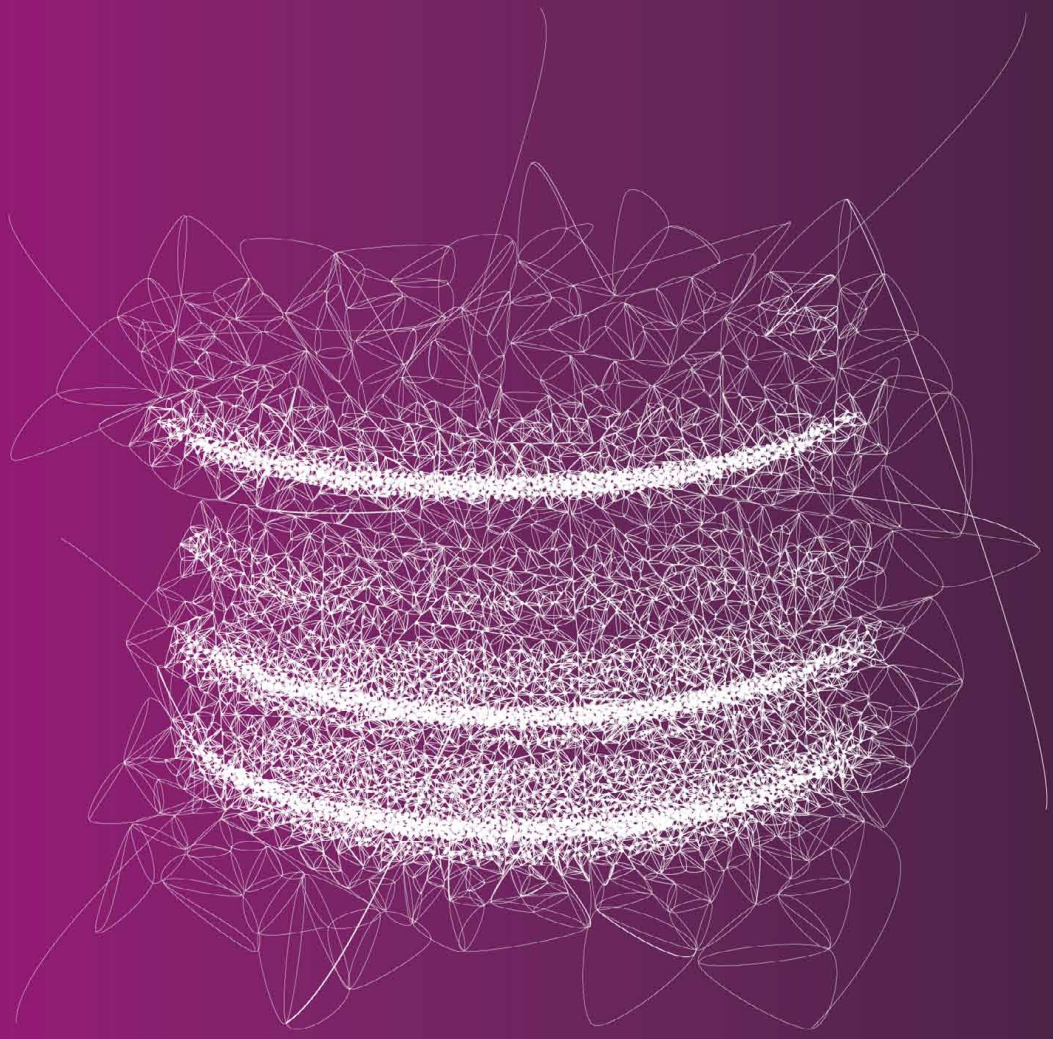
**ANNUAL REPORT 2012**

# ADVANCING KNOWLEDGE. HARNESSING OPPORTUNITY.

ACTELION



# DELIVERING ON OUR STRATEGY.

**ACTELION TODAY**

Actelion is a biopharmaceutical company with four products on the market. We are proud of our rich product pipeline which compares favorably to pharmaceutical companies of comparable size. Our team of more than 2,400 committed professionals around the world is passionate about transforming innovation into novel medicines that treat diseases with significant unmet medical need. We will continue to invest in innovation to create lasting value for all, patients and shareholders alike.

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# MILESTONES

**VALUE CREATION STRATEGY IMPLEMENTED**
The key components of Actelion's strategy are:
– Sustain and grow our PAH franchise
– Build an additional specialty franchise
– Maintain and grow profitability

**STRONG SALES PERFORMANCE IN CHALLENGING ENVIRONMENT**
Product sales for 2012 were CHF 1,722.1 million, a decrease of 2% in local currencies, reflecting the difficult global economic situation and challenging competitive environment in the United States.

**CORE EARNINGS GROWTH IN 2012**
Following tight cost control efforts, Actelion's 2012 core earnings, excluding the impact of doubtful debt provisions, increased by 6% in local currencies to CHF 537.0 million.

**COMMITMENT TO DOUBLE-DIGIT CORE EARNINGS GROWTH IN 2015**
The execution of Actelion's value creation strategy is expected – barring unforeseen events – to produce stable core earnings in 2013 (in local currencies), followed by a return to growth in 2014 and an acceleration to double-digit growth in 2015.

**PRIMARY ENDPOINT MET IN MACITENTAN STUDY**
The first long-term outcome study in PAH met its primary endpoint by demonstrating that 10 mg macitentan (Opsumit®) once daily reduced the risk of morbidity/mortality by 45% compared to placebo ($p<0.0001$), providing a strong and sustained benefit to patients suffering from PAH.

**MACITENTAN RESULTS PRESENTED AT CHEST 2012**
Lewis Rubin, MD, Emeritus Professor of Medicine at the University of California, commented: "The SERAPHIN study clearly has shown that treatment with macitentan results in an improved outcome of patients with PAH, and macitentan has the potential to change the course of the disease."

**REGULATORY FILINGS FOR MACITENTAN**
The registration dossier seeking approval for macitentan (Opsumit®) for the treatment of patients with PAH was submitted to health authorities including the US Food and Drug Administration (FDA) and the European Medicines Agency (EMA).

**PROGRESS WITH MID-STAGE CLINICAL ASSETS**
Positive results achieved with the company's mid-stage development compounds ponesimod in psoriasis and cadazolid in *Clostridium difficile* associated diarrhea contribute to Actelion's mid-term objective of building additional specialty franchises to augment growth and diversify risk.

**PARTNERSHIP WITH AUXILIUM**
Actelion entered into a long-term partnership with Auxilium Pharmaceuticals, Inc. for the development, supply and commercialization of XIAFLEX® (collagenase clostridium histolyticum), a novel, first-in-class biologic for the potential treatment of Dupuytren's contracture and Peyronie's disease in Canada, Australia, Brazil and Mexico.

**COLLABORATION WITH ECHOSENSE**
Actelion entered into a collaboration with privately held EchoSense, Inc., a medical device company which develops novel non-invasive and non-imaging ultrasound Doppler and signal processing technologies.

**FIRST NP-C TREATMENT AVAILABLE IN JAPAN**
Following approval from Japan's Ministry of Health, Labour and Welfare, miglustat was launched in Japan under the trade name Brazaves® for the treatment of Niemann-Pick type C disease.

**RENEWED DIVIDEND PAYOUT**
At the company's 2012 Annual General Meeting, Actelion shareholders approved the payment of a dividend of CHF 0.80 per registered share.

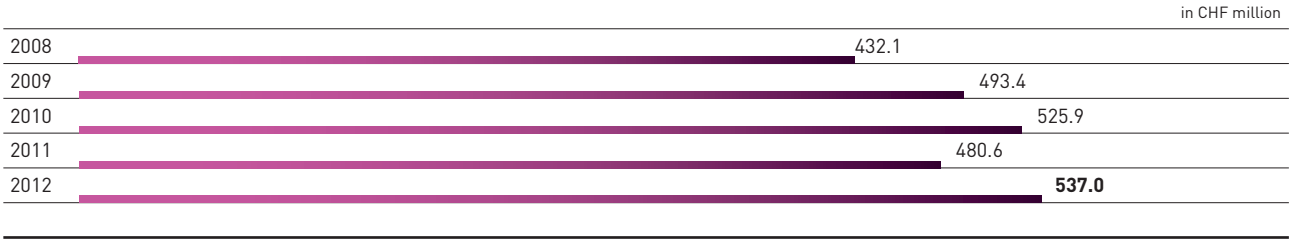
**NEW BOARD MEMBER ELECTED**
At the company's 2012 Annual General Meeting, Actelion shareholders elected Professor Peter Gruss, President of the Max Planck Society, to the Board of Directors for a term of three years, bringing additional outstanding scientific and managerial expertise to Actelion's Board.

# KEY PERFORMANCE INDICATORS

## PRODUCT SALES


## CORE OPEX


## CORE EARNINGS (EXCLUDING DDP)*

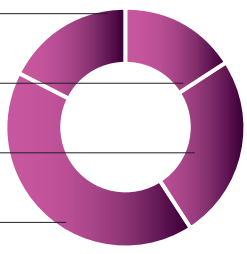



* excludes impact of doubtful debt provisions

# EMPLOYEES

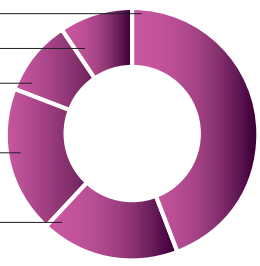
## EMPLOYEES PER FUNCTION

| | |
|---|---|
| Support functions | **425** |
| Drug Discovery | **389** |
| Clinical Development | **610** |
| Markteting & Sales | **1,009** |
| Total | **2,433** |



## EMPLOYEES PER REGION

| | |
|---|---|
| CH | **1,080** |
| RoW | **226** |
| Japan | **240** |
| EU | **459** |
| US | **428** |
| Total | **2,433** |



# DEAR SHAREHOLDERS

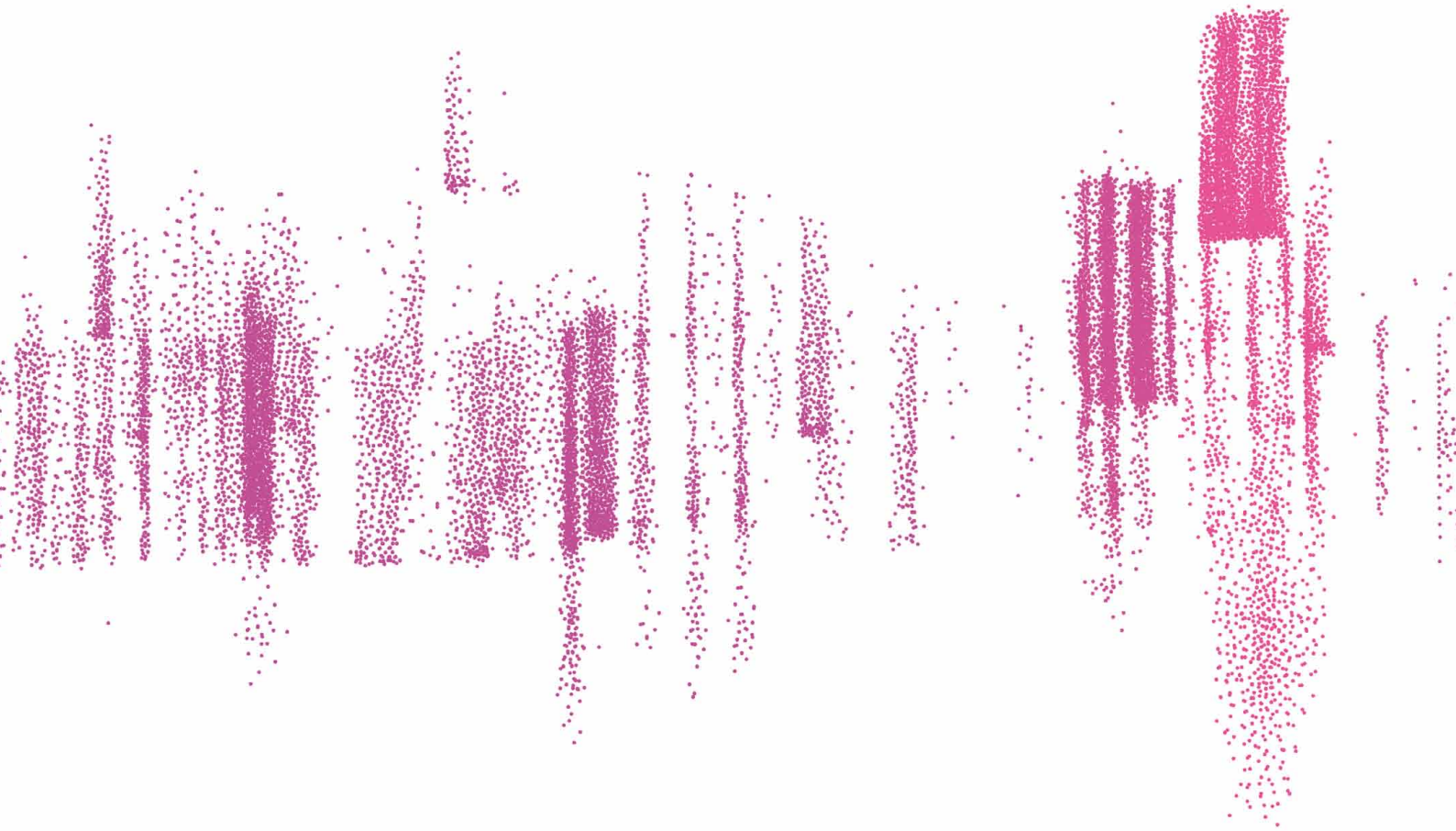
2012 was a landmark year for Actelion. In April, we announced positive results for macitentan (Opsumit®), the latest addition to our pulmonary arterial hypertension (PAH) portfolio. Macitentan – the result of a tailored, in-house drug discovery process – was evaluated in the largest morbidity/mortality study ever conducted in PAH. This long-term outcome study, SERAPHIN, which began in 2007 and lasted over four years, demonstrated that macitentan provides a significant and clinically relevant reduction in the risk of morbidity/mortality. This novel and differentiated dual endothelin receptor antagonist (ERA) is an excellent example of how value in the pharmaceutical industry is best created through innovation.

Following the announcement of the results of the SERAPHIN study, the management and Board took immediate steps to shape the future direction of your company. In May, we announced our strategy for long-term shareholder value creation, built around three key elements. We are focusing our efforts on sustaining and growing our PAH franchise in the short-term and on building a second specialty franchise as a mid-term goal. These two elements will allow us to deliver on the third element of our strategy – increasing profitability. By the end of 2012 rapid progress had already been made with its implementation.

## SUSTAINING GLOBAL LEADERSHIP IN PAH THERAPY

Actelion is sustaining its leadership in the PAH market with its broad range of products. In 2012, Tracleer® continued to be the ERA of choice for prescribing physicians, even in regions with strong competition. Our strategy of treating PAH with the aim of improving symptoms to, or maintaining patients at, Functional Class II enabled Tracleer to remain the gold standard in PAH treatment, with over 44,000 PAH patients currently receiving therapy. Ventavis®, which is formulated for optimized inhalation time, continued to be an important source of revenue for our US operations.

Veletri® is an improved formulation of intravenous epoprostenol. Unlike other epoprostenol formulations approved for PAH, Veletri has greater stability. This provides



unique benefits, such as a more flexible preparation of the medication and infusion of the product without the need for constant cooling with ice-packs. During 2012, Actelion received approval to market a further improved formulation of Veletri in the US, Switzerland and Canada, with regulatory reviews advancing in Japan and the EU. Access to these additional markets will bring further opportunity for growth.

This leading position in the PAH market is now set to continue thanks to our pipeline compounds. Following the positive study results, the registration dossier for macitentan was submitted to the US Food & Drug Administration (FDA), the European Medicines Agency (EMA) and other health authorities during the fourth quarter of 2012. With the combination of an effective worldwide commercial organization and this novel and differentiated ERA, Actelion will enable the medical community to reshape the treatment paradigm for patients with PAH.

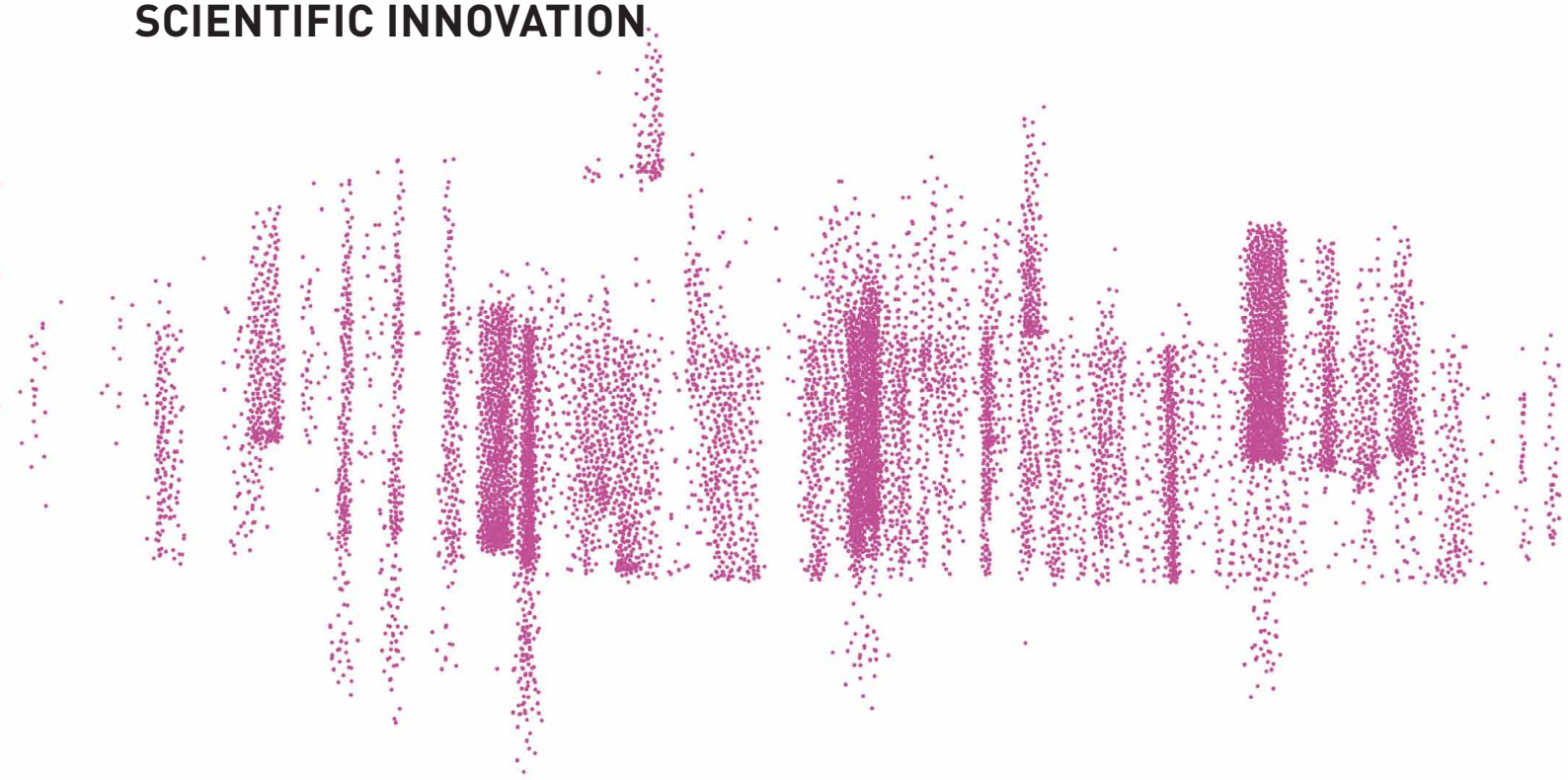
In parallel, Actelion has advanced selexipag, potentially the first oral prostacyclin-based therapy for the treatment of PAH, which is currently in Phase III. At the end of 2012, we had enrolled more than 1,000 patients into the pivotal study. As with our evaluation of macitentan, this outcome study is designed to demonstrate a reduction in the risk of morbidity/mortality events.

