsequently adjusted for the benefit resulting from the use and probable future use of Axovan tax losses.

The other intangible assets consisted of the following at December 31:

	2004			2003		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Acquired licenses	9,000	(2,261)	6,739	9,000	(1,383)	7,617
Acquired software and other	4,507	(2,636)	1,871	3,046	(1,850)	1,196
Total	13,507	(4,897)	8,610	12,046	(3,233)	8,813

Amortization expense of other intangible assets is as follows:

	2004	2003
Other intangible assets amortization	1,721	1,756
Total amortization expense	1,721	1,756

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

For the year ending December 31,	Amortization Expense
2005	1,812
2006	1,812
2007	877
2008	877
2009	877
Thereafter	2,355
Total expected future amortization	8,610

Note 14. Property, plant and equipment

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

	2004	2003
At cost:		
Land	7,371	–
Building	400	–
Furniture and fixtures and lab equipment	38,085	28,554
Computers	8,421	5,910
Other tangible assets	2,206	1,456
Less: accumulated depreciation and amortization	(24,076)	(16,938)
Construction in progress	2,814	–
Property, plant and equipment, net	35,221	18,982

Depreciation expense was CHF 8.2 million in 2004 and CHF 5.8 million in 2003.

Note 15. Accrued expenses

Accrued expenses consisted of the following at December 31:

	2004	2003
Personnel and compensation costs	25,941	17,908
Marketing and royalties	3,588	2,980
Research and development expense	8,541	9,279
Other accrued expenses	15,368	7,434
Total	53,438	37,601

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Note 16. Borrowings

	2004		2003	
	Total	Due within one year	Total	Due within one year
Convertible bond	152,042	–	145,147	–
Borrowings from banks	–	–	41,161	41,161
Total	152,042	–	186,308	41,161

In October 2002, the Group entered into a CHF 40 million financing agreement expiring on December 31, 2004 to finance its working capital needs. During 2004 the Group decided to fully repay the loan resulting in a full settlement of the obligation as of June 30, 2004.

In October 2003, the Group issued CHF 143.8 million in convertible bonds. Preferential subscription rights have been removed with respect to all outstanding convertible bonds. The bonds are convertible into shares of the Group up to October 1, 2008. The bonds carry a zero coupon with a yield to maturity at the time of issuance of 4.75%. Except in the case of redemption after a substantial majority of the bonds have been converted or repurchased, or in the event that the Group becomes required to pay additional tax amounts, the Group may not call the bonds before October 15, 2006. The conversion price of the bonds is CHF 153.40 per share. If all bonds are converted into shares at this conversion price, the Group would issue an additional 937,093 shares, if not converted, the Group would pay a redemption price of 126.12% of the principal amount of the bonds. The fair value of the convertible bond at December 31, 2004 is 118.18% of the principal amount (CHF 169.9 million). Debt issuance costs amounted to CHF 3.2 million and were recorded in other non current assets.

At December 31, 2004 the aggregate amount of indebtedness of CHF 181,298 thousand is maturing on October 1, 2008.

Note 17. Lease commitments

Capital Leases

The following assets acquired under capital leases are included in property, plant and equipment:

	2004	2003
Laboratory equipment	–	4,212
Computers and software	677	439
Other tangible assets	180	180
Less: accumulated depreciation and amortization	(419)	(3,845)
Net assets leased under capital leases	438	986

The Group records interest expense relating to capital leases on a straight-line basis, which is not materially different from interest expense calculated using the imputed interest method.

Operating Leases

The Group has several operating leases for its office and research and development facilities and equipment around the world, including the Group's most significant facilities in Switzerland, the United States and Japan. The leases expire between 2004 and 2009, most of them with options to extend for 1 to 5 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 prepaid rent or deferred rent liability and is reduced in later years.