## BUILDING AN ADDITIONAL SPECIALTY FRANCHISE

The second part of our strategy for long-term value creation is to build an additional specialty franchise alongside PAH. We have focused our research and development (R&D) efforts on orphan and specialty indications, supported by ongoing business development activities; the aim is to utilize our expertise to find differentiated commercial assets that a company of our size can successfully bring to market.

Choosing to concentrate our efforts on orphan and specialty indications will lead to more targeted R&D spending. Following a portfolio review, those projects not aligned with this strategy have been discontinued or are being prepared for partnership or out-licensing.

# CREATING VALUE THROUGH SCIENTIFIC INNOVATION



At the end of 2012, excellent progress was reported for two of Actelion's mid-stage clinical studies. First we announced positive results with ponesimod, an $S1P_1$ modulator, in psoriasis, a chronic and relapsing skin disease affecting up to 3% of the population worldwide. The findings were particularly encouraging since this is the first time that this mode of action has been effective for psoriasis patients. This news was shortly followed by the positive results for our novel antibiotic, cadazolid, in *Clostridium difficile* associated diarrhea (CDAD). The bacterium *Clostridium difficile* is the leading cause of hospital acquired diarrhea and CDAD can be severe, even life-threatening. This is the first time cadazolid has been used to treat patients and has delivered very encouraging clinical data. Based on the excellent progress, Actelion has decided to proceed with the development of both compounds in Phase III, providing the foundation for our mid-term goal of building an additional specialty franchise.

## MAINTAINING AND GROWING PROFITABILITY

In 2012, Actelion delivered core earnings of CHF 537.0 million, an increase of 12% in Swiss Francs or 6% in local currencies (excluding the impact of provisions for doubtful debts). This result – achieved in spite of a challenging economic environment – is a direct consequence of our cost-saving initiative and underscores our commitment to optimize the company's profitability.

The cost-saving initiative implemented in the second half of 2012 addressed several ongoing external challenges, including the continued strength of the Swiss Franc, increased competition in the US, and the difficult pricing environment in Europe. In parallel, we adapted the size of our R&D organization to match our new focus on specialty medicines. Importantly, this initiative left our commercial capabilities unchanged and will ensure the availability of sufficient investment capacity to leverage the opportunities we have created in the field of PAH.

We strongly believe that, thanks to the measures implemented in 2012, your company is well positioned for sustainable core earnings growth and enhanced shareholder returns. For 2013, we expect to maintain local currency

Jean-Paul Clozel and Jean-Pierre Garnier

core earnings at the 2012 level, barring unforeseen events. We then expect single-digit core earnings growth in 2014 and double-digit growth by 2015.

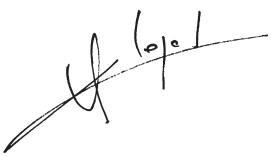
Our commitment goes beyond performance forecasts: Actelion's balance sheet, strong cash generation and the exceptional pipeline newsflow in 2012 gives us confidence in our future. Therefore the Board will propose a 25% increase in the dividend payment for your approval at the 2013 Annual General Meeting. In addition, we will manage capital allocation so as to continue to return value to our shareholders through timely completion of the CHF 800 million share repurchase program by the end of 2013.

## COMMITMENT TO GROWTH

Since the company was established some fifteen years ago, Actelion has been committed to discovering innovative drugs that change the lives of patients. We have demonstrated the benefits of those drugs through innovative clinical development, laying the foundations for evidence-based medicine. We have also made our drugs for specialty indications available worldwide.

We are confident in our ability to innovate, and we believe that, through organizational discipline and a commitment to quality, innovation can be translated into benefits for patients and long-term value creation for shareholders. This is an exciting time for the company, and we hope you will share our enthusiasm as you read about what we have achieved in 2012 and our plans for the future.

Jean-Pierre Garnier
Chairman of the Board of Directors



Jean-Paul Clozel
Chief Executive Officer

# FINANCIAL SUMMARY

## FINANCIAL RESULTS OVERVIEW

| in CHF/shares millions | 2012 | 2011 |
|---|---|---|
| Product sales | 1,722.1 | 1,713.0 |
| Operating expenses | 1,306.9 | 1,783.9 |
| Operating income | 421.5 | 12.2 |
| Core earnings (excl. DDP) | 537.0 | 480.6 |
| Net income (loss) | 303.2 | (146.3) |
| Diluted EPS in CHF | 2.57 | (1.23) |
| No. of shares in calculation | 118.1 | 118.8 |
| Gross cash | 1,491.8 | 1,331.0 |
| Total assets | 2,694.3 | 2,732.1 |
| Cash from operations | 572.4 | 404.9 |
| Shareholders' equity | 1,518.6 | 1,510.5 |
| Treasury shares | 13.8 | 13.3 |

The European debt crisis and slower global economic growth continued to impact the business landscape in 2012. Pressure on government budgets weighed heavily on healthcare markets around the globe. Additionally, the competitive environment continued to adversely affect sales in the United States. Amid these challenges Actelion posted a solid top line performance with benefits from cost reductions seeing core earnings growing by 6% in local currencies, thereby delivering significant operational leverage.

### NET REVENUES

Actelion's commercial organization delivered a strong sales performance in 2012, despite intensified price pressure and continued competition. Total product sales for the full year were CHF 1,722.1 million. This represents an increase of 1% in Swiss Francs and a decrease of 2% in local currencies.

Contract revenues for 2012 amounted to CHF 6.3 million. In 2011, contract revenues included the remaining deferred revenue from the terminated orexin collaboration with GlaxoSmithKline.

### OPERATING EXPENSES

Actelion is focusing its resources on commercial efforts and pipeline programs that have the greatest potential to deliver meaningful benefits for patients. For 2012, total operating expenses were CHF 1,306.9 million compared to CHF 1,783.9 million during 2011. The main driver of the decrease is the impact in 2011 of the Asahi Kasei litigation award of CHF 340.6 million as well as a reduction in provisions made for doubtful debts in southern Europe, mainly as a result of improved cash collection. Expenses in 2012 also included a restructuring charge of CHF 6.9 million related to the cost saving initiative executed during the second half of the year.

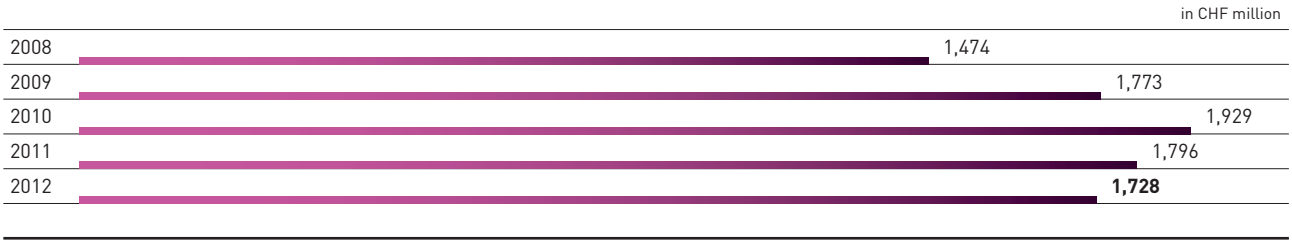
Cost of sales amounted to CHF 196.3 million, or 11% of sales, unchanged from the previous reporting period.

Research and development (R&D) expenses increased by 1%, to CHF 460.5 million, compared to CHF 457.7 million in 2011. These expenses include the USD 10 million milestone payment to Auxilium Pharmaceuticals, Inc. in relation to our collaboration on XIAFLEX® in certain territories. The lower R&D expenditure net of the Auxilium payment is the result of the refocusing of Actelion's pipeline, announced as part of the company's strategic review in May 2012, which is expected to continue to reduce R&D expenditure in the coming year.

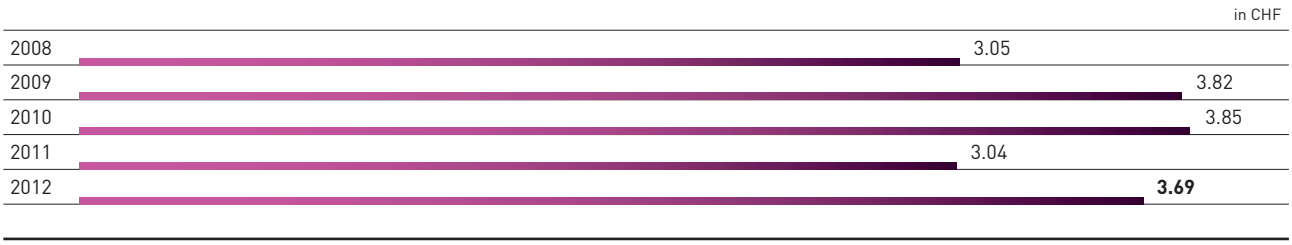
Selling, general and administration (SG&A) expenses for 2012 amounted to CHF 610.9 million, a decrease of 19% in Swiss Francs and 20% in local currencies. Part of this decrease can be attributed to the reduction in the allowance for doubtful debt on receivables in southern Europe.

Core operating expenses (includes cost of sales) for the full year were CHF 1,185.1 million, a decrease of 5% in local currencies compared to the previous year. Core operating expenses exclude all charges related to employee stock options; depreciation and amortization; and one-off items that distort comparative analysis, such as the legal provision of CHF 340.6 million or the restructuring charge of CHF 6.9 million and provisions for doubtful debts. Core R&D expenses amounted to CHF 398.5 million, down 1% compared to the previous year in local currencies while core SG&A expenses decreased by 9% to CHF 590.2 million, also in local currencies.

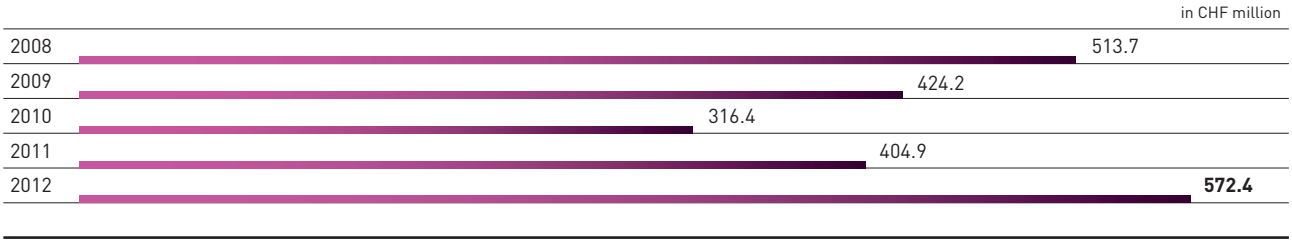
## TOTAL REVENUES



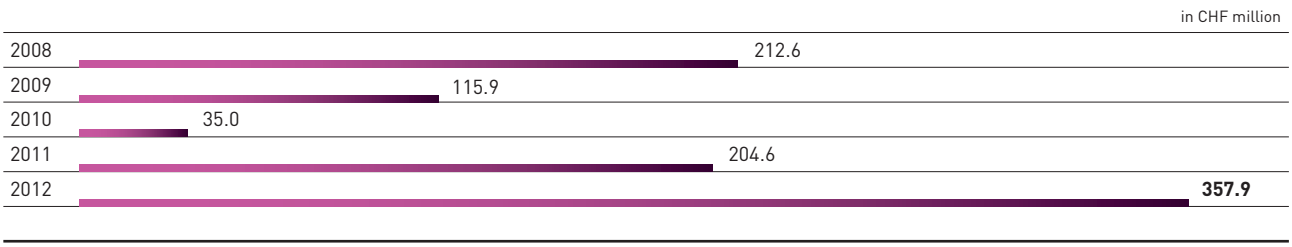

## CORE EPS




## CASH FROM OPERATIONS




## CASH RETURNED TO SHAREHOLDERS



## OPERATING INCOME

The result of all of the above is a reported operating income of CHF 421.5 million for 2012, compared with CHF 12.2 million in 2011.

Better reflecting the actual operating performance of the business is the core earnings measure amounting to CHF 537.0 million, an increase of 6% in local currency terms which represents an 8% improvement in operating margin. Core earnings exclude movements in doubtful debt provisions and other one-time items such as the Asahi litigation provision in 2011.

## NON-OPERATING RESULTS AND TAXES

Interest income for 2012 amounted to CHF 2.1 million compared to CHF 6.2 million in 2011.

The interest provision on the Asahi litigation award, which accrues at an annual rate of 10% and is payable only if the appeal is not successful, amounted to CHF 41.6 million for 2012, compared to CHF 19.7 million during 2011. Interest expense (including issuance costs) on the CHF 235 million bond was CHF 12.0 million, impairment on financial assets amounted to CHF 0.3 million and other interest expense, relating mostly to deferred consideration in connection with the acquisition of epoprostenol sodium with improved thermal stability from GeneraMedix, amounted to CHF 0.5 million.

Other financial expenses for the year amounted to CHF 10.6 million, compared to CHF 22.9 million in 2011.

Income tax expense for the period under review amounted to CHF 55.2 million, compared with CHF 77.0 million in 2011. The tax rate for the year is 15.4% compared to a litigation provision adjusted tax rate of 17.3% for the previous year.

## NET INCOME AND EARNINGS PER SHARE

Net income for the full year of 2012 amounted to CHF 303.2 million compared to a loss of CHF 146.3 million in 2011.

This translates into fully diluted earnings per share of CHF 2.57. Core earnings per share were CHF 3.69, an increase of 22%.

## BALANCE SHEET AND CASH FLOW

Our cash generation remains strong, enabling us to invest for future growth and value by funding investment in R&D, while also providing CHF 357.9 million in net cash distributions to shareholders by way of dividends and share repurchases.

Cash from operations for the period under review amounted to CHF 572.4 million, compared with CHF 404.9 million in 2011. The company's gross cash position at 31 December 2012 amounted to CHF 1.5 billion, of which CHF 368.7 million is restricted due to the ongoing Asahi litigation in the California courts.

Despite continuing difficult economic conditions in southern Europe, trade and other receivables decreased from CHF 536.5 million at the end of December 2011 to CHF 412.9 million at the end of the year. Days sales outstanding (DSO) decreased from 103 days to 78 days.

During the first quarter of 2012, Actelion Spain enrolled in the Montorro plan, which is designed to inject cash into the Spanish economy through settlement of local authorities' commercial debt. Through this arrangement, late in the second quarter, we collected over CHF 100 million from government customers in Spain resulting in a partial reversal of doubtful debt provisions. For the full year 2012, the total reduction in doubtful debt provisions was CHF 22.6 million, compared to an increase in the provision of CHF 43.2 million in 2011.

Investment in property, plant and equipment decreased to CHF 33.7 million in 2012, compared with CHF 89.4 million in 2011. The majority of this investment relates to the construction of a research and development building. Total property, plant and equipment at year-end was CHF 402.6 million, compared to CHF 424.7 million at the end of 2011.

Total shareholders' funds amounted to CHF 1,518.6 million at the end of 2012 compared to CHF 1,510.5 million at the end of 2011.

## SHAREHOLDER VALUE

Retaining an appropriate balance between attractive shareholder returns, investment in the business and a strong capital structure will remain a priority in the future. Actelion's Board proposes to increase the dividend payment to CHF 1.00 from CHF 0.80 per share and will ask for shareholder approval to do so at the upcoming Annual General Meeting on 18 April 2013.

During 2012, the company bought back 6.4 million shares at a total cost of CHF 264.2 million on the second trading line as part of the CHF 800 million share repurchase program announced in October 2010. This brings the number of treasury shares held to 13.8 million, or 11% of the total issued share capital. The Board is committed to completing the current repurchase program by the fourth quarter of 2013.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

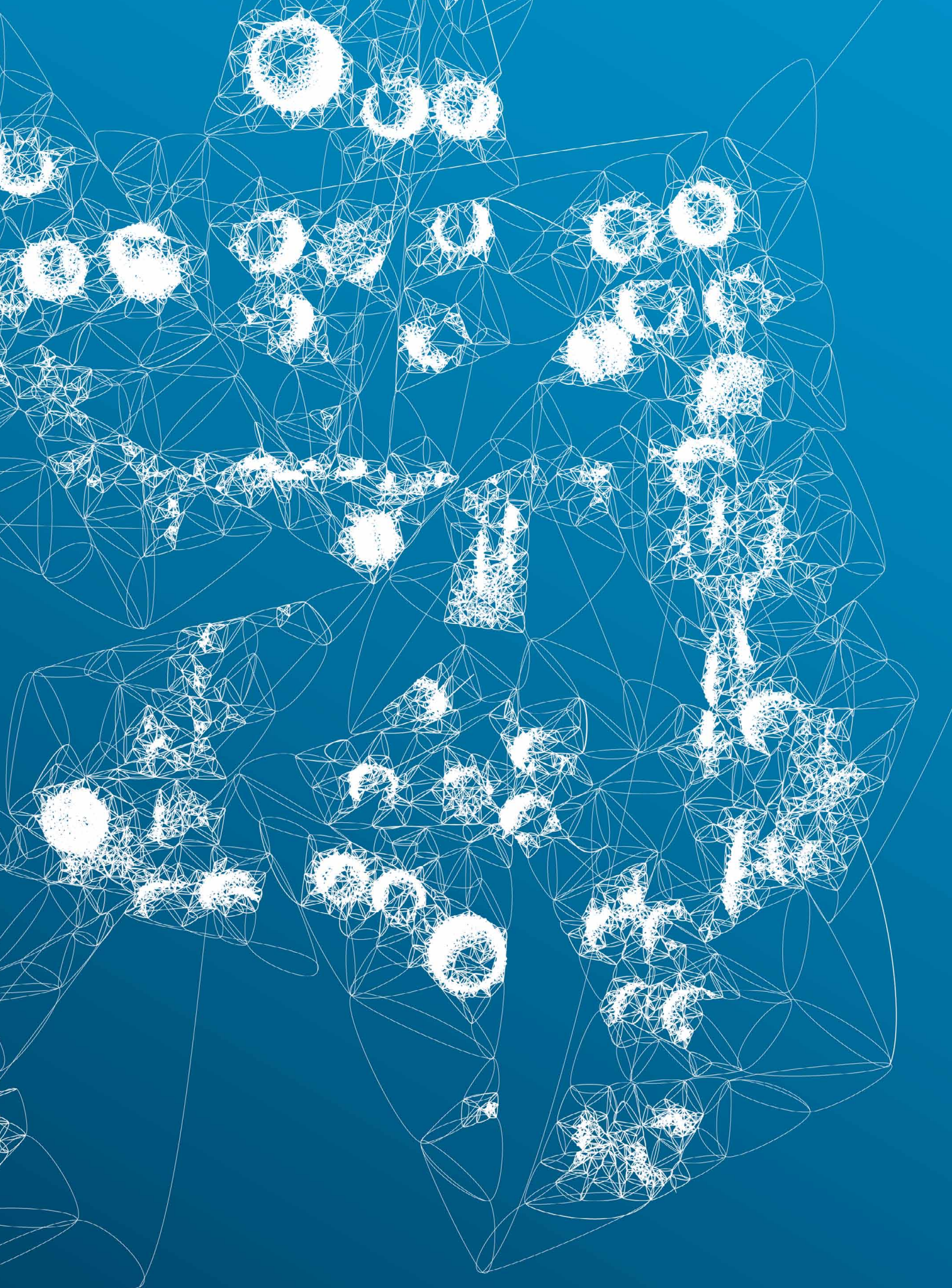
Actelion is committed to maintaining strict oversight of its financial reporting. In keeping with that commitment, for the seventh consecutive year, the internal controls over financial reporting were certified as meeting the requirements of SOX 404 (Sarbanes-Oxley Act 2002, section 404) at 31 December 2012.

## CORE EARNINGS TO US GAAP OPERATING INCOME RECONCILIATION

| in CHF million | FY 2012 | FY 2011 |
|---|---|---|
| Core earnings excluding impact of DDP | 537.0 | 480.6 |
| Movement in doubtful debt provision | 22.6 | (43.2) |
| Contract revenues | 6.3 | 83.1 |
| Stock option expenses | (46.6) | (84.9) |
| Amortization and depreciation | (81.9) | (82.9) |
| Litigation provision | - | (340.6) |
| Auxilium milestone payment | (9.1) | - |
| Restructuring charge | (6.9) | - |
| US GAAP Operating Income | 421.5 | 12.2 |

# THE NEXT STEP IN MEETING PATIENTS' NEEDS IN PAH.

Actelion has made a new breakthrough in the treatment of pulmonary arterial hypertension (PAH). Patients and physicians wanted a drug capable of providing more long term benefit. With its extensive expertise in endothelin science, Actelion established a tailored program to discover a new endothelin receptor antagonist (ERA) with optimized efficacy and safety. Actelion researchers synthesized and characterized approximately 2,500 novel compounds before selecting macitentan – a dual ERA with unique sustained endothelin receptor-binding properties and enhanced tissue penetration.



# COMPREHENSIVE SCIENCE SHAPES A TAILORED DISCOVERY PROCESS

The discovery of the endothelin system in the late 1980s was the spark that ignited the comprehensive science Actelion is known for today. At Hoffmann-La Roche, the future founders of Actelion were among the world leaders in the science of the endothelin system, discovering the first oral endothelin receptor antagonist (ERA), bosentan. Within a year after its foundation, Actelion had in-licensed bosentan from Hoffmann-La Roche, initiated a clinical development program for the treatment of pulmonary arterial hypertension (PAH), and established a tailored drug discovery program to find novel ERAs with improved efficacy and safety. In 2001, Tracleer® (bosentan) became the first oral drug to be approved for the treatment of PAH. In 2002, macitentan was discovered.

## A SCIENTIFIC VISION

Actelion's knowledge in the field of endothelin and ERAs continued to expand, thanks to its founders' extensive 25-year research experience and their academic collaborations, and to the company's clinical programs. In parallel, Actelion developed a deeper understanding of PAH – and of the still unmet medical needs in this severe life-threatening condition.

The initial discovery of bosentan, an ERA indicated for the treatment of pulmonary arterial hypertension (PAH), inspired the vision to seek an ERA which would be able to impact long-term morbidity and mortality, with a good tolerability profile.

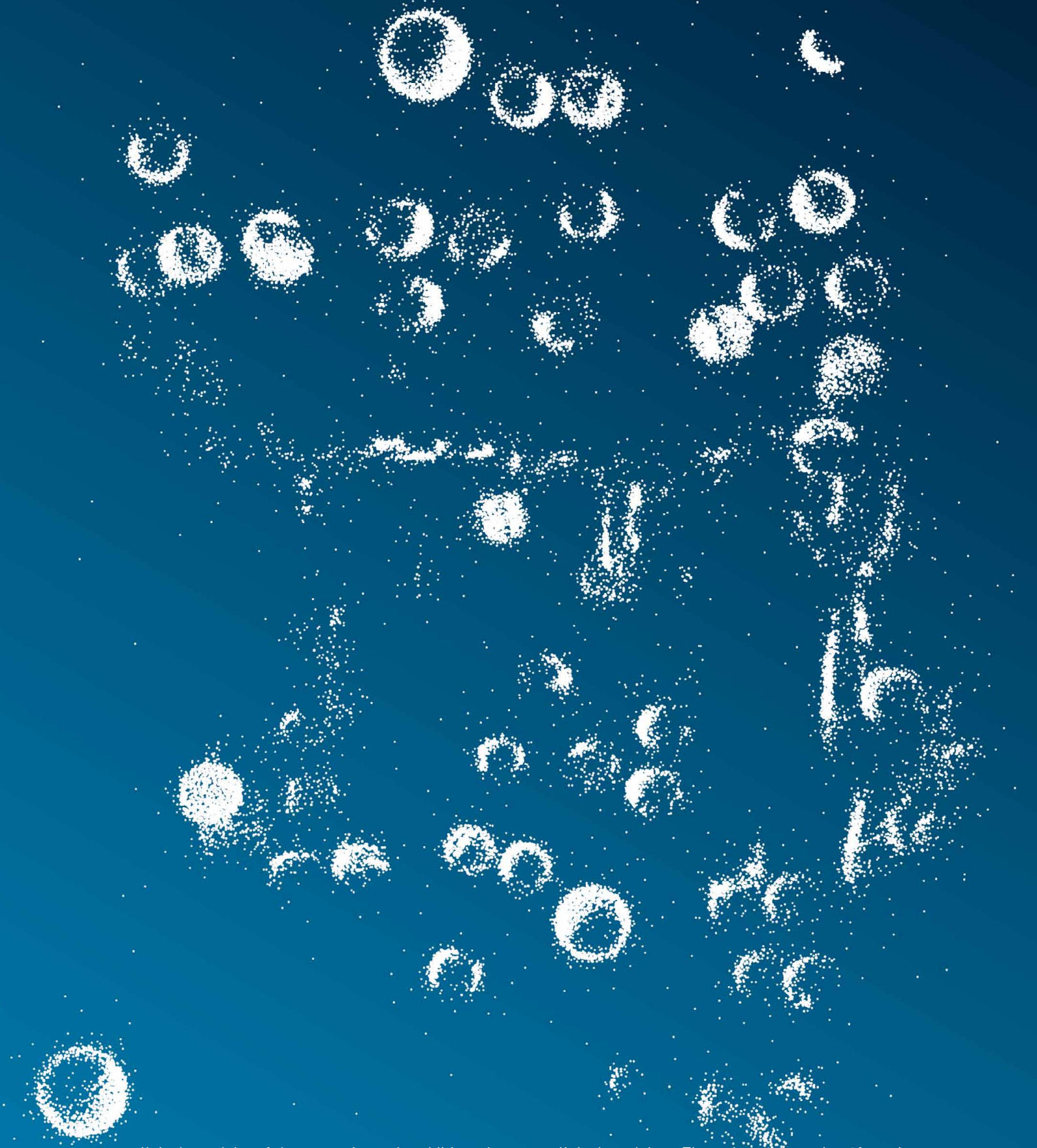
## A TAILORED DISCOVERY PROCESS

The goal of Actelion's drug discovery program was to find a potent and efficacious dual ERA which could be given at dosages not limited by safety signals. Actelion's medicinal chemists synthesized approximately 2,500 novel chemical structures, which were all tested for affinity to both endothelin receptors. The most potent compounds were then tested in a selection cascade that included functional inhibition assays and *in vivo* models. A total of 380 compounds were assessed for oral efficacy in pathological models of hypertension or pulmonary hypertension, and 40 compounds were also tested in a model relevant for hepatic safety. At the end of this process, one compound with the required characteristics was selected for progression toward clinical development – macitentan.

## UNIQUE FEATURES

Endothelin is produced and acts in tissues, not in the blood. In PAH, the expression of endothelin and of $ET_A$ and $ET_B$ receptors, which mediate the detrimental effects of endothelin, is enhanced in the pulmonary arteries and in the heart. Actelion's discovery program was designed to address these peculiar features of the endothelin system in pathology: the novel ERA had to penetrate well into the tissue, bind to the receptors with high affinity and durability and exert beneficial structural effects, which would be fundamental to impact morbidity/mortality in PAH.

Macitentan was ideally suited to meet these requirements, as it displays enhanced tissue penetration and sustained receptor binding, independent of local endothelin concentrations. As a result, macitentan showed increased *in vivo* preclinical efficacy compared to other ERAs in several



preclinical models of hypertension and pulmonary hypertension. Following recognition of these results by the European Medicines Agency's Committee for Orphan Medicinal Products, macitentan was granted orphan drug status in 2011. Two years earlier, macitentan had also been granted orphan drug designation in the US.

In addition, these preclinical models have shown a favorable safety profile for macitentan. Macitentan is well absorbed, with a pharmacokinetic profile allowing for once-daily treatment in PAH, and with a low propensity for drug-drug interactions and therefore a potential for combination therapy.

The unique properties of macitentan should allow Actelion to exploit its full therapeutic potential, opening the door for new indications beyond the PAH field.

# RESEARCH & DEVELOPMENT TRANSFORMING KNOWLEDGE INTO MEDICINES.

## COMMITMENT TO INNOVATION

In April 2012, Actelion announced positive results from SERAPHIN, the pivotal study with macitentan (Opsumit®) in patients with pulmonary arterial hypertension (PAH). This long-term outcome study demonstrated a 45% reduction in the risk of morbidity/mortality for patients treated once daily with 10 mg macitentan ($p<0.0001$).

Macitentan builds on everything Actelion has learned about the fundamental mechanisms of PAH and dual endothelin receptor antagonists (ERAs) – both areas where the company is an acknowledged global leader. Using this expert knowledge, the discovery group set out to tailor the optimal ERA specifically for PAH patients. Having discovered macitentan, Actelion then conducted SERAPHIN in an effort to provide comprehensive clinical evidence that its innovation translates into meaningful clinical benefits for patients.

The discovery and development of macitentan perfectly encapsulates Actelion's approach – a fundamental conviction that evidence-based scientific innovation is the only route to value creation in the pharmaceutical industry.

## RESHAPING THE PAH TREATMENT PARADIGM

Actelion's number one priority is to maximize the value the company has created with macitentan. Following the announcement of the positive results from the SERAPHIN study, Actelion has made rapid progress in preparing the registration dossier, filing with health authorities in the US and EU in the fourth quarter of 2012.

Meanwhile, enrollment in the pivotal outcome study with the selective IP receptor agonist selexipag has surpassed 1,000 (of the targeted 1,150) PAH patients. As with the development of macitentan, this Phase III study is designed to demonstrate a reduction in risk of morbidity/mortality events in patients with PAH. Developed together with our partner Nippon Shinyaku, this first-in-class, potent and orally available IP receptor agonist has the potential to provide the benefits of a prostacyclin in an oral form. Results are expected to be available by mid-2014. There will be an interim analysis for efficacy and futility at around two thirds of the total number of required events, expected during 2013.

With macitentan and selexipag, Actelion is well positioned to remain the global leader in PAH therapy. By providing these innovative drugs, Actelion is enabling the medical community to reshape the treatment paradigm for patients with PAH.

## PIPELINE PROGRESS

Actelion's commitment to innovation has also paid off in 2012, with excellent progress being made with the mid-stage clinical assets in its pipeline. Positive results were reported both for the novel antibiotic cadazolid in *Clostridium difficile* associated diarrhea and for the $S1P_1$ modulator ponesimod in psoriasis. This is the first time an $S1P_1$ modulator has shown efficacy in an indication other than multiple sclerosis. The company has decided to move forward with Phase III clinical development of both cadazolid in *Clostridium difficile* associated diarrhea and ponesimod in psoriasis.

These examples of Actelion's innovations, together with several other opportunities in the preclinical and clinical development pipeline, illustrate the company's maturity and expertise in the discovery and successful development of innovative drugs in a variety of therapeutic areas.

## SHAPING A SPECIALTY PIPELINE

In May 2012, Actelion announced its intention to focus its research and development (R&D) activities on specialty indications. The company's efforts are now directed to advancing Actelion's PAH franchise and building additional specialty franchises.

Accordingly, as part of its strategy to optimize profitability and create long-term shareholder value, the company took the decision to stop the development of certain compounds and prepare others for partnership or out-licensing. During 2012, Actelion and GlaxoSmithKline mutually agreed to conclude the collaboration on orexin receptor antagonists.

Actelion will continue to innovate at the bench. Future molecular drug targets will be chosen not only to leverage the company's established experience and expertise, but also to specifically address specialty and rare disease indications with high unmet medical needs.

## FROM INSPIRING DISCOVERIES TO ADVANCED MEDICINE

Successfully discovering and bringing an innovative compound to patients is an enormous, multi-functional enterprise, requiring excellence across the board. Collaborative efforts and a commitment to achieve the highest quality in all respects have brought – and will continue to bring – Actelion success.

The excellent progress made with the company's R&D pipeline in 2012 has validated Actelion's approach of pursuing creative scientific innovation and evidence-based medicine. The company is strongly placed to advance medicine in multiple specialty disease areas and to create value through innovation in the future.

# EVIDENCE-BASED SCIENTIFIC INNOVATION OUR PIPELINE.

## ANTI-MALARIAL

**MALARIA**
Phase I program

## PONESIMOD

**MULTIPLE SCLEROSIS**
Phase II Study
Enrollment: 464 patients
Status: Study completed Aug 2011

## $S1P_1$ MODULATOR

**IMMUNOLOGICAL DISORDERS**
Phase I program

## PONESIMOD

**PSORIASIS**
Phase II Study
Enrollment: 326 patients
Status: Study completed Nov 2012
Phase III in preparation

## SELEXIPAG

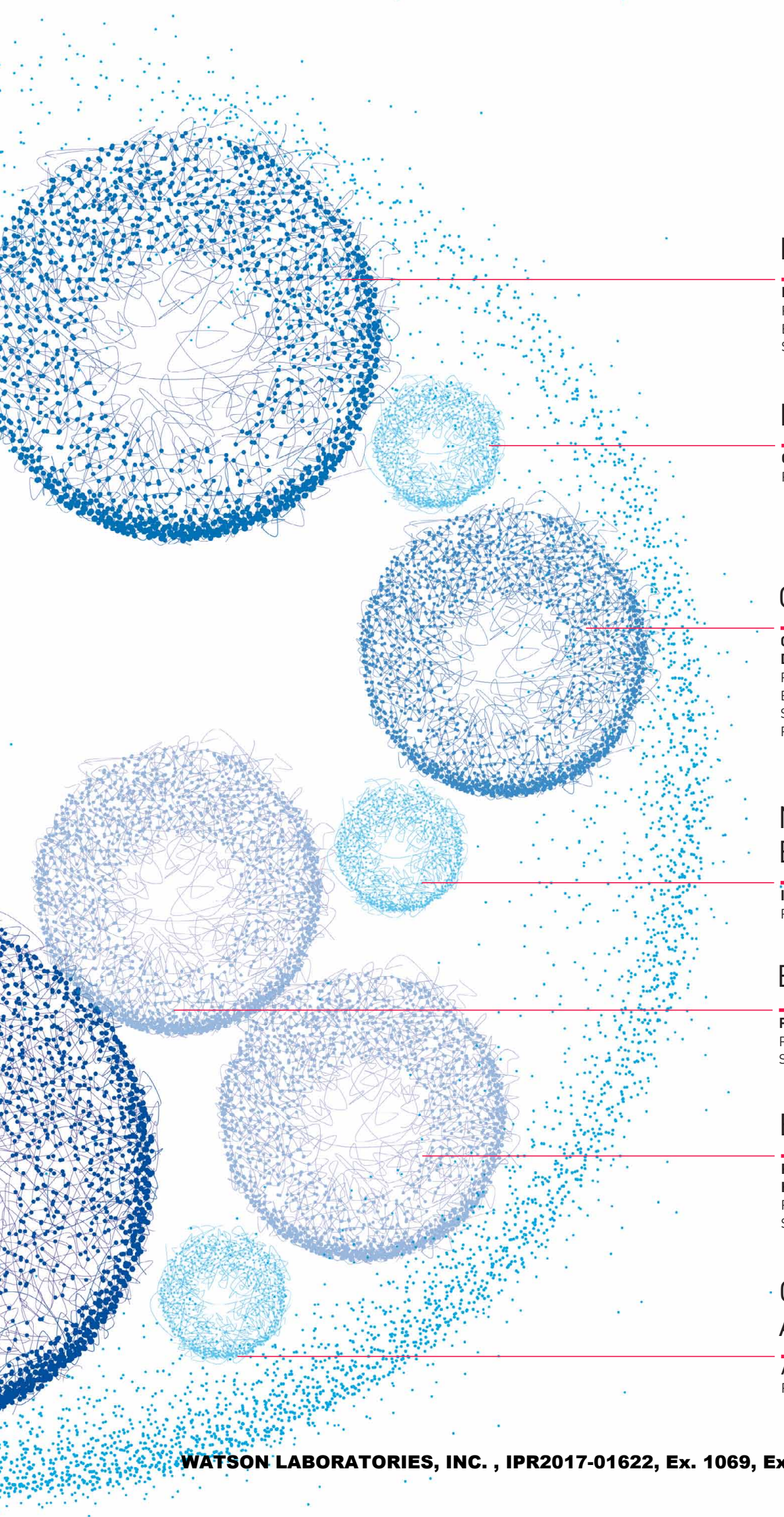
**PULMONARY ARTERIAL HYPERTENSION**
Phase III Study: GRIPHON
Est. Enrollment: 1,150 patients
Status: Potential Reporting 2014
Partner: Nippon Shinyaku

## LUCERASTAT

**LIPID STORAGE DISORDERS**
Phase I program

## MACITENTAN

**PULMONARY ARTERIAL HYPERTENSION**
Phase III study: SERAPHIN
Enrollment: 742 patients
Status: Primary end-point met
Global registration on-going



## MACITENTAN

**ISCHEMIC DIGITAL ULCERS**
Phase III Program
Est. Enrollment: 570 patients
Status: Potential Reporting 2014

## MACITENTAN

**GLIOBLASTOMA**
Phase I program

## CADAZOLID

**CLOSTRIDIUM DIFFICILE ASSOCIATED DIARRHEA**
Phase II Study
Enrollment: 84 patients
Status: Study completed Dec 2012
Phase III in preparation

## NEW CHEMICAL ENTITY

**IMMUNOLOGY**
Phase I program

## BOSENTAN

**PULMONARY ARTERIAL HYPERTENSION**
Phase IV Program: COMPASS
Status: Potential Reporting 2013

## BOSENTAN

**PEDIATRIC PULMONARY ARTERIAL HYPERTENSION**
Phase IV Program: FUTURE
Status: Potential Reporting 2014

## CRTH2 RECEPTOR ANTAGONIST

**ASTHMA**
Phase I program

# IN IT FOR THE LONG TERM.

In 2009, a meeting in Dana Point, California, brought together a group of experts attending the 4th World Symposium on pulmonary hypertension. This group produced the guidelines that now define the clinical trial standards and treatments to be followed by the medical community in seeking to demonstrate benefits for patients with pulmonary arterial hypertension (PAH). The recommendations state that clinical trials in PAH should be designed in such a way as to capture more robust data on the efficacy and safety of new treatment options.