Future minimum payments under non-cancelable operating and capital leases at December 31, 2004 are as follows:

Year ended December 31,	Operating Leases	Capital Leases
2005	9,949	167
2006	15,150	146
2007	13,912	106
2008	13,119	52
2009	9,867	30
Thereafter	74,331	17
Total minimum payments	136,328	518
Less amounts representing interest		(80)
Present value of future debt payments		438
Less current portion of debt		141
Non-current portion of debt		297

Rent expense under operating leases was CHF 12.7 million and CHF 9.6 million for the years ended December 31, 2004 and 2003, respectively.

In October 2003, the Group signed a lease agreement for a new building to be constructed over the next 2 years. The agreement contains a committed lease period of 15 years with an option to extend for another 10 years or an option to buy the building at market rates after the first lease period of 10 years has ended. Future payments under this lease agreement amount to a yearly lease expense of an estimated CHF 6.5 million, which are included in the table above.

Note 18. Retirement plans

The Group has entered into a term agreement with a third party insurance company to minimize the risk associated with a pension obligation. For accounting purposes this insurance contract represents the sole asset of the plan. 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 plan assets is the estimated cash surrender value at the respective balance sheet date.

The Group maintains a pension plan covering all of its employees in Switzerland including its executive officers. 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. Net periodic benefit costs for the Group's defined benefit retirement plans for 2004 and 2003 include the following components:

	2004	2003
Service cost	3,684	2,287
Interest cost	1,071	804
Expected return on plan assets	(1,001)	(704)
Amortization of net transition amount	–	80
Net periodic pension cost	3,754	2,467

The following tables provide the weighted-average assumptions used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

	2004	2003
Weighted average discount rate	3.50%	3.50%
Expected long-term rate of return on plan assets	3.50%	4.00%
Rate of increase in compensation levels (salary)	2.00%	2.00%
Rate of increase in compensation levels (annuities)	1.00%	1.00%

The following tables set forth the change in benefit obligations and change in plan assets at December 31, 2004 and 2003 for the Group's defined benefit plans:

	2004	2003
Change in Projected Benefit Obligation		
Projected benefit obligation – beginning of year	30,614	18,287
Change in projected benefit obligation (acquisition)	–	3,296
Service cost	3,684	2,287
Interest cost	1,071	804
Plan participant contributions	2,779	1,846
Actuarial loss	(3,235)	(397)
Transfers in	11,295	5,187
Transfers out	(4,559)	(696)
Projected Benefit obligation – end of year	41,649	30,614

	2004	2003
Change in Plan Assets		
Plan assets at fair value – beginning of year	28,590	17,129
Change in plan assets at fair value (acquisition)	–	2,864
Actual return on plan assets	(280)	(454)
Group contributions	4,940	2,714
Plan participant contributions	2,779	1,846
Transfers in	11,295	5,187
Transfers out	(4,559)	(696)
Plan assets at fair value – end of year	42,765	28,590

Amounts recognized in the Group's balance sheet consist of the following:

	2004	2003
Plan assets less than projected benefit obligation	1,116	(2,024)
Unrecognized actuarial losses/(gains)	(757)	1,197
Unrecognized net transition asset	–	–
Total asset (liability)	359	(827)

The asset (liability) represents the difference between the cash surrender value of the insurance policy and the actuarially determined projected benefit obligation.

The accumulated benefit obligation, project benefit obligation and the plan assets at fair value consisted of the following:

	2004	2003
Accumulated benefit obligation	39,988	28,479
Projected benefit obligation	41,649	30,614
Plan assets at fair value	42,765	28,590

Certain of the Group's subsidiaries sponsor defined contribution plans. Total contribution expense to these plans in 2004 and 2003 was CHF 2,734,751 and CHF 1,621,670, respectively. The contribution payable at December 31, 2004 and 2003, was CHF 435,807 and CHF 105,916, respectively.

Note 19. Shareholders' equity

Authorized capital

The Annual General Meeting of April 30, 2004 authorized an increase in share capital to be used for strategic purposes. The Board of Directors is authorized to increase until April 30, 2006 the share capital to an amount of not more than CHF 10 million by issuance of not more than 4 million fully paid-in registered shares with a nominal value of CHF 2.50 per share.