Two years before this event, Actelion had already started its landmark study SERAPHIN – a morbidity/mortality trial in PAH. In April 2012, this landmark study met its primary endpoint. But what does this mean exactly? Where has the study taken us?

# WHEN INNOVATION MEETS OPPORTUNITY

## CHALLENGING TIME

A little over a decade ago, the diagnosis of PAH was devastating. Survival for more than a few years without therapy was unlikely. Therapies were only available intravenously, and requiring hospitalization, they added to the burden of patients who already had a very poor prognosis With Tracleer®, these patients benefited from first oral drug to be approved for the treatment of PAH.

Before SERAPHIN, all of the PAH randomized, controlled trials were of 12–16 weeks in duration, with primary endpoints focusing on short-term symptomatic relief and looking mainly for functional improvements. All of the drugs currently approved for the treatment of PAH are based on these short-term studies. The longest trial that had been conducted in PAH patients had run for 6 months – the EARLY trial sponsored by Actelion, a trial dedicated to early-stage, WHO Functional Class II, PAH population.

Over time, our understanding of PAH has improved and more treatment options have been approved. When designing SERAPHIN in 2007, Actelion looked at the patient community and realized that it was time to adopt a long-term perspective. Symptoms were frequently better controlled, and more patients were living longer. However, experts were not sure about the long-term effects of specific therapies for PAH. At the same time, Actelion was developing macitentan, a novel compound that had been discovered in-house and was ready to enter Phase III clinical development.

## GOING FURTHER

But was the question of outcomes in patients who had not yet received treatment the only one yet to be answered? Should more emphasis be placed on combination therapy? When possible today, PAH drugs are used for the duration of patients' lives, often in combination with other drugs. Two thirds of patients enrolled in the SERAPHIN trial were already receiving specific therapy for PAH – almost exclusively phosphodiesterase-5 inhibitors. So not only was SERAPHIN to become the longest and largest clinical trial in PAH, it also had the potential to tell us more about combination versus monotherapy.

## SUSTAINED BENEFIT

In 2009, the PAH community was looking for a treatment option supported by data that was robust, reliable and could offer a clinically relevant sense of efficacy and safety. Fundamentally, Actelion was seeking to develop a compound with enhanced efficacy and safety compared with existing endothelin receptor antagonists (ERAs).

When designing the SERAPHIN trial for macitentan, Actelion gave careful consideration to numerous factors. For example: How can sustained benefit for patients be measured?

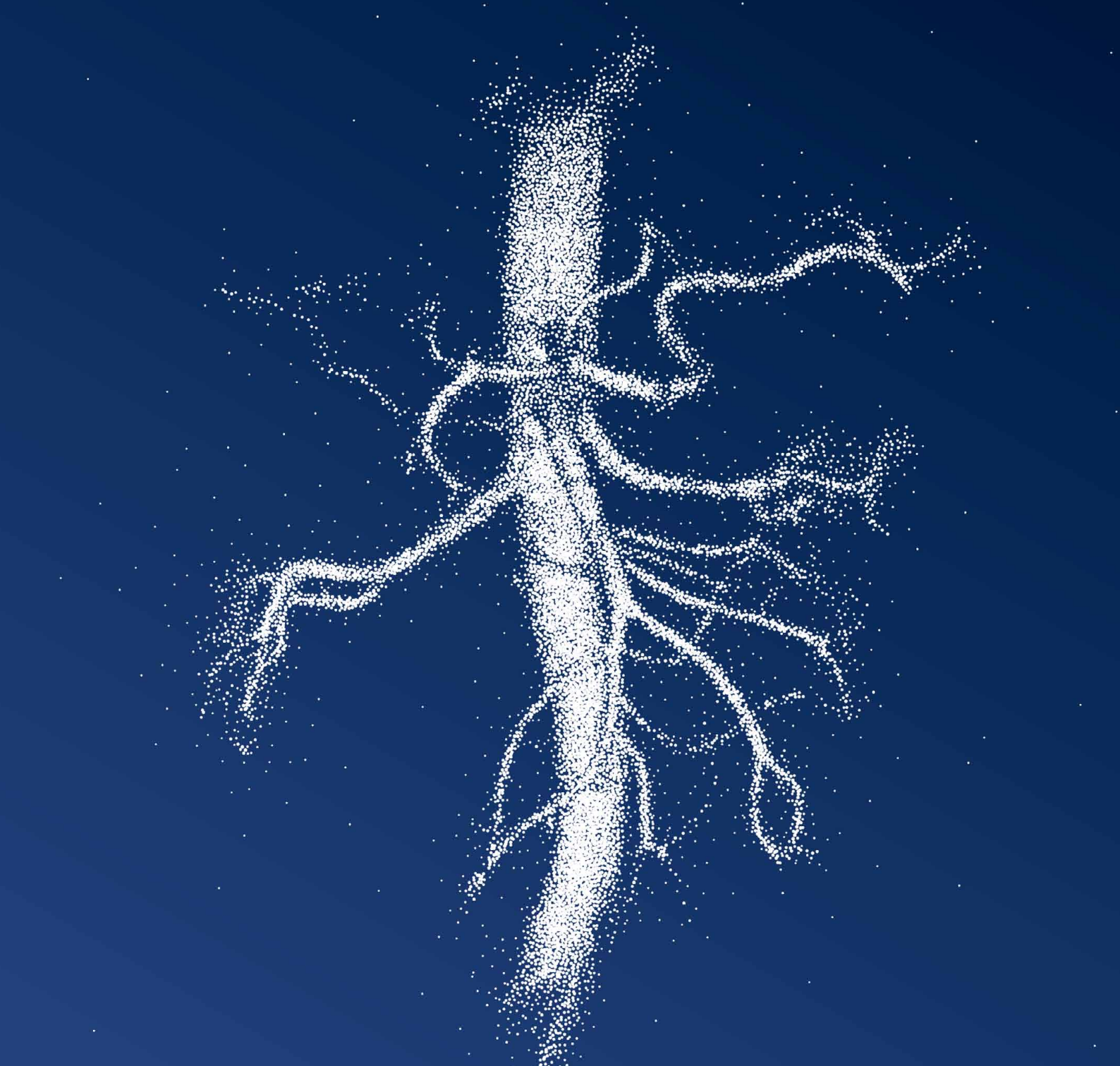
At this point, Actelion decided to take a ground-breaking step forward, for two reasons: preclinical laboratory data showed that macitentan had the potential for enhanced efficacy, and there was no need to develop "another" drug showing efficacy on the change in 6-minute walk distance (6MWD) endpoint.

## LONG TERM OUTCOME

In terms of outcome, the ideal is that a clinical trial should demonstrate a positive impact on long term disease – giving patients more time, a longer life and better quality of life. This was Actelion's goal for macitentan. Though this may sound straightforward, the reality is not at all simple: what constitutes worsening of a patient's disease, and how is it to be measured?

## COMPOSITE ENDPOINTS

SERAPHIN was designed to measure the length of time until a patient pre-



sented with a deterioration of their disease. The intent was to comprehensively capture events that could reasonably be considered a worsening of the patient's condition; importantly, these events had to be considered relevant and measurable in a clinical setting. To capture something so complex, what was required was a composite endpoint or a combination of specific elements recorded at the same time.

In 2007, Actelion drew on its vast knowledge of PAH, and academic relationships with physicians, to establish a multifaceted, clinically relevant definition. To solidify this endpoint, worsening of a patient's condition was to be defined not by one element (as in the past), but by a combination of three factors recorded at the same time. To add a level of robustness, every relevant event occurring within the trial was reviewed by an independent critical event committee, which corroborated the data.

**FUTURE CHALLENGES**

Actelion has a well-established goal for PAH treatment – we are committed to going further. Following on the heels of SERAPHIN, another pivotal, long-term morbidity/mortality trial (targeting enrollment of 1,150 patients) is now underway – the Phase III GRIPHON trial for selexipag. With our partners Nippon Shinyaku, Actelion wants to take another step forward and make prostacyclin treatment available orally – reducing the burden on patients, as had been done with Tracleer before.

With macitentan and selexipag, we hope to lower the hurdles that patients with PAH have to jump every day of their lives.

# BUSINESS STRATEGY & OPERATIONS STRONG AND EFFECTIVE COMMERCIAL ORGANIZATION.

## DELIVERING A STRONG PERFORMANCE

2012 was both a demanding and an exciting year for the Business Strategy & Operations team at Actelion. It was challenging due to a number of factors beyond the company's control, including the very difficult pricing environment outside the US and the continued strength of the Swiss Franc – Actelion's reporting currency. Furthermore, in the US, the company's pulmonary arterial hypertension (PAH) product portfolio continues to face significant competition, although here the effects have been mitigated by price increases across our portfolio.

Despite the difficult market environment, total product sales of CHF 1,722.1 million were achieved. This is marginally lower (2% in local currencies) than last year's total,

reflecting, in particular, the negative pricing environment in territories outside the US, where revenues declined in spite of solid mid- to high-single-digit volume growth.

In 2012, the company encountered the first launches of generic versions of bosentan in Canada. Actelion's dedication to the PAH community has been rewarded with loyalty, and hence generic erosion of sales of Tracleer® has been slower than benchmarks would suggest.

The global sales breakdown is consistent with 2011. Japan and emerging PAH markets such as Mexico, Russia and China continued to deliver very solid local-currency sales growth. Overall, 41% of sales came from US operations, 37% from Europe, 12% from Japan and 10% from the rest of the world.

During 2012, Actelion continued to demonstrate its ability to compete successfully in the PAH market and to secure additional marketing authorizations for its products. Significant potential was generated by the successful outcome of the SERAPHIN study with macitentan, announced in April. These positive, differentiating results provide a major opportunity for Actelion to enhance its position in the global PAH market.

One gratifying example of a new marketing authorization concerns miglustat, which is now available under the trade name Brazaves® for the treatment of Niemann-Pick type C disease in Japan. This first approval for miglustat in Japan – coming almost 10 years after the product was first approved for type 1 Gaucher disease in the EU – demonstrates Actelion's commitment to commercialize its products in all relevant markets worldwide.

## LEADING PAH FRANCHISE

Actelion's PAH product portfolio encompasses oral, inhaled and intravenous (i.v.) formulations for patients at various stages in the course of this disease (PAH Functional Classes II–IV), enabling the company to deliver treatments across the entire continuum of care.

Over a decade after its first launch, Tracleer continues to be the endothelin receptor antagonist (ERA) of choice throughout the world. While defending the leading position of Tracleer in the PAH market, the company is also promoting sales of this product in the digital ulcer indication in Europe. In 2012, this market segment was a major driver of patient and revenue growth in Europe.

Veletri® (epoprostenol for injection), first introduced in 2010, has proved to be a valuable, synergistic addition to the company's PAH portfolio. It provides unique benefits to the PAH community, as it gives patients greater freedom in the handling of i.v. epoprostenol, thus easing the burden of treatment.

A new, improved formulation of Veletri, with further increased stability, was recently launched in the US, and marketing authorization was also granted in Switzerland and Canada in 2012. Following progress with the registration procedures in Europe and Japan, launches in these markets are anticipated for 2013. Actelion is ideally placed to build on the successful US launch of Veletri in these new territories, applying the lessons learned so as to fully leverage its existing commercial PAH infrastructure, brand equity and resources.

## TRANSFORMING THE PAH PORTFOLIO

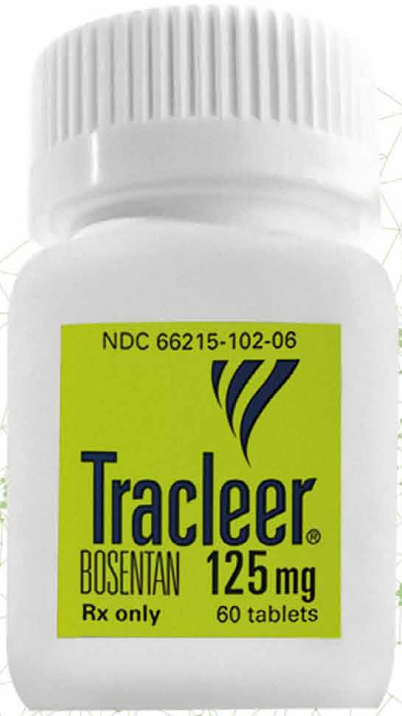
Actelion is actively seeking global marketing authorization for macitentan. With an approval, it will be the first commercially available PAH treatment based on observed long-term morbidity/mortality outcomes thus potentially offering a new standard of care. The company will highlight the event-driven SERAPHIN trial design and the fundamental differences between "morbidity/mortality" and "time to clinical worsening" data, so as to ensure that the medical community appreciate the landmark nature of the results achieved with macitentan.

The potential launch of macitentan, under the trade name of Opsumit®, is anticipated before the end of 2013. With the launch of macitentan being fully supported by Actelion's strong and effective worldwide specialty commercial organization, the company has every confidence that it can fully establish macitentan as the ERA of choice and continue to maintain its leadership position in the global PAH market.

# DATA-DRIVEN MEDICINES

24.0

**CHF MILLION**
**2011 CHF 14.7 MILLION**
**63% INCREASE**
**53% INCREASE IN LOCAL CURRENCIES**


1,500.2

**CHF MILLION**
**2011 CHF 1,522.1 MILLION**
**1% DECREASE**
**4% DECREASE IN LOCAL CURRENCIES**

## VELETRI®

- A new improved formulation of i.v. epoprostenol approved in the US, Switzerland and Canada (trade name Caripul®) during 2012.
- The new formulation is available at additional 0.5 mg strength.
- Stability at room temperature eliminates the need for ice packs, at all concentrations.
- Allows patients to prepare their prostacyclin needs further in advance.

**PRODUCT AVAILABILITY**

| INDICATION | APPROVED IN UNITED STATES, CANADA AND SWITZERLAND |
|---|---|
| – **Pulmonary Arterial Hypertension** WHO Group 1 to improve exercise capacity. | The registration process for other countries is ongoing. |

## TRACLEER®

- Gold standard in PAH treatment with over 44,000 PAH patients currently on therapy.
- Treating PAH with the target of improving symptoms to, or maintaining patients at, Functional Class II (treat to target approach).
- Proactive digital ulcer (DU) management, with over 5,000 DU patients currently on therapy.

**PRODUCT AVAILABILITY**

| INDICATION | APPROVED IN 63 COUNTRIES |
|---|---|
| – **Pulmonary Arterial Hypertension** PAH Functional Class II, III and IV in the US and other countries. PAH Functional Class II and III in the EU. | |
| – **Digital Ulcers** | **APPROVED IN 49 COUNTRIES** |


110.2

**CHF MILLION**
**2011 CHF 106.4 MILLION**
**4% INCREASE**
**2% DECREASE IN LOCAL CURRENCIES**

84.7

**CHF MILLION**
**2011 CHF 68.4 MILLION**
**24% INCREASE**
**24% INCREASE IN LOCAL CURRENCIES**


## VENTAVIS®

– The first inhaled prostacyclin to treat PAH.
– Formulated for optimized inhalation time.

**PRODUCT AVAILABILITY**

| INDICATION | APPROVED IN: |
|---|---|
| – **Pulmonary Arterial Hypertension** PAH (WHO Group I) in patients with NYHA Class III and IV symptoms. | Marketed by Actelion in the United States. Marketed by Bayer Healthcare in countries outside the US. |

## ZAVESCA®

– Zavesca (miglustat) is the only disease-modifying therapy reducing the progression of clinically relevant neurological symptoms in patients with Niemann-Pick type C disease (NP-C).
– Miglustat launched in Japan under the trade name Brazaves® for the treatment of NP-C.
– Continued commitment to patients with type 1 Gaucher disease.

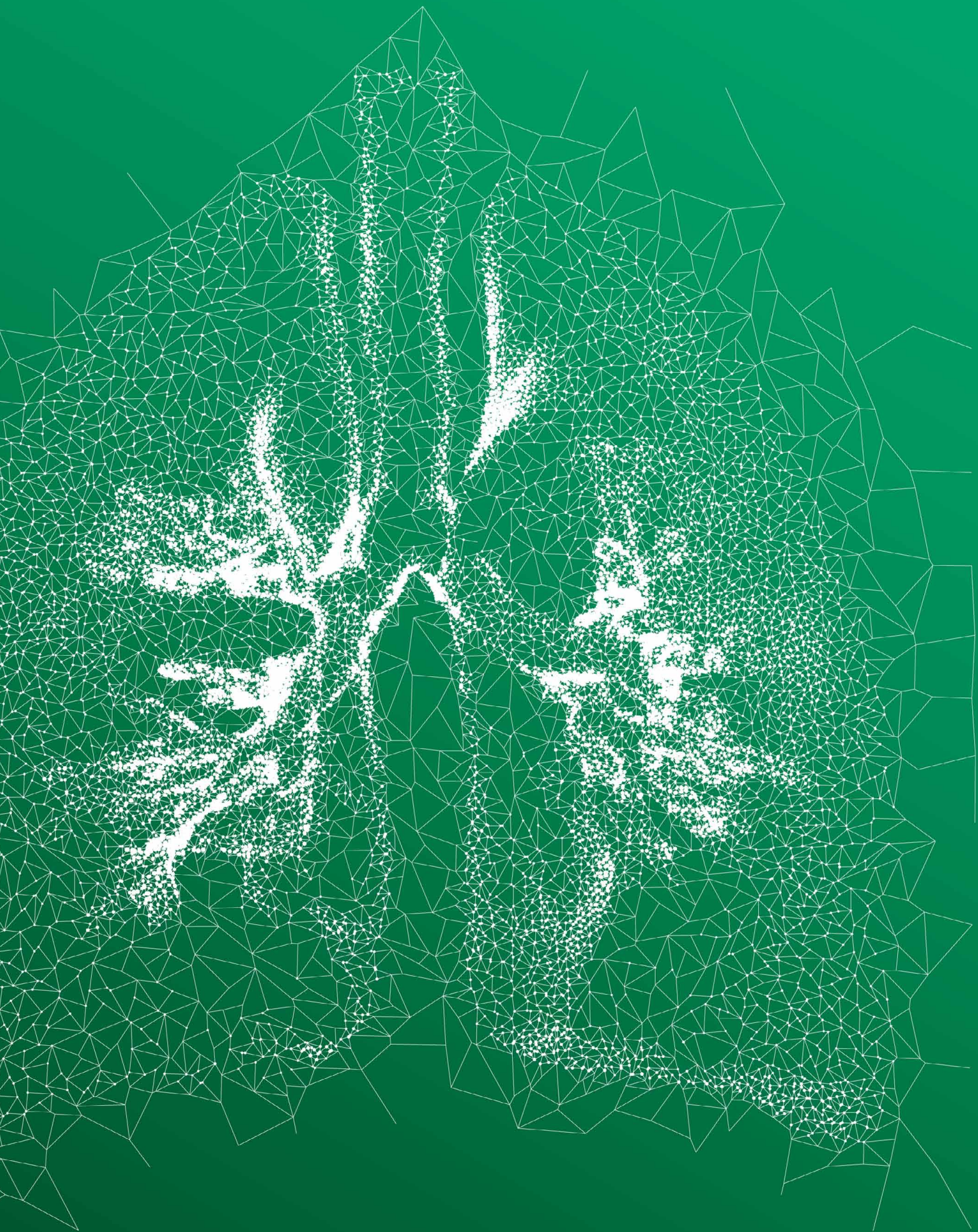
**PRODUCT AVAILABILITY**

| INDICATION | APPROVED IN 43 COUNTRIES |
|---|---|
| – **Niemann-Pick type C disease** progressive neurological manifestations in adult and pediatric patients. | |
| – **Mild to moderate adult type 1 Gaucher disease** Zavesca may be used only in the treatment of patients for whom enzyme replacement therapy is unsuitable. | **APPROVED IN 43 COUNTRIES** |

# MAINTAINING MARKET LEADERSHIP WITH A NEW PORTFOLIO.

Actelion has a proven track record in developing and commercializing treatments for orphan and specialty indications. Actelion is the market leader in pulmonary arterial hypertension (PAH) and has the potential to further drive innovation and maintain commercial leadership in this indication well into the next decade.

Following the successful completion of the landmark trial SERAPHIN, which evaluated the long-term efficacy of macitentan in patients suffering from PAH, the company aims to further enhance its leading position. We are currently focusing on the global submission process for macitentan, in preparation for a launch in late 2013.



# FULLY LEVERAGING EXISTING COMMERCIAL PAH INFRASTRUCTURE AND RESOURCES

**COMPREHENSIVE PORTFOLIO**

Actelion's portfolio in pulmonary arterial hypertension (PAH) is unrivaled. Our products cover the entire spectrum of care for this disease – from WHO Functional Class (FC) II through to FC IV – with oral, inhaled and intravenous medications. Although the PAH market has become a more competitive space, Actelion is striving to preserve and enhance its leadership position now and into the next decade, with an innovative portfolio containing new, breakthrough compounds.

**FIRST AND FOREMOST**

Actelion's first PAH product, Tracleer® (bosentan), was the world's first endothelin receptor antagonist (ERA) and the first oral drug to be approved for the treatment of PAH, this rare and serious disease. Patients were freed from the burden of intravenous therapy in all but the most severe cases.

Thanks to its groundbreaking treatment for PAH, Actelion was profitable much earlier than many similar enterprises. Today, the company remains committed to patients with this life-threatening disease as well as profitability and has executed a lifecycle clinical program to further enhance the medical utility of Tracleer in PAH subpopulations. Following studies specifically designed for children over the age of 2, Tracleer is now available in a pediatric formulation outside of the US. Actelion has completed studies measuring the effects of PAH not only on patients themselves but also on their caregivers. Further research – building on physicians' experience and groundbreaking studies – expanded the use of Tracleer, bringing benefit to patients with less severe symptoms (WHO Functional Class II), as well as to other indications such as Eisenmenger syndrome. In Europe, Tracleer is now also approved for reducing the number of new digital ulcers in patients suffering from systemic sclerosis and ongoing digital ulcer disease.

**SYNERGIES AND LEVERAGE**

With the synergistic acquisition of two more products, Ventavis® (iloprost, US only) and Veletri® (epoprostenol for injection), Actelion's portfolio expanded. Both of these products have been further enhanced since they were acquired by Actelion. A higher-concentration formulation of Ventavis, successfully launched in 2010, decreases inhalation times for patients, which significantly increases the ease of use of inhaled PAH therapy. In 2012, a second-generation formulation of Veletri was launched, with increased stability at room temperature, reducing the burden of continuous intravenous therapy. In 2013, we expect that these assets will continue to contribute higher revenues, depending on the outcome of the ongoing regulatory review of Veletri in Japan and Europe.

By utilizing Actelion's existing PAH infrastructure, Veletri and Ventavis further improve Actelion's operational leverage.

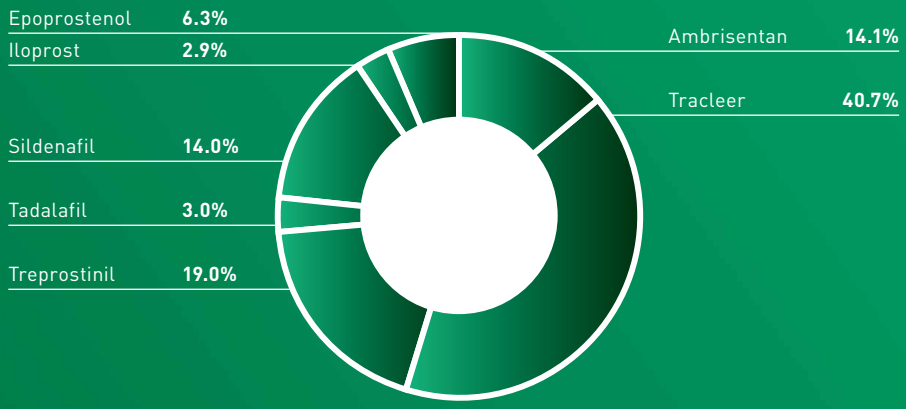
**CHANGING THE PARADIGM**

In just a few short years, Tracleer became the gold standard for PAH treatment, but our desire to optimize therapy for patients suffering from PAH did not stop there. The PAH community wanted an ERA with the ability to provide proven long-term benefits, combined with an improved safety profile. Actelion aims to enable the medical community to reshape the treatment paradigm for patients with PAH by providing innovative compounds.

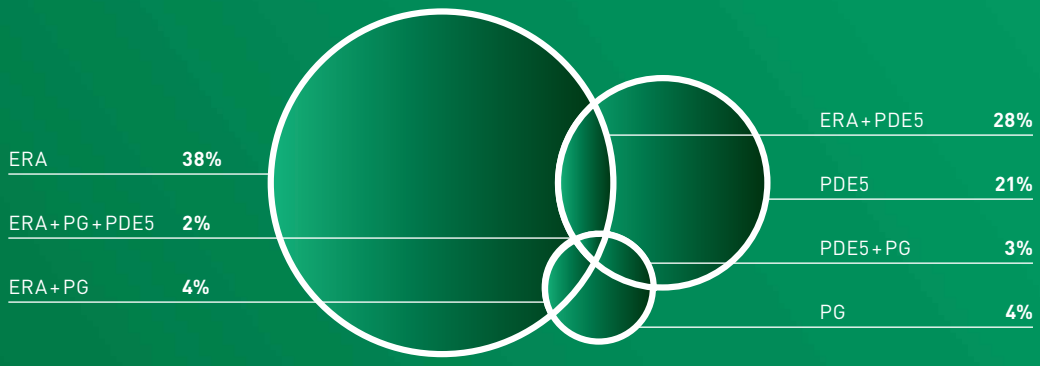
**MAINTAINING LEADERSHIP WITH A NEW PORTFOLIO**

As submissions of dossiers for macitentan (Opsumit®) are made to regulatory bodies around the world, the data package presented is based

## ERAS HAVE ALMOST 60% VALUE SHARE (2 BN CHF) – TRACLEER HAS A LEAD POSITION IN THE PAH MARKET




## 2012 TREATMENT SHARE: EU5 + US




Source available upon request

PDE5: phosphodiesterase type 5 inhibitor

on the only long-term morbidity/mortality trial completed in patients with PAH. All treatments to date have been approved for their ability to manage patients' symptoms in the short term. With the aim of improving outcomes in PAH, the SERAPHIN trial was designed to investigate long-term, clinically relevant outcomes. Patients in SERAPHIN were treated with macitentan for up to three and a half years – in 64% of cases in combination with other therapies at baseline. Macitentan reduced morbidity/mortality by 45%. The most common adverse events reported were nasopharyngitis, headache and anemia.

### ORAL THERAPY TO ADDRESS THE PROSTACYCLIN PATHWAY

Actelion, together with Nippon Shinyaku, aims to develop a selective IP receptor agonist called selexipag. This could be the first oral agent to deliver the benefits of prostacyclin therapy to PAH patients. A significant opportunity exists in extending the reach of prostacyclin therapy, as less than 1 in 6 PAH patients currently receive a prostacyclin.

Selexipag showed promising results in a Phase II study: when administered in combination with PAH therapies including ERAs, improvements were seen in both hemodynamic and functional parameters. In the ongoing Phase III GRIPHON study, is assessing the ability of selexipag to reduce the morbidity/mortality associated with PAH. The results of this study should be available by mid-2014.

# CORPORATE SOCIAL RESPONSIBLITY INSPIRING INNOVATION FOR THE FUTURE.

## OUR COMMITMENT

Our commitment to adhere to the highest ethical standards of business conduct – as well as all local laws and regulations – across all functions is fundamental to our reputation and protects not only patients but also the company and its employees. We also believe that ethical, transparent and efficient business operations enhance our ability to foster sustainable growth and create value for our shareholders.

### COMPLIANCE

The Actelion code of conduct is the foundation of our corporate culture and defines the core principles and ethical standards by which we create value in our company. It is the responsibility of every Actelion employee to be familiar with, and to comply with, our code of conduct.

We continue to be proactive in establishing policies and practices that support strong corporate governance and transparency. These policies and practices are continually reviewed and enhanced as appropriate.

Actelion fully supports transparency in relationships with healthcare professionals. During 2012, we updated our policy on annual spending caps for certain fees paid to healthcare providers in the US. An integrated system enabling Actelion to comply with the requirements of the US Sunshine Act has been successfully tested and is now in operation.

## ENVIRONMENT

Managing our environmental impact continues to be an important part of our overall commitment to responsible business operations. Actelion has been incorporating green building standards in all its new construction projects. Other ways in which Actelion is furthering its commitment to environmental stewardship include the use of alternative energies, recycling of materials and offsetting of fleet emissions. We also believe that looking after the world we live in is a shared responsibility, and we count on all our employees to play their part in these efforts.

Our externally assured carbon footprint is published here for the first time. Total direct and indirect carbon emissions for 2012 amounted to 5.2 million tons. Actelion will continue to report this data going forward. PwC's independent assurance report is available on www.actelion.com.

Actelion continues to test a novel climate control system, provided by the Swiss Federal Institute of Technology (ETH) in Zürich. The system, known as OptiControl, combines the latest developments in building technologies, weather forecasting, automated control engineering and sensor systems to improve climate control of buildings. The aim is to develop a predictive system to optimize climate control and maximize occupant comfort, while reducing energy consumption and keeping operating costs to a modest level.

## COMMUNITIES

Actelion strives to be a good neighbor, supporting the communities where we live and do business. The main focus of our community efforts is science education. We continue to support science education programs aimed at encouraging bright young minds to explore a future in science. By improving access to resources for students and teachers and raising the community's awareness of the value of scientific literacy, we seek to play our part in developing tomorrow's scientists. In 2012, Actelion supported "tunBasel", a hands on science program for young students, which is held in Basel every two years as part of a national consumer fair. For 10 days, a number of our employees volunteered to help elementary and middle school children gain a better understanding of basic scientific principles. We also continue to support a mobile lab project. In addition, many local schools and universities visit our research facilities in Allschwil, near Basel, Switzerland.

Actelion is also involved in the local community as a business, building relationships with chambers of commerce and interest groups with a particular focus on pharmaceuticals.

## ACCESS TO DRUGS

Providing sustainable access for all those who need healthcare is a significant global challenge. The complexities surrounding the issue mean that there is no "one-size-fits-all" solution. We continue to support needy patients through patient access programs, and continue to work with government and other stakeholders to widen access in geographies around the world.

In the US, we support patients by providing co-payment assistance or through a free drug program for eligible patients. In other parts of the world, where Actelion's drugs are either not approved or reimbursed, we have global guidelines in place to try and provide access, while ensuring full compliance with local laws and regulations.

# CORPORATE GOVERNANCE LISTENING TO OUR STAKEHOLDERS.

## GROUP STRUCTURE AND SHAREHOLDERS

### GROUP STRUCTURE

#### DESCRIPTION OF ACTELION'S OPERATIONAL GROUP STRUCTURE

Actelion Ltd is the Group's holding and finance company. Actelion Pharmaceuticals Ltd, a 100% subsidiary of Actelion Ltd, is based in Allschwil and is responsible for drug discovery, development, registration, production, quality assurance, safety, marketing coordination, Group management and coordination. Actelion Pharmaceuticals Ltd further holds some of the Group's intellectual property rights.

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

Actelion Clinical Research, Inc., a 100% subsidiary of Actelion US Holding Company, is based in New Jersey and performs clinical development on behalf of the Group.

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

Actelion Finance SCA and Actelion Partners SNC, both based in Luxembourg, and Actelion Cyprus Limited, based in Nicosia, all three 100% subsidiaries of Actelion Ltd, as well as Luxembourg-based Actelion Luxembourg SARL, a 100% subsidiary of Actelion Production Ltd (formerly Actelion Participation GmbH), perform financing for the Group.

Actelion One SA, a 100% subsidiary of Actelion Ltd, is based in Luxembourg and holds certain intellectual property rights on behalf of the Group.

Actelion Re SA, a 100% subsidiary of Actelion Ltd, is based in Luxembourg and provides insurance solutions for the Group.

Actelion US Holding Company, a 100% subsidiary of Actelion Ltd, is based in Wilmington, Delaware, and is the holding company of the Actelion companies in the US.

Areus, Inc., a 100% subsidiary of Actelion US Holding Company, is based in South San Francisco and holds real estate.

Actelion Production Ltd (formerly Actelion Participation GmbH), a 100% subsidiary of Actelion Ltd, is based in Allschwil, Switzerland. It was transformed into a joint-stock company on 12 November 2012 and serves as a production and sales company.

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

**ALL LISTED COMPANIES BELONGING TO THE ISSUER'S GROUP**

Listed on the SIX Swiss Exchange Ltd under the code: ATLN ISIN CH0010532478.
Market capitalization as of 31 December 2012: CHF 5,518,429,865

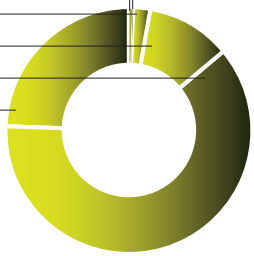
## SIGNIFICANT SHAREHOLDERS

### SHAREHOLDER STRUCTURE

Registered shareholders: There were 10,507 shareholders recorded by the share register on 31 December 2012.

## DISTRIBUTION OF SHAREHOLDINGS

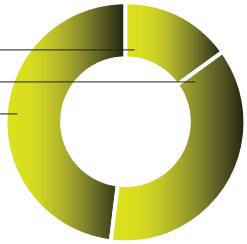
| | |
|---|---|
| More than 1,000,000 | **8** |
| 100,001 to 1,000,000 | **65** |
| 10,001 to 100,000 | **223** |
| 1,001 to 10,000 | **1,187** |
| 101 to 1,000 | **6,477** |
| 1 to 100 | **2,547** |



## CONSTITUTION OF SHAREHOLDER BODY

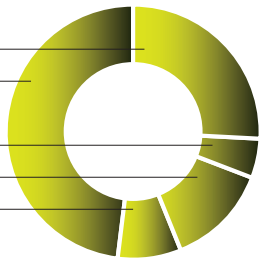
Shareholder structure by category of investors (number of shares) as of 31 December 2012:

| | |
|---|---|
| Individual investors | **15%** |
| Institutional investors | **37%** |
| Not registered | **48%** |



Shareholder structure by country (number of shares) as of 31 December 2012:

| | |
|---|---|
| CH | **26%** |
| Not registered | **48%** |
| US | **5%** |
| UK | **13%** |
| Other | **8%** |



### CONVERTIBLE BONDS AND OPTIONS

#### CONVERTIBLE BONDS

Details are to be found in the Financial Report: Consolidated Financial Statements, note 15, page 94, and note 19, page 102.