Conditional capital

Since inception, the Group has created conditional capital for the establishment of stock option plans and convertible bonds as well as for the potential issuance of shares in relation with certain credit facilities. At December 31, 2004, the Group has conditional capital of CHF 18 million.

Movements in conditional capital are as follows:

	2004	2003
January 1, 2003		12,200
Creation of conditional capital for employee stock option plans		625
Exercise of options		(937)
December 31, 2003		11,888
Creation of conditional capital for employee stock option plans		7,250
Exercise of options		(1,147)
December 31, 2004		17,991

Treasury shares

At December 31, 2004 the Group held 11,550 treasury shares, which were acquired at an average price of CHF 75.41. During 2004, members of the board of directors received 1,950 shares out of the Group's treasury stock.

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Note 20. Stock-based compensation

The Group issues standard stock options to employees, consultants and scientific advisors. In instances where an option is granted to an employee with an exercise price below the market value of the underlying common stock at the date of grant, the difference between the exercise price and the market value is expensed. Options 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 Directors' Share Option Plan are immediately vested. One option is entitled to one share. Options generally expire ten years after the plan issuance date.

In 2004, the shareholders approved an increase in the total number of authorized shares by 900,000 to be used in connection with employee stock option plans. At December 31, 2004, there were 670,275 shares available for grant of future stock options.

In 2004, the shareholders approved an increase in the total number of authorized shares by 2,000,000 to be used in connection with a special one-time employee incentive plan (challenge award) linked to specific achievements by the Group. The two conditions to be met are a) cumulative net revenues on four consecutive calendar quarters reach CHF 1 billion and b) an increase of the market share price to CHF 286. The exercise price of all options granted under the challenge award is the higher of either CHF 286 or the closing market price of the Group share on the trading day immediately previous to the grant date. In case the two conditions are not met, this CHF 5 million conditional capital will not be used. At December 31, 2004 there were no options granted under this plan.

The following table summarizes activity under standard stock option plans for the years ended December 31:

	2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,627,569	64.63	2,338,584	55.98
Granted	487,224	127.07	744,432	77.37
Forfeited	(129,576)	89.38	(80,858)	90.16
Exercised	(458,805)	29.72	(374,589)	20.16
Outstanding, end of year	2,526,412	82.68	2,627,569	64.63
Exercisable, end of year	1,174,936		1,153,699	

The following is a summary of standard employee options outstanding and options exercisable at December 31, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
0–25.00	412,860	4.04	4.68	402,300	4.41
25.01–50.00	185,378	7.35	47.43	62,075	46.96
50.01–75.00	794,301	7.29	61.67	307,590	61.66
75.01–100.00	203,259	8.52	92.43	40,140	91.53
100.01–125.00	267,778	7.90	112.66	89,211	112.07
125.01–150.00	474,996	8.46	138.31	125,586	138.54
150.01–175.00	31,552	5.73	163.23	24,405	163.15
175.01–225.00	156,288	5.82	187.94	123,629	188.02
Total	2,526,412			1,174,936	

Stock-based compensation

In connection with certain stock option grants to employees, the Group recorded stock-based compensation expense of CHF 2,951,951 and CHF 4,350,270 for the years ending December 31, 2004 and 2003, respectively, which is being amortized in accordance with FASB Interpretation No. 28 over the vesting periods of the related options, which is generally four years.

In connection with stock options granted to consultants, the Group recognized stock-based compensation expense of CHF

1,556,188 and CHF 468,198 for the years ended December 31, 2004 and 2003, respectively. This expense is recognized in accordance with SFAS No. 123 and EITF Issue No. 96–18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Expense is calculated using the Black-Scholes pricing model and the assumptions discussed below.