#### OPTIONS/RESTRICTED STOCK UNITS (EQUITIES)

The standard employee equity plans are intended to promote the interests of the company by providing employees and members of the Board of Directors with the opportunity to acquire a proprietary interest – or to increase their proprietary interest – in the company, to align employees' interests with those of shareholders and as a retention instrument in order for them to remain in the service of the company. Equities are normally granted annually to existing employees, based on their function within the company and on the achievement of defined performance criteria. The company may grant equities to newly hired employees, depending on their future function within the company. Grant levels are reviewed by the Compensation Committee and approved by the Board. Once equities are granted, the Board is not entitled to increase the benefit accruing to the equity holder without the approval of the shareholders.

#### ACTELION SHARE CHALLENGE 2011 RESTRICTED STOCK UNITS

The Actelion Share Challenge 2011 was a Restricted Stock Units plan intended to promote a long-term perspective for managing the business in alignment with shareholder interests, and to reward long-term employee dedication if the Group's performance was outstanding, with strategic goals being achieved by 31 December 2011. Restricted Stock Units were granted only once to every permanent employee or member of the Board who was either actively employed by Actelion on 31 December 2007 or who was hired between 1 January 2008 and 31 December 2009. Grant levels were reviewed by the Compensation Committee and approved by the Board.

For further information, see the Financial Report: Consolidated Financial Statements, note 20, page 105.

# BOARD OF DIRECTORS

### MEMBERS OF THE BOARD OF DIRECTORS AND OTHER ACTIVITIES AND FUNCTIONS OF THE MEMBERS OF THE BOARD OF DIRECTORS

#### JEAN-PIERRE GARNIER

**Date of birth:** 31 October 1947
**Nationality:** French and American
**Education:** MSc in Pharmaceutical Science and PhD in Pharmacology from Louis Pasteur University, Strasbourg, France; MBA from Stanford University, California, US.

**Professional background:** Various management positions at Schering-Plough. Within SmithKline Beecham, President of the pharmaceutical business in North America (1990), elected to the Board of Directors (1992), Chairman, Pharmaceuticals (from 1994), Chief Operating Officer (from 1995) and CEO (from April 2000). First CEO of GlaxoSmithKline, 2001–2008. CEO of Laboratoires Pierre Fabre, 2008–2010.

**Other activities and functions:** Member of the Board of Directors of the listed companies United Technologies Corporation and Renault S.A. and of the unlisted company Cerenis Therapeutics Inc. (Chairman). Managing partner of the unlisted company Advent International Corporation. Officer of the Legion of Honour and Knight Commander of the Order of the British Empire.

#### JEAN-PAUL CLOZEL

**Date of birth:** 3 April 1955
**Nationality:** French
**Education:** Medical degree in France; further training in pharmacology and physiology at the University of Montreal, Canada, and the University of California, San Francisco, US.

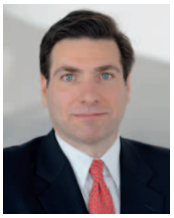
**Professional background:** Practicing cardiologist, 1974–1985. Head of Drug Discovery Group in the Cardiovascular Department of F. Hoffmann-La Roche Ltd, 1985–1997. Founder and CEO of Actelion.

**Other activities and functions:** None.

## JUHANI ANTTILA

**Date of birth:** 20 April 1954
**Nationality:** Finnish
**Education:** Master's degree in Law at the University of Helsinki, Finland, 1978.
**Professional background:** Managing partner at CA Corporate Advisers, Zurich, 1981–1985. Managing Director of Nokia GmbH, Zurich, 1985–1988; Member of the Executive Board of Nokia Consumer Electronics Division, 1989–1995; Chairman of the Executive Board of Nokia (Deutschland) GmbH, Germany, 1990–1995. President and CEO of Swisslog Holding Ltd, 1996–2002. CEO of Ascom Holding Ltd, 2003–2004. Managing partner of ValCrea AG since 2004.
**Other activities and functions:** Member of the Board of Directors of the listed company Ascom Holding Ltd (Chairman) and of the unlisted companies ArgYou AG and ValCrea AG (Chairman).

## ROBERT BERTOLINI



**Date of birth:** 19 December 1961
**Nationality:** American
**Education:** BA in Economics from Rutgers, the State University of New Jersey, US; Certified Public Accountant licensed in New York and New Jersey, US.
**Professional background:** Former Executive Vice President and CFO at Schering Plough Corporation. Various executive positions at PriceWaterhouseCoopers; former Member of the Board of Directors of Genzyme Corporation.
**Other activities and functions:** Member of the Board of Directors of the listed company Charles River Laboratories International, Inc., and of the unlisted company ElectroCore, Inc.

## CARL FELDBAUM

**Date of birth:** 1 February 1944
**Nationality:** American
**Education:** Bachelor's degree in Biology from Princeton University, US; law degree from the University of Pennsylvania Law School, US.
**Professional background:** Assistant Special Prosecutor for the Watergate Special Prosecution Force, 1973–1975. Inspector General for defense intelligence in the US Department of Defense, 1976–1979. Assistant to the Secretary of Energy, 1979–1980. President and founder of the Palomar Corporation, 1980–1988. Chief of staff to Senator Arlen Specter (D-PA) of Pennsylvania, 1988–1993. President of the Biotechnology Industry Organization (BIO) in Washington, D.C., 1993–2005.
**Other activities and functions:** Member of the Board of Directors of the listed company Exelixis, Inc., South San Francisco, CA. Member of the Board of BIO Ventures for Global Health.

## PETER GRUSS

**Date of birth:** 28 June 1949
**Nationality:** German
**Education:** PhD in Biology from the University of Heidelberg, Germany.
**Professional background:** President of the Max Planck Society in Munich, Germany (since 2002); Director at the Max Planck Institute for Biophysical Chemistry in Göttingen, Germany (since 1986). Honorary Professor at the University of Göttingen, Germany.
**Other activities and functions:** Member of the Board of Directors of the listed companies Siemens AG and Munich Re. Member of the Advisory Board of Deloitte. Member of the "Innovation Dialogue" of the Federal Chancellery, appointed by Angela Merkel. Member of the Senates of the Alliance of Scientific Organizations in Germany, the German Research Foundation (DFG), the German National Academy of Sciences (Leopoldina) and National Academy of Science and Engineering (acatech).

## WERNER HENRICHI

**Date of birth:** 3 November 1943
**Nationality:** French
**Education:** Chemist and European Patent Attorney.
**Professional background:** Former Head of Global Intellectual Property and Licensing, F. Hoffmann-La Roche Ltd, Basel.
**Other activities and functions:** Member of the Board of Directors of the listed company Basilea Pharmaceutica AG (Chairman) and of the following unlisted companies: TET Systems AG, Pharma Sens AG and Pivalor AG (CEO).

## MICHAEL JACOBI

**Date of birth:** 30 January 1953
**Nationality:** German and Swiss
**Education:** PhD in Business Administration from the University of St Gallen (HSG), St Gallen, Switzerland; additional studies at the University of Washington, Seattle, US; completion of a Program for Management Development at Harvard Business School, Boston, US.
**Professional background:** Joined the Ciba Group in 1978 and subsequently held various executive positions in the financial area in Switzerland, Brazil and the US. Former Chief Financial Officer at Ciba Specialty Chemicals, Inc., 1996–2007.
**Other activities and functions:** Member of the Board of Directors of the listed company Sonova Holding AG and the unlisted company Hilti AG. Member of the Board of Trustees of the Martin Hilti Family Trust.

## ARMIN KESSLER

**Date of birth:** 31 March 1938
**Nationality:** Swiss
**Education:** Degree in Physics and Chemistry from Pretoria University in South Africa; degree in Chemical Engineering from the University of Cape Town, South Africa; JD from Seton Hall University, New Jersey, US; registered Patent Attorney at the US Patent Office.
**Professional background:** Chief Operating Officer of F. Hoffmann-La Roche Ltd, Basel, Switzerland, 1990–1995. 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. Formerly on the Board of Syntex Chemicals, Genentech and F. Hoffmann-La Roche Ltd.
**Other activities and functions:** Member of the Board of Directors of the listed company The Medicines Company and the unlisted company MedGenesis Therapeutix Inc.

## JEAN MALO

**Date of birth:** 16 July 1954
**Nationality:** French
**Education:** MBA from ESSEC, Cergy-Pontoise, France, in 1977.
**Professional background:** Chartered Financial Analyst and member of the Association for Investment Management and Research and the Houston Society of Financial Analysts. Financial Analyst at the French Embassy in Singapore, 1977–1978. Corporate Banker for Banque Indosuez in Saudi Arabia, Houston and New York, 1978–1989. Portfolio manager for Daniel Breen and Company in Houston, Texas, 1989–1997. Chief Investment Officer for Vaughan Nelson Scarborough and McCullough, Houston, 1997–2000. Senior Partner and Chief Investment Officer at Breen Investors LP, 2000–2008.
**Other activities and functions:** Founding Partner, Houston Global Investors, LLC, 2009.

## ROBERT E. CAWTHORN

(Member of the Board until 4 May 2012)
**Date of birth:** 28 September 1935
**Nationality:** British
**Education:** Bachelor's degree in Agriculture, Cambridge University, England.
**Professional background:** Various executive positions at Pfizer International. President of Biogen Inc., 1979–1982. Executive Vice President of Rorer Group, 1982–1985; Chairman and CEO of Rhône-Poulenc Rorer, Inc. (formerly Rorer Group), 1985–1996. Managing Director of Global Health Care Partners, DLJ Merchant Banking Partners, 1997–2001.
**Other activities and functions:** Member of the Board of Directors of the unlisted company Biodesix Inc. (Chairman).

## ELECTIONS AND TERMS OF OFFICE

### 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 Annual General 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 shareholders to the next ordinary meeting of shareholders. In principle, the Board of Directors is renewed each year by one third. The term of office of newly elected members is fixed at the time of election with due consideration of the renewal cycle.

### TIME OF FIRST ELECTION AND REMAINING TERM OF OFFICE

| | Executive Member | Date of AGM of first election | Date of AGM of re-election | Date of AGM of end of term |
|---|---|---|---|---|
| Jean-Pierre Garnier | No | 2011 | – | 2014 |
| Jean-Paul Clozel | Yes | 2000 | 2011 | 2014 |
| Juhani Anttila | No | 2005 | 2011 | 2014 |
| Robert Bertolini | No | 2011 | – | 2014 |
| Carl Feldbaum | No | 2005 | 2011 | 2014 |
| Peter Gruss | No | 2012 | – | 2015 |
| Werner Henrich | No | 2000 | 2010 | 2013 |
| Michael Jacobi | No | 2009 | 2012 | 2015 |
| Armin Kessler | No | 2004 | 2010 | 2013 |
| Jean Malo | No | 2004 | 2010 | 2013 |

## INTERNAL ORGANIZATIONAL STRUCTURE

### ALLOCATION OF TASKS WITHIN THE BOARD OF DIRECTORS

Jean-Pierre Garnier: Chairman
Jean-Paul Clozel: Delegate

| Compensation Committee | Finance and Audit Committee | Nominating and Governance Committee |
|---|---|---|
| Armin Kessler (Chairman) | Michael Jacobi (Chairman) | Carl Feldbaum (Chairman) |
| Werner Henrich | Juhani Anttila | Armin Kessler |
| Jean-Pierre Garnier | Jean Malo | Jean-Pierre Garnier |
| | Robert Bertolini | Peter Gruss (since 4 May 2012) |

### MEMBERS LIST, TASKS AND AREA OF RESPONSIBILITY OF EACH COMMITTEE

The *Compensation Committee* reviews and approves Actelion's compensation philosophy and reviews the company's global compensation and benefit policies and plans, as well as individual compensation for the members of the AEC and other direct reports to the CEO. The Committee also reviews the company's annual objectives, and evaluates performance against them. Management keeps the Compensation Committee informed of other global HR projects and policies which are being implemented.

The compensation of the Board of Directors is determined by the Board of Directors upon recommendation by the Compensation Committee. The Board also determines the compensation of the CEO, based on a review of the CEO's performance against annual goals set by the Board, and approves that of senior executives reporting directly to the CEO. In making its recommendations, the Compensation Committee considers surveys of compensation in comparable companies and functions, and takes into account advice from an external compensation consultant.

Compensation of both Board of Directors and members of the AEC are regularly benchmarked, with the most recent review conducted in early 2012. The Committee has appointed Aon Hewitt as its independent external compensation advisor. Aon Hewitt also provides Actelion with survey data on remuneration levels and practices in the pharmaceutical sector.

During the year, the Committee was also assisted by the Head of Global Human Resources, who is invited to attend meetings, except when his own remuneration is being discussed.

In 2012, the Compensation Committee met four times in person. Each meeting took on average three hours. The Chairman at his discretion can invite any person to attend the meetings. The compensation of the CEO is not discussed in his presence.

The *Finance and Audit Committee* reviews the internal controls and finances of the Group in accordance with the "Charter of the Finance and Audit Committee" adopted on 30 November 2005. The Committee has the following tasks and duties: (i) evaluate the management's proposals and formulate recommendations to the full Board in regard to financial planning; (ii) review the proposed concepts of financial objectives; (iii) review the finance policy, operations and risk management framework in the areas of treasury, controlling, taxes, insurance, investments and acquisitions; (iv) review the US GAAP and statutory financial statements prior to release and submission of annual financial statements to the Board of Directors; (v) supervise the composition and activity of the Internal Audit (IA) function, assure implementation of IA recommendations, approve annual mission plans and review IA's cooperation with External Auditors (EA); (vi) evaluate, and propose to the Board, the EA to be nominated for shareholder approval, evaluate the terms of engagement, compensation, performance and independence of the EA, review the audit process and discuss audit results with the EA; (vii) oversee, in all material respects, the company's compliance with applicable financial and securities laws. The Finance and Audit Committee reports to the full Board of Directors at regular intervals and submits proposals for Board resolutions, if necessary. In 2012, the Finance and Audit Committee met four times (either in person or by telephone conference). Each meeting took on average two to three hours. The Chairman at his discretion can invite any person to attend the meetings.

The *Nominating and Governance Committee* reviews considerations relating to Board composition, including size of the Board and criteria for membership on the Board of Directors; it identifies, reviews, considers and 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. In addition, this Committee reviews and recommends Corporate Governance policies and principles for the company, handles compliance issues, accompanies Corporate Social Responsibility projects, oversees an evaluation of the Board of Directors, maintains an orientation program for new Board members and an ongoing education program for existing Board members and makes related recommendations to the Board. Moreover, it makes such recommendations to the Board of Directors as the Committee may consider appropriate and consistent with its purpose, and takes such other actions and performs such services as may be referred to it from time to time by the Board of Directors, including the engagement of any outside advisor it may deem necessary or appropriate, at the company's expense. In 2012, the Nominating and Governance Committee met four times (either in person or by telephone conference). Each meeting took approximately one hour. The Chairman at his discretion can invite any person to attend the meetings.

### WORK METHODS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

In 2012, the Board of Directors met four times in person, and a majority (if not all) of the members were present at each Board meeting. Physical Board meetings take approximately eight hours. 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 CEO is entitled to attend every meeting of the Board of Directors and to participate in its debates and deliberations, with the exception of executive sessions.

The management presents reports and the Board then takes decisions by majority vote on the relevant issues, except where the Board has delegated specific decisions to a Committee.

In the case of Committees, after the presentation of the issue by the management, the Committee takes a preliminary decision for approval by the full Board, which will be reported along with the details of the issue to the entire Board, who will take the final decision, except where the Board has delegated specific decisions to a Committee.

An orientation program is being provided for new members of the Board of Directors and an ongoing education program will be provided for existing members of the Board of Directors. Furthermore, the members of the Board of Directors are required to regularly fill in a self-assessment form covering the performance of the full Board, the Committees and their individual performances.

### DEFINITION OF AREA OF RESPONSIBILITY

The Board of Directors has delegated the management of the company's business to the Chief Executive Officer (CEO) of the company and to the Actelion Executive Committee (AEC), and has granted the CEO the power to appoint the members of the AEC.

The Board of Directors carries out the tasks reserved to it by law. The AEC takes all other management decisions. The By-Laws contain detailed information regarding the assignment of responsibilities to the Board of Directors and the AEC. Management has set up a Scientific Advisory Board (SAB), 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 31 December 2012, the SAB was composed of the following external experts of worldwide reputation: Professors Joël Ménard, Craig Pratt, Graeme Stewart, George Talbot, Richard Tsien and Peter Wipf.

For more information on the SAB, please refer to:
www.actelion.com/Our company/Actelion people/Scientific Advisory Board

### INFORMATION AND CONTROL INSTRUMENTS VIS-À-VIS THE MANAGEMENT BOARD

The Board of Directors receives monthly reports regarding the financial and business situation of the company and quarterly reports presented by the CEO. Additionally, the Finance and Audit Committee receives, and the Board of Directors approves, quarterly financial results before they are released to the public.

Effective internal controls over financial reporting (ICFR), in line with the Sarbanes-Oxley Act of 2002, Section 404, have been maintained in 2012. In the financial area, the Board is informed regularly, at least once a year, of financial risks and the proposed actions to be taken in the form of the ERM (enterprise risk management) and the ICFR Management attestation.

Actelion's risk management systems primarily address the areas of production, development, business operations and finance. In the area of production, an effective quality system following the principles of Good Manufacturing Practices ensures that the products achieve the required quality to be marketed.

The internal review of clinical development ensures the safe development of products and an extensive post-marketing surveillance monitors the continuing safety of marketed products. The global quality management function performs independent quality audits ensuring Good Clinical Practice within clinical development, hereby adhering to globally recognized ethical and quality standards for development of investigational medicinal products. A program of Internal Audit assignments provides a systematic and disciplined approach to evaluating and improving the effectiveness of the risk management, control and governance processes within the Group. These are reviewed by the Finance and Audit Committee and where appropriate by the Nominating and Governance Committee. The Finance and Audit Committee receives Internal Audit reports at the conclusion of each audit assignment. These reports detail risks arising in the areas of operations, compliance and ICFR. The Chairman of the Finance and Audit Committee presents a summary of each report to the full Board of Directors at their regular meetings. On request, Internal Audit reports are disseminated to the full Board of Directors.

# MANAGEMENT BOARD

## MEMBERS OF THE MANAGEMENT BOARD

On 31 December 2012, the Actelion Executive Committee (AEC), constituting the "Management Board" as per the Corporate Governance Directive, was composed of:

### JEAN-PAUL CLOZEL

**Title and function:**
Chief Executive Officer (since 1999)
**Date of birth:** 3 April 1955
**Nationality:** French
**Education:** Medical degree in France; further training in pharmacology and physiology at the University of Montreal, Canada, and the University of California, San Francisco, US.
**Professional background:** Practicing cardiologist, 1974–1985. Head of Drug Discovery Group in the Cardiovascular Department of F. Hoffmann-La Roche, 1985–1997. Founder and CEO of Actelion.

### GUY BRAUNSTEIN

**Title and function:**
Executive Vice President, Head of Clinical Development (since 2009)
**Date of birth:** 19 November 1956
**Nationality:** French
**Education:** MD, pulmonologist and PhD in life science, Paris University, France.
**Professional background:** Merck Serono, Chief Medical Officer; Serono, Chief Medical Officer International; various executive positions at Astra, Fisons, Rhône-Poulenc Rorer, Glaxo-Wellcome, GSK and Chiron.

### NICHOLAS FRANCO

**Title and function:**
Executive Vice President, Chief Business Development Officer (since 2011)
**Date of birth:** 9 July 1962
**Nationality:** Italian and Canadian
**Education:** Graduate of McGill University, Canada, with a BSc in Biochemistry and a Master's degree in Business Administration, Strategic Planning and Marketing.
**Professional background:** Senior Vice President, International Commercial Operations, at Axcan Pharma, based near Paris, France; Head of Market Access Region Europe for Novartis Pharma AG, Basel, Switzerland, where he held various management positions since 1991. Previous positions include President of Novartis Ophthalmics, Global Head, Business Development and Licensing Negotiations, and Global Head of Neuroscience Business Franchise.

### ANDREW J. OAKLEY

**Title and function:**
Executive Vice President, Chief Financial Officer (since 2003)
**Date of birth:** 23 April 1962
**Nationality:** Australian
**Education:** MBA from London Business School, UK
**Professional background:** Member of the Australian Institute of Chartered Accountants since 1987, following several years working for a major accounting firm. In his last position before 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 UK and the US.

### OTTO SCHWARZ

**Title and function:**
Executive Vice President, Chief Operating Officer (since 2011)
**Date of birth:** 13 October 1955
**Nationality:** Austrian
**Education:** PhD in Pharmacy/ Pharmaceutical Chemistry at the University of Vienna, Austria; postdoc at the University of Florida, Gainesville, US (Professor Katritzky)
**Professional background:** EVP Commercial Operations, Nycomed; Member Executive Board Business Strategy & Commercial Operations, Altana Pharma AG; various managerial positions at Schering Plough in Austria, Canada, the US, Germany and at a regional European level, and prior to that with Eli Lilly Austria and Switzerland. President, Business Strategy & Operations, Actelion, 2008–2011.

**In addition to the above-mentioned members of the AEC, the extended AEC (not being part of the Management Board as per the Corporate Governance Directive) comprised the following individuals:**

### CHRISTIAN ALBRICH

**Title and function:**
Senior Vice President, Head Global Human Resources (since 2005)
**Date of birth:** 14 July 1964
**Nationality:** French and German
**Education:** MBA from ESSEC Business School, Paris, France

**Professional background:** Previously Human Resources Manager with Boehringer Ingelheim in France, HR Director with Serono for European countries. He joined Actelion in 2002 as Head of HR for Europe, Canada and Latin America.

### MARIAN BOROVSKY

**Title and function:**
Senior Vice President,
Group General Counsel (since 2000) & Corporate Secretary (since 2003)
**Date of birth:** 25 September 1969
**Nationality:** Swiss
**Education:** Doctor of law (Dr. iur.) educated at the University of Basel, Switzerland, attorney-at-law admitted to the Bar in Switzerland and qualified business mediator.

**Professional background:** Started his professional career as an attorney-at-law with an insurance company and subsequently worked as a legal and tax advisor for PricewaterhouseCoopers. In addition, he completed a secondment to an international business law firm in London.

### MARTINE CLOZEL

**Title and function:**
Senior Vice President,
Chief Scientific Officer (since 2009)
**Date of birth:** 27 December 1955
**Nationality:** French
**Education:** MD, specialization in pediatrics and in neonatal intensive care, educated at the University of Nancy, France; further training in physiology and pharmacology at McGill University, Montreal, Canada, and at the University of California, San Francisco, US.

**Professional background:** Assistant professor, Neonatology; Scientific expert, leader of drug discovery projects, F. Hoffmann-La Roche Ltd. Head of Drug Discovery, Pharmacology & Preclinical Development, Actelion, 1997–2009.

### ROLAND HAEFELI

**Title and function:**
Senior Vice President, Head of Investor Relations & Public Affairs (since 2001)
**Date of birth:** 5 September 1964
**Nationality:** Swiss
**Education:** Advanced degrees in Contemporary History from the University of Bern, Switzerland, and in Political Science from the University of North Carolina at Chapel Hill, US.

**Professional background:** Stock market training program in a Swiss private bank; several years as a news writer, presenter and editor for several print and electronic media operations; two years as a delegate for the International Committee of the Red Cross (ICRC) in Bosnia and Rwanda; corporate spokesperson for F. Hoffmann-La Roche Ltd; Head of Media Relations for various companies, including Serono.

# SHAREHOLDERS' PARTICIPATION RIGHTS

## AGENDA

Shareholders holding more than CHF 1 million worth of shares are entitled to add items to the agenda of the Annual 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 two months prior to the date of the Annual General Meeting of Shareholders.

### REGISTRATION IN SHARE REGISTER

Only shareholders who are registered in the shareholders register of the company on the date falling approximately 10 days prior to the Annual General Meeting of Shareholders are entitled to vote at the Annual General Meeting of Shareholders. The exact deadline for being registered in

the shareholders register is made public with the press release following the presentation of the financial results to the public for the full year ending on 31 December.

# AUDITORS

## DURATION OF THE MANDATE AND TERM OF OFFICE OF LEAD AUDITOR

Ernst & Young AG, Basel, was elected as the statutory auditor of the company for the first time in 2006 and was re-elected for the financial year 2012 by resolution of the shareholders on 4 May 2012.

Mr Jürg Zürcher has been lead auditor since 2006.

## AUDITING HONORARIUM

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

Audit fees: CHF 2,114,743
Audit-related fees: CHF 93,977

## ADDITIONAL HONORARIUM

In addition to the fees described above, aggregate fees of CHF 413,629 were billed by Ernst & Young during the year ending 31 December 2012, mainly for income tax compliance and related tax services as well as transaction advisory services.

## SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

The Finance and Audit Committee is responsible for reviewing the internal control of the accounts and finances of the company via its supervisory activities over both external and internal audit functions (see page 40). This process continues to be supported by the increased transparency resulting from internal controls over financial reporting and the continued presence of the head of Internal Audit at all Finance and Audit Committee meetings. The external auditors meet with the Finance and Audit Committee to present their plan, scope, audit approach, budget and audit results. The Finance and Audit Committee reviews these and evaluates the independence of the external auditors from a risk analysis perspective. In addition, the auditors present their opinions resulting from an integrated audit, along with an annual management letter. The company has ensured that the auditors' partner in charge has unrestricted access to the Chairman of the Finance and Audit Committee and fulfills all independence criteria. In 2012, the external auditors met four times with the Finance and Audit Committee, once each quarter.

Regarding the selection of external auditors, on an infrequent basis the Finance and Audit Committee will assess offers and presentations from several appropriate, independent external audit firms, and the Finance and Audit Committee will then make a proposal to the full Board, based on pre-defined service level and quality criteria, as to the external auditors to be recommended for election. The final approval of the external auditors is made by the shareholders at the Annual General Meeting of Shareholders.

# INFORMATION POLICY

The management issues statements regarding the company's progress on a quarterly basis, at the same time as the financial results are made public.

Shareholders are regularly informed of Actelion's business at the Annual General Meeting of Shareholders and via ad hoc releases, online announcements, road shows, major news agencies and the Swiss Official Gazette of Commerce.

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, clinical pipeline and research capabilities. Also available on the website is the company's communication policy, outlining Actelion's disclosure guidelines.

| Item | Details to be found in |
|---|---|
| **GROUP STRUCTURE** | |
| Non-listed companies belonging to the issuer's consolidated entities | Financial Report: Holding Company Statements, Note 3, page 118 |
| **SIGNIFICANT SHAREHOLDERS** | Financial Report: Holding Company Statements, Note 12, page 122 |
| **CROSS-SHAREHOLDINGS** | None |
| **CAPITAL STRUCTURE** | |
| Capital | Financial Report: Holding Company Statements, Notes 4, 5 and 7, pages 119 and 120 |
| **AUTHORIZED AND CONDITIONAL CAPITAL IN PARTICULAR** | |
| Conditional share capital | Financial Report: Consolidated Financial Statements, Note 19, page 102; Holding Company Statements, Note 5, page 119; Article 3a of the Articles of Association |
| Authorized share capital | Article 3b of the Articles of Association (currently no authorized share capital) |
| **CHANGES OF CAPITAL** | Financial Report: Consolidated Financial Statements, page 70 For 2010, please refer to the Financial Report 2011, page 77 |
| **SHARES AND PARTICIPATION CERTIFICATES** | |
| Shares | Financial Report: Holding Company Statements, Note 4, page 119 |
| Participation certificates | None |
| **PROFIT SHARING CERTIFICATES** | None |
| **LIMITATION ON TRANSFERABILITY AND NOMINEE REGISTRATIONS** | |
| Limitations on transferability for each share category, along with an indication of statutory group clauses, if any | Article 5 of the Articles of Association |
| Rules on making exceptions | None |
| Reasons for making exceptions in the year under review | None |
| Admissibility of nominee registrations, along with an indication of percent clauses, if any, and registration conditions | Article 5 of the Articles of Association |
| Procedure and conditions for canceling statutory privileges and limitations on transferability | Statutory privileges and limitations on transferability can be canceled with a two-thirds majority of the votes represented at the Annual General Meeting of Shareholders (Article 15 of the Articles of Association). |
| **BOARD OF DIRECTORS** | |
| Cross-involvement | None |
| **MEMBERS OF THE MANAGEMENT BOARD** | |
| Other activities and functions | None |
| Management contracts | None |
| **SHAREHOLDERS' PARTICIPATION RIGHTS** | |
| Voting rights and representation restrictions | Articles 5 and 11 of the Articles of Association. |
| Statutory quorums | Article 15 of the Articles of Association, and the Swiss Code of Obligations. |
| Convening of Annual General Meetings of Shareholders | Articles 9, 12 and 13 of the Articles of Association, and the Swiss Code of Obligations. |
| **DUTY TO MAKE AN OFFER** | |
| Opting-out or opting-up provisions | None |

# COMPENSATION REPORT
# REWARDING VALUE CREATION.

## INTRODUCTION

This report describes the compensation programs we maintain for members of our Board of Directors and for our senior executives, including our CEO, and explains how they were compensated in 2012. For details about these individuals and the functions they perform within our company, see the Corporate Governance Section of this Annual Report.

# LETTER FROM THE COMPENSATION COMMITTEE

Dear Shareholders,

We are pleased to present you with our Compensation Report for the year ended 31 December 2012. At the 2013 Annual General Meeting, shareholders will again have an opportunity for a non-binding, advisory vote on this report, which describes our compensation policies and programs. We encourage you to read the entire Compensation Report before casting your vote.

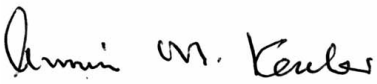
Looking back at the past year, the Company is proud to have maintained strong financial performance despite an adverse market, a strong Swiss Franc, and increasing competition in key sales regions. This resourcefulness on the part of the Company's leadership is reflected in Actelion's approach to remuneration policy.

To serve the interests of all stakeholders, our remuneration policies are designed to support our strategy and help us deliver sustained performance and build value for the long term. In particular, the Compensation Committee is charged with ensuring that our remuneration structure and our processes for talent development and succession planning take the long-term interests of both the company and our shareholders into account. As a biopharmaceutical company, we must invest in research and development many years before our ideas come to commercial fruition. It is therefore especially important for us to have remuneration structures that reward performance over the long term and that encourage our managers and employees to build lasting careers with the company.

During the year, we have engaged directly with a wide range of shareholders and their representatives and have sought their views on the company's remuneration plans. The Compensation Committee has considered how we can respond to these different perspectives, and as a result we have implemented a number of changes to our programs, with additional changes to come in in 2013. We are confident that the adjustments we are making based on shareholder feedback will result in substantial improvements to both the structure and transparency of our remuneration policies.

We have taken these steps with the goal of continuing to attract and retain the talent to drive Actelion's strategy over the short, medium and long term, which will in turn lead to performance for our shareholders. Shareholders can be assured that we will continue to monitor the effectiveness of our policies closely in the coming years to ensure that their interests are fully represented

Yours faithfully,



**Armin Kessler**
Chairman of the Compensation Committee

# RESPONSE TO 2012 SAY-ON-PAY VOTE

**Following the 2012 Annual General Meeting, the Compensation Committee undertook to address the issues raised by shareholders with regard to the 2011 Compensation Report.**

During the year, the Committee members engaged directly with a wide range of shareholders and their representative bodies in order to understand their perspectives on how to link value creation with the Company's remuneration plans. Taking into account the feedback it had received, the Committee conducted an analysis of the compensation practices in Swiss industry, particularly in the pharmaceutical sector.

After completing this analysis, the Compensation Committee made a number of changes to our compensation programs. These changes respond to the feedback we received and contribute to fostering a competitive approach to the remuneration of our executive directors and senior management team. The overriding objective of these changes is to compensate senior management on the basis of performance-based achievements and to align any awards as closely as possible to the long-term interests of our shareholders.

As described in detail in this report, we have already implemented some of these changes, and others will be put in place during the 2013 financial year.

The following changes became effective in 2012:

### FOR NON-EXECUTIVE DIRECTORS

- A change in compensation structure
- Director Stock Option Plan discontinued
- Minimum share ownership requirement introduced

### FOR ALL EMPLOYEES PARTICIPATING IN OUR INCENTIVE PLANS

- Introduction of clawback provisions.

## CHANGES FOR 2013 AND FORWARD FOSTERING A PERFORMANCE CULTURE

- PERFORMANCE STOCK UNITS
  As part of our Long-Term Incentives, management will be granted Performance Stock Units (PSUs) that are subject to a relative Total Shareholder Return (TSR) performance condition, with performance measured over three financial years.

- STOCK OPTIONS DISCONTINUED
  We will no longer award stock options.

- DEFERRED CASH PROFIT SHARING REPLACED BY NEW EQUITY INCENTIVE
  The Deferred Cash Profit Sharing Plan has been discontinued. In its place, Actelion will implement a new Performance Based Deferred Equity Incentive Plan, with awards payable in RSUs with a two-year vesting.

- INCREASED TRANSPARENCY
  The transparency of the goals to be achieved under each of the company remuneration plans and the target has been improved, with more clarity on maximum and minimum payout levels.

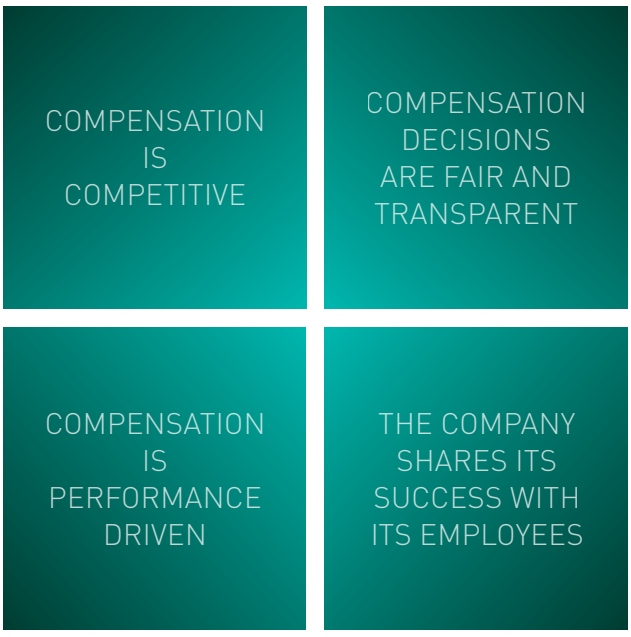
- REDUCED CHANGE-IN-CONTROL COVERAGE
  In line with market practice, potential severance payments for new participants will be capped at twelve months' salary and subject to a shorter protection period.

- BENCHMARKING PEER GROUPS ALIGNED
  Going forward, it is intended that benchmarking for both for the Board and the Actelion Executive Committee will be based on a single peer group.

# COMPENSATION PRINCIPLES

Our compensation principles support our effort to attract, engage and retain the best professionals in a competitive environment for talent. We believe these guiding principles create a strong link between our compensation programs with performance-based achievements and the creation of sustainable shareholder value.

The Company seeks to set levels of compensation that reflect individual levels of competency and responsibility in the company and that are comparable to other organisations with whom Actelion competes for talent. To encourage and reward superior performance and also to retain key talents, Actelion includes a variable pay element in the form of short, medium and long-term incentives.




# COMPETITIVE POSITIONING

The compensation of both the Board of Directors and members of the Actelion Executive Committee (AEC) is regularly benchmarked.

Levels of compensation are benchmarked every three years and were last benchmarked in late 2011.The Committee has appointed AON Hewitt as its independent compensation advisor. AON Hewitt also provides Actelion with survey data on remuneration levels and practices for the wider employee population.

## BENCHMARKING FOR NON-EXECUTIVE DIRECTORS

To evaluate market competitiveness of the compensation of our Non-Executive Directors, we compare their compensation against that of a peer group of European and US pharmaceutical companies.