Pro forma disclosures

The Group elected to follow APB No. 25 to account for employee stock options. Fair values of awards granted under the stock option plan were estimated at grant or purchase dates using a Black-Scholes option pricing model with the following assumptions:

	Year ended December 31,	
	2004	2003
Expected life in years (from vesting date)	5 years	5 years
Interest rate	2.15%	3.02%
Volatility	56%	56%
Expected dividend yield	–	–
	Year ended December 31,	
	2004	2003
Net income (loss) from continuing operations	77,571	(2,455)
Stock-based employee compensation cost included in the determination of net income (loss) from continuing operations	2,952	4,350
Stock-based employee compensation cost that would have been included in the determination of net income (loss) from continuing operations if the fair value based method had been applied to all awards	(25,701)	(22,278)
Pro forma net income (loss) from continuing operations as if the fair value based method had been applied to all awards	54,822	(20,383)
Basic net income (loss) per share of continuing operations	3.52	(0.11)
Diluted net income (loss) per share of continuing operations	3.36	(0.11)
Pro forma basic income (loss) per share from continuing operations as if the fair value based method had been applied to all awards	2.49	(0.95)
Pro forma diluted income (loss) per share from continuing operations as if the fair value based method had been applied to all awards	2.38	(0.95)

The weighted-average grant-date fair values of options granted during the years ended December 31, 2004 and 2003 are as follows:

	2004		2003	
	Number of Shares	Weighted Average Grant Date Fair Values	Number of Shares	Weighted Average Grant Date Fair Values
Options whose exercise price is:				
Equal to the market price of the Group's shares at the grant date	407,736	66.16	3,166	31.06
Below the market price of the Group's shares at the grant date	47,424	69.07	532,830	48.31
Above the market price of the Group's shares at the grant date	32,064	56.31	208,436	34.17
Total	487,224	65.79	744,432	44.28

Note 21. Comprehensive income (loss)

SFAS No. 130, "Reporting Comprehensive Income", requires unrealized gains (losses) on the Group's available-for-sale securities, and foreign currency translation adjustments to be included in other comprehensive income.

As of December 31, 2004 and 2003 the accumulated other comprehensive income (loss) consists of foreign currency translation of CHF (1.1) million and CHF 0.8 million, respectively.

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, 2004 and 2003, three distributors accounted for approximately 44% and 54%, respectively of total sales. At December 31, 2004 and 2003, CHF 16.3 million and CHF 18.0 million, respectively, of trade accounts receivable related to these distributors. Management believes other distributors could be located 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 2004 and 2003, the Group did not record any significant additions to, or losses against, the allowance for doubtful accounts.

Consolidated Financial Statements

The Group is dependent upon toll manufacturers to manufacture its product. For the years ended December 31, 2004, one supplier accounted for approximately 34% of total purchases while in 2003 another supplier accounted for approximately 60% 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 would adversely affect operating results. Management believes that the Group maintains sufficient inventory levels to minimize the impact a change in suppliers would have on operating results.

Note 23. Other current liabilities

Other current liabilities consisted of the following at December 31:

	2004	2003
Axovan milestone payment to former Axovan Shareholders	32,494	–
Negative fair value of derivative instruments	392	2
Other current liabilities	138	2,017
Total	33,024	2,019

Note 24. Executive compensation

Senior executive and board compensation

	Year ended December 31,	
	2004	2003
Senior executives		
Monetary compensation	5,241	4,694
Share options granted	47,600	53,600
Bonus shares granted	–	600
Members	11	11
Board members		
Monetary compensation	519	110
Share options granted	–	5,000
Bonus shares granted	–	1,650
Members	6	5

In 2005, the Board will decide in which form its compensation will be paid (monetary, share options or bonus shares).

Note 25. Related party transactions

A member of the board of the Group provided consultation services to the Company in exchange for fees of CHF 8.

Holding Company Statements

Report of the statutory auditors

To the general meeting of Actelion Ltd
Allschwil, Switzerland

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) included on pages 50 to 53 of Actelion Ltd for the year ended December 31, 2004.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

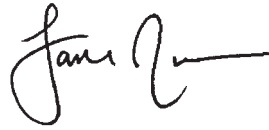
In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Clive Bellingham



James Rymer

Basel, February 18, 2005

Enclosures:

Financial statements (balance sheet, income statement and notes)
Proposed appropriation of the available earnings

Holding Company Statements

Balance sheets

(in CHF thousands)

	December 31,	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	61,330	74,040
Marketable securities	1,349	1,802
Other receivables	1,158	147
Other receivables with group companies	1,319	–
Prepayments and accrued income	104	4
Total current assets	65,260	75,993
Non-current assets		
Investments in subsidiaries	178,828	146,766
Long-term loans to subsidiaries	132,563	129,957
Intangible assets, net	901	4,503
Total non-current assets	312,292	281,226
Total assets	377,552	357,219
Liabilities and Shareholders' Equity		
Current liabilities		
Financial debt	–	40,000
Trade and other payables	32,961	–
Trade and other payables with group companies	9,880	–
Accrued expenses	988	999
Other short term liabilities	1,556	–
Total current liabilities	45,385	40,999
Non-current liabilities		
Other non-current liabilities	5,506	–
Total non-current liabilities	5,506	–
Total liabilities	50,891	40,999
Shareholders' Equity		
Common shares (par value CHF 2.50 per share, authorized 33,406,640 and 30,506,640 shares; issued 22,209,953 and 21,751,148 shares in 2004 and 2003, respectively)	55,525	54,378
Legal reserves – share premium	269,867	257,230
Treasury shares reserve	871	1,018
Accumulated profit	398	3,594
Total shareholders' equity	326,661	316,220
Total liabilities and shareholders' equity	377,552	357,219

Income statements

(in CHF thousands)	Year ended December 31,	
	2004	2003
Financial income	7,527	10,607
Gain on disposal of investments	7,944	–
Total income	15,471	10,607
Administrative expense	(3,706)	(4,581)
Financial expense	(12,551)	(809)
Amortization of incorporation cost	(3,603)	(3,603)
Changes in value of financial assets	1,193	5,256
Total expense	(18,667)	(3,737)
Income (loss) before tax	(3,196)	6,870
Income tax expense	–	(105)
Net income (loss)	(3,196)	6,765

Holding Company Statements

Notes to the financial statements 2004

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	Owner-ship 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 376,444
Actelion Pharmaceuticals Canada Inc	Canada	Laval	100%	Full	Sales	CAD 2,600,000
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 50,000
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 İlaç Ticaret L.S	Turkey	Istanbul	100%	Full	Sales	TRL 5,000,000,000
Actelion Pharmaceuticals Ltd (CH)	Switzerland	Allschwil	100 %	Full	Research, Development, Production, Marketing, Sales	CHF 614,610
Actelion Pharmaceuticals UK Ltd	United Kingdom	London	100%	Full	Sales	EUR 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 Percurex AG	Switzerland	Basel	100 %	Full	Research	CHF 100,000
Actelion Paris Organisation SAS	France	Paris	100%	Full	Marketing Support	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
Actelion Luxembourg 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

3. Share Capital

At December 31, 2004, the issued share capital amounts to CHF 55,524,883 consisting of 22,209,953 common shares (including 11,550 treasury shares) with a nominal value of CHF 2.50 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 stock option plans, convertible bonds as well as for the potential issuance of shares in relation with certain credit facilities. At December 31, 2004 the Company has conditional capital of CHF 18.0 million.

Movements in conditional capital are as follows:

January 1, 2003	12,200
Creation of conditional capital for employee stock option plans	625
Exercise of options	(937)
December 31, 2003	11,888
Creation of conditional capital for employee stock option plans	7,250
Exercise of options	(1,147)
December 31, 2004	17,991

5. Authorized Capital

The Annual General Meeting of April 30, 2004 authorized an increase in share capital to be used for strategic purposes. The Board of Directors is authorized to increase until April 30, 2006 the share capital to an amount of not more than CHF 10 million by issuance of not more than 4 million fully paid-in registered shares with a nominal value of CHF 2.50 per share.

8. Significant Shareholders

According to the information available to the Board of Directors the following shareholders held a significant percentage of shares:

Name	2004		2003	
	Percentage of share capital	Percentage of voting rights	Percentage of share capital	Percentage of voting rights
Management & Directors*	11.5	11.5	**11.8	**11.8
Rudolf Maag	6.0	6.0	6.7	6.7
Chase Nominees Ltd	10.5	5.0	9.6	5.0
Biotech Invest SA	8.3	8.3	8.7	8.7
Fidelity Management & Research Co.	***>5	5.0	7.4	5.0
Fidelity International Ltd.	***>5	5.0	7.5	5.0

* No individual has a holding exceeding 5%.

** Total excluding Rudolf Maag

*** Exact holdings are not disclosed and are not registered.

9. Proposed Appropriation of Available Earnings

	2004	2003
Retained earnings at beginning of the year	3,594	(3,171)
Net income (loss) for the year	(3,196)	6,765
Total available earnings carried forward	398	3,594
Balance to be carried forward	398	3,594

6. Treasury Shares

At December 31, 2004 the Group held 11,550 treasury shares, which were acquired at an average price of CHF 75.41. During 2004, members of the board of directors received 1,950 bonus shares out of the Group's treasury stock.

7. Guarantees

On December 5, 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.

On January 24, 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 2004 Actelion Ltd entered into three other guarantee agreements in the total amount of CHF 181,571.

In October 2003, Actelion Finance SCA issued a CHF 143.8 million convertible bond (the "Bond"). Under the guarantee agreement signed on October 15, 2003, 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.

Shareholder Information

Share price

The following table shows the reported high and low quarterly closing share price of the Actelion shares on the SWX Main Market during the year 2004.

	High	Low
First Quarter	156	127
Second Quarter	150	130.75
Third Quarter	143.75	106.5
Fourth Quarter	153	98.95

On 31 December 2004 the last reported closing share price was CHF 116.8 and market capitalization of Actelion Ltd was CHF 2.59 billion, compared with a share price of CHF 133.5 and market capitalization of CHF 2.90 billion the previous year. The total number of registered shareholders on 31 December 2004 was 5631.

Listing

Actelion Ltd is organized under Swiss law and is the holding company of the Actelion Group. The company's initial equity funding was provided in 1998 and 1999 in two separate rounds of financing totaling CHF 66 million.

The registered shares of Actelion Ltd have been listed on the SWX New Market since April 6, 2000 (symbol: ATLN). A total of 1,000,000 primary shares were placed at the company's Initial Public Offering at the price of CHF 260 per share raising CHF 246.1 million. On June 20, 2001, Actelion Ltd announced a 4:1 split in its shares.

On September 9th, 2002 Actelion listed the company's registered shares on the SWX Main Market. The SWX Swiss Exchange waived the requirement for a listing prospectus. The trading symbol remains the same and the company will continue to report full quarterly figures.

Investor Relations Calendar 2005

February 24	Media/Analyst Conference
April 14	Annual General Meeting of Shareholders
April 28	Q1 2005 Results
July 28	Half Year 2005 Results
October 27	Nine months 2005 Results

Board of Directors

Werner Henrich
Chairman, Basilea Pharmaceutica

Fred J. Meyer
Retired Vice Chairman, Omnicom Group

André J. Mueller
Former Chief Financial Officer

Jean-Paul Clozel
Founder, Chief Executive Officer

Robert E. Cawthorn Chairman
Retired Chairman and CEO, Rhône-Poulenc-Rorer

Jean Malo
Chief Investment Officer, Breco Management L.P.

Armin Kessler
Former Chief Operating Officer, F. Hoffmann-La Roche

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Senior Vice President, Head of International Medical Marketing

Martine Clozel
Senior Vice President, Head of Drug Discovery, Pharmacology &
Preclinical Development

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