The Compensation Peer Group for the Non-Executive Directors includes the following companies:

| Company | Country |
|---|---|
| Gilead Science | US |
| Celgene | US |
| Biogen Idec | US |
| Merck | Germany |
| Shire | United Kingdom |
| Alexion Pharmaceuticals | US |
| Valeant Pharmaceuticals | US |
| Perrigo | US |
| Forest Labs | US |
| UCB | Belgium |
| Mylan | US |
| Life Technologies | US |
| Cephalon | US |
| Illumina | US |
| H Lundbeck | Denmark |
| Qiagen | Germany |
| Endo Pharmaceuticals | US |
| Medicis Pharmaceuticals | US |
| United Therapeutics | US |
| Cubist Pharmaceuticals | US |
| Recordati | Italy |
| Amylin Pharmaceuticals | US |
| Impax Laboratories | US |
| Medicines Company | US |

### BENCHMARKING FOR MEMBERS OF THE ACTELION EXECUTIVE COMMITTEE (AEC)

To evaluate market competitiveness of the members of the AEC, we compare their remuneration against those of a peer group of Swiss and European pharmaceutical companies of similar size or with whom Actelion competes for talent. Levels of compensation were last benchmarked in early 2012.

Historically, we have targeted on average the median of the Compensation Peer Group for base salary while maintaining an above average target for the variable elements of compensation.

The Compensation Committee retains the discretion to set compensation levels above or below the targeted benchmarks, based on factors such as company and individual performance, job scope and retention risk.

The Compensation Peer Group includes the following companies:

| Company | Country |
|---|---|
| Novartis | Switzerland |
| Roche Holding | Switzerland |
| GSK | United Kingdom |
| Sanofi | France |
| Novo Nordisk | Denmark |
| Astrazeneca | United Kingdom |
| Merck KGaA | Germany |
| Shire | United Kingdom |
| UCB | Belgium |
| H Lundbeck | Denmark |
| Qiagen | Germany |
| Recordati | Italy |
| Chiesi Farmaceutici | Italy |
| Nycomed | Switzerland |

# REMUNERATION OF NON-EXECUTIVE DIRECTORS

## CHANGES FOR 2012 AND FORWARD

In 2012 the Board of Directors reviewed the compensation of its non-executive directors (NEDs) and decided to make the following changes to the structure of compensation effective from the Annual General Meeting 2012:

- **NO SEPARATE MEETING FEES**
  In line with market practice, separate Board and Committee meeting fees have been consolidated into the annual retainer.

- **STOCK OPTIONS DISCONTINUED**
  NEDs are no longer offered the opportunity to receive part of their annual retainers in the form of stock options.

- **SHARE OWNERSHIP REQUIREMENTS**
  Under new share ownership guidelines, NEDs will be required to acquire and retain Actelion shares worth 100% of their total normal annual Board retainers. This threshold is to be met within three years from their first election to the Board or, for current NEDs, three years from their next re-election. The Board has discretion to extend this period in exceptional circumstances.

The Board of Directors approves the compensation of Non-Executive Directors based on the Compensation Committee's recommendations.

The current package of compensation consists of annual retainers for Board and for Committee membership. Non-Executive Directors may choose to take part of their retainers in the form of equity, as described below. In 2012, NEDs could choose to take part of their fixed compensation as an allotment of shares under the Director Share Plan ('DSP') or in cash. Until 2011 NEDs could also choose to receive part of their compensation in the form of stock options under the Directors Stock Option Plan ('DSOP'). The DSOP was discontinued in 2012.

The Company also pays employer contributions to social security plans under applicable legislation. The amounts paid are shown in the table "Compensation of Non-Executive Directors."

NEDs are eligible for additional compensation where, in exceptional circumstances, their normal annual time commitment is significantly exceeded. In such circumstances, a payment of CHF 2,000 per day of additional activities may be paid.

## 2012 NON-EXECUTIVE DIRECTORS COMPENSATION

### ANNUAL BOARD AND COMMITTEE RETAINERS

The table below shows the revised annual retainers. Retainers are paid on a quarterly basis beginning from each year's Annual General Meeting.

| Annual Retainers | CHF (per term year) |
|---|---|
| Chairman of the Board | |
| Board Membership (including Membership of Committees) | 320,000 |
| Other Board Members | |
| Board Membership[1] | 200,000 |
| Finance and Audit Committee Chairmanship | 22,000 |
| Finance and Audit Committee Membership | 12,000 |
| Compensation Committee Chairmanship | 17,000 |
| Compensation Committee Membership | 9,000 |
| Nominating and Governance Committee Chairmanship | 13,000 |
| Nominating and Governance Committee Membership | 6,000 |

1 In the first year, a Non-Executive Board member will receive an additional Board Membership fee of CHF 55,000.

### DIRECTOR SHARE PLAN

Shares awarded under the DSP vest immediately. NEDs may choose to have the vested shares blocked for a one-year period, resulting in a tax discount.

### DIRECTOR STOCK OPTION PLAN (DISCONTINUED IN 2012)

Stock options awarded under the DSOP vested immediately. NEDs could choose to be taxed at either the time of grant or at exercise. The life of the options was adjusted based on this choice to 10 or 10.5 years from grant date. The strike price of the options was defined as the closing share price on the last trading day immediately prior to the grant date.

## COMPENSATION OF NON-EXECUTIVE DIRECTORS

In 2012 NEDs received the compensation shown in the table below for their Board activities.

| Name | Year | Functions | Total compensation (CHF) |
|---|---|---|---|
| **Jean-Pierre Garnier** | 2012 | Chairman / Member of the Compensation Committee / Member of the Nominating & Governance Committee | **252,082** |
| | 2011 | Chairman (since 27 September 2011) / Member of the Compensation Committee / Member of the Nominating & Governance Committee | **891,002** |
| **Robert E. Cawthorn** | 2012 | Member (until AGM 2012) / Chairman (until 26 September 2011) | **13,766** |
| | 2011 | Member (since 27 September 2011) / Chairman (until 26 September 2011) | **360,660** |
| **Juhani Anttila** | 2012 | Member / Member of the Finance & Audit Committee | **180,057** |
| | 2011 | Member / Member of the Finance & Audit Committee | **239,656** |
| **Robert J. Bertolini** | 2012 | Member (since AGM 2011) / Member of the Finance & Audit Committee | **168,047** |
| | 2011 | Member (since AGM 2011) / Member of the Finance & Audit Committee | **193,541** |
| **Carl Feldbaum** | 2012 | Member / Chairman of the Nominating & Governance Committee | **168,826** |
| | 2011 | Member / Chairman of the Nominating & Governance Committee | **164,754** |
| **Peter Gruss** | 2012 | Member (since AGM 2012) | **230,946** |
| **Werner Henrich** | 2012 | Member / Member of the Compensation Committee | **174,235** |
| | 2011 | Member / Member of the Compensation Committee | **220,752** |
| **Michael Jacobi** | 2012 | Member / Chairman of the Finance & Audit Committee | **186,609** |
| | 2011 | Member / Chairman of the Finance & Audit Committee | **208,808** |
| **Armin Kessler** | 2012 | Member / Chairman of the Compensation Committee / Member of the Nominating & Governance Committee | **178,320** |
| | 2011 | Member / Chairman of the Compensation Committee / Member of the Nominating & Governance Committee | **212,283** |
| **Jean Malo** | 2012 | Member / Member of the Finance & Audit Committee | **168,093** |
| | 2011 | Member / Member of the Finance & Audit Committee | **222,533** |
| **Joseph C. Scodari** | 2011 | Vice-Chairman (until 31 July 2011) / Member of the Compensation Committee / Member of the Nominating & Governance | **94,245** |
| **Elias A. Zerhouni** | 2011[7] | Member (until 31 December 2010) / Member of the Nominating & Governance Committee | **(56,030)** |
| **2012 TOTAL COMPENSATION** | | | **1,720,981** |
| **2011 TOTAL COMPENSATION** | | | **2,752,204** |

| | | | Shares (DSP)[3] | | Options (DSOP)[3] | |
|---|---|---|---|---|---|---|
| Cash (CHF) | Employer contributions to social security (CHF)[6] | Additional activities (CHF)[2] | Total number of shares | Total fair value (CHF)[4] | Total number of options | Total fair value (CHF)[5] |
| 84,000 | – | – | 4,006 | 168,082 | – | – |
| 484,000[1] | – | 2,000 | 8,464 | 405,002 | – | – |
| 11,000 | 2,766 | – | – | – | – | – |
| 69,750 | 37,659 | 50,750 | 4,232 | 202,501 | – | – |
| 168,000 | 12,057 | – | – | – | – | – |
| 59,500 | 13,123 | 32,000 | 2,822 | 135,033 | – | – |
| 88,500 | – | – | 1,896 | 79,547 | – | – |
| 52,500 | – | 750 | – | – | 12,696 | 140,291 |
| 56,925 | – | – | 2,667 | 111,901 | – | – |
| 59,000 | – | 12,650 | – | – | 8,464 | 93,104 |
| 104,875 | – | – | 3,219 | 126,071 | – | – |
| 86,375 | 9,403 | – | 1,870 | 78,457 | – | – |
| 55,000 | 21,469 | 9,250 | 2,822 | 135,033 | – | – |
| 120,000 | 11,061 | – | 1,324 | 55,548 | – | – |
| 71,500 | 6,781 | 37,000 | – | – | 8,464 | 93,527 |
| 61,175 | – | – | 2,792 | 117,145 | – | – |
| 68,000 | – | 9,250 | 2,822 | 135,033 | – | – |
| 56,700 | – | – | 2,655 | 111,393 | – | – |
| 56,500 | – | 31,000 | 2,822 | 135,033 | – | – |
| 25,500 | 4,781 | 35,382 | 353 | 16,891 | 1,058 | 11,691 |
| (14,000) | (2,562) | – | (508) | (22,458) | (1,527) | (17,010) |
| **837,550** | **35,287** | **–** | **20,429** | **848,144** | **–** | **–** |
| **987,250** | **81,251** | **220,032** | **23,829** | **1,142,068** | **29,155** | **321,603** |

1 Includes an exceptional retainer to Jean-Pierre Garnier for his election as Chairman of the Board in September 2011.
2 Remuneration for extraordinary activities was paid for the additional preparatory and follow-up work performed by the members of the Board of Directors in relation to the AGM 2011.
3 In 2011 the NEDs could choose to take part of their fixed compensation as an allocation of shares under the Director Share Plan ('DSP') and/or stock options under the Director Stock Option Plan ('DSOP'). Options granted to members of the Board out of the Company's Director Share Option Plan vested immediately. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the plan issuance date.
4 The 2011 DSP fair value is calculated using the share price on the date of grant of the DSP. The 2012 DSP fair value is calculated by taking the percentage of the Directors' annual retainer chosen by them to be paid out in shares. The quantity of shares paid out is then determined by the closing share price on the last payroll date of each relevant quarter.
5 The fair value of the options is estimated by the use of a Binomial Lattice option pricing model. The model input assumptions are determined based on available internal and external data sources.
6 Certain Non-Executive Directors are exempt from Swiss social security contributions depending on their country of residence and employment type. The figures shown in the table above include the effective employer contributions, and also reflect refunds received in relation to 2011.
7 The deductions have been made in 2011 as this member of the board did not serve for the full board term 2010/2011.

### ACTELION SHARE CHALLENGE 2011 PLAN

Directors who joined Actelion by the end of 2009 were allocated Restricted Stock Units (RSUs) under the company's one-time Share Challenge 2011 Plan. See page 61 for a description of this plan.

The Board of Directors confirmed that the plan's three performance conditions were met and approved allocations of RSUs, which vested on January 3, 2012 according to plan regulations.

Awards granted to NEDs until the end of 2009 under the Actelion Share Challenge Plan vested on January 3, 2012.

| | Number of RSUs Allocated | Value at Date of Vesting |
|---|---|---|
| Robert E. Cawthorn | 1,500 | CHF 49,710 |
| Juhani Anttila | 1,000 | CHF 33,140 |
| Carl Feldbaum | 1,000 | CHF 33,140 |
| Werner Henrich | 1,000 | CHF 33,140 |
| Michael Jacobi | 335 | CHF 11,102 |
| Armin Kessler | 1,000 | CHF 33,140 |
| Jean Malo | 1,000 | CHF 33,140 |

There are no outstanding awards under this plan.

## EQUITY HELD BY NON-EXECUTIVE DIRECTORS

The value of each NED's holding is assessed as of December 31st of each calendar year based on the average value of the holding over the course of the year. Previous awards under the DSP are counted but unexercised awards under the DSOP are not counted. Minimum ownership requirements will come into effect starting from the AGM 2013 as described on page 50.

| | Number of shares | Number of options |
|---|---|---|
| | 2012 | 2012 |
| Jean-Pierre Garnier | 12,470 | – |
| Robert E. Cawthorn[1] | 507,552 | 75,795 |
| Juhani Anttila | – | 10,000 |
| Robert E. Bertolini | 1,896 | 12,696 |
| Carl Feldbaum | 4,767 | 44,888 |
| Peter Gruss | 3,219 | 2,654 |
| Werner Henrich | 22,111 | 15,016 |
| Michael Jacobi | 5,185 | 24,888 |
| Armin Kessler | 40,178 | 15,000 |
| Jean Malo | 9,773 | 52,410 |
| **Total** | **607,151** | **253,347** |

1 Including related parties.

## REMUNERATION OF EXECUTIVE DIRECTORS

### CHANGES FOR 2012 AND FORWARD

#### CEO PARTICIPATES IN SAME EQUITY INCENTIVES AS OTHER EXECUTIVE COMMITTEE MEMBERS

Jean-Paul Clozel has received 2012 equity awards in the form of stock options under the Employee Stock Option Plan and Restricted Stock Units under the Employee Share Plan (ESP), rather than receiving stock options under the Director Stock Option Plan and shares under the Director Share Plan as he did in 2011.

Our CEO, Jean-Paul Clozel, is the only Executive Director currently on the Board. The Non-Executive Directors review Mr. Clozel's performance as CEO and set his compensation once a year based on the recommendations of the Compensation Committee.

The structure of the remuneration of the CEO is similar to that of the members of the AEC. For more details, please refer to "Remuneration of Actelion Executive Committee Members" below.

# REMUNERATION OF ACTELION EXECUTIVE COMMITTEE (AEC) MEMBERS

## CHANGES FOR 2013 AND FORWARD

- DEFERRED PROFIT SHARING PLAN REPLACED BY PERFORMANCE DEFERRED EQUITY INCENTIVE
  We are discontinuing the deferred profit sharing plan and replacing it with a new incentive element, the Performance Deferred Equity Incentive, that puts a greater emphasis on achievement of yearly Company goals. Payments under the new Incentive will be in the form of Restricted Stock Units and subject to vesting over two years.

- GREATER ALIGNMENT OF LONG-TERM INCENTIVES WITH SHAREHOLDER INTERESTS
  In place of stock options, management will be eligible for Performance Share Units, that are conditioned on our Total Shareholder Return (TSR) relative to a peer group of companies.

- MORE RESTRICTIVE PROVISIONS
  After reviewing current market practices regarding change-in-control clauses, we have imposed tighter restrictions and reduced the size of potential payments for new contracts offered to our eligible executives.

The Compensation Committee approves the compensation of the members of the AEC based on recommendations from the CEO.

During 2012, the Compensation Committee consulted with major shareholders and corporate governance bodies to gauge their views on our executive remuneration policies. Armed with these views, and with assistance from management and from Aon Hewitt Limited, its independent compensation advisor, the Compensation Committee reviewed its policies on the remuneration of the CEO and other AEC members and made a number of changes to ensure that:

- compensation levels remain appropriate in light of the need to attract, motivate and retain these executives
- there is a close link between compensation, performance and shareholder value creation
- the compensation structure appropriately reflects current best practices.

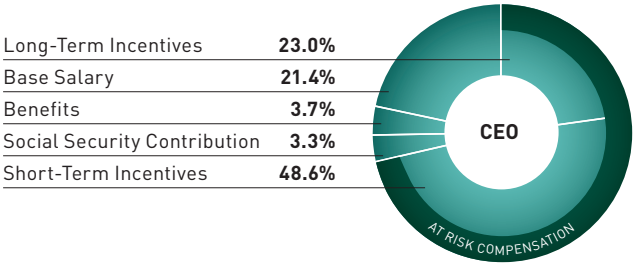
### ELEMENTS OF AEC COMPENSATION

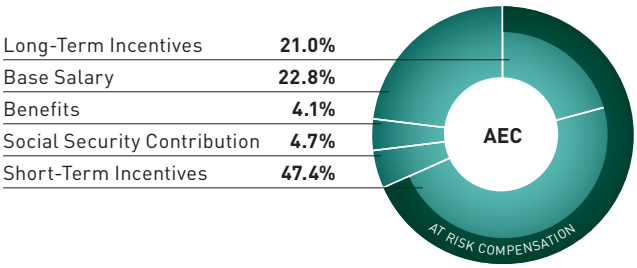
The table below shows the elements of compensation for AEC members:

| Element | 2012 | 2013 |
|---|---|---|
| Base Salary | Cash | Cash |
| Annual Performance Incentives | Cash and Deferred Cash | Cash and Deferred Restricted Stock Units |
| Long-Term Incentives | Stock Options and Restricted Stock Units | Performance Stock Units and Restricted Stock Units |
| Benefits | Pension and Cash Allowances | Pension and Cash Allowances |

## PAY COMPOSITION FOR AEC MEMBERS IN 2012

As shown by the following charts, the pay composition for our CEO and the other members of the AEC emphasizes compensation elements that are equity-linked and/or contingent on achieving specified performance goals:




## 2012 AEC MEMBERSHIP

| In 2012 the AEC consisted of: | |
|---|---|
| Jean-Paul Clozel | Chief Executive Officer |
| Guy Braunstein | Head of Clinical Development |
| Otto Schwarz | Chief Operating Officer |
| Nicolas Franco | Chief Business Development Officer |
| Andrew Oakley | Chief Financial Officer |

## BASE SALARY

Base salary is paid in monthly cash installments. Salaries are reviewed annually, taking account of individual performance as well as market and company conditions. The level of base compensation reflects each individual's level of responsibility, skills and experience required.

## SHORT-TERM INCENTIVES: PERFORMANCE CASH BONUS

As a means of fostering a pay-for-performance culture, members of the AEC are eligible for a performance cash bonus.

Actual bonuses paid can be between 0% and 130% of the on-target bonus, subject to the achievement of defined goals related to corporate, business unit and individual performance that the Compensation Committee sets at the beginning of the year. Performance is evaluated as follows:

- Our Board of Directors evaluates the performance of AEC members against the corporate measures. It also evaluates the overall performance of the CEO.
- Our Compensation Committee evaluates business unit performance, taking into account the recommendation of the CEO.
- Our CEO evaluates the individual performance of each AEC member with the Compensation Committee's approval.

The on-target bonus ranges and weighting of performance measures for 2012 are shown below:

| | **Jean-Paul Clozel (CEO)** | **Other AEC members** |
|---|---|---|
| On-Target Bonus Range | 100% of salary | 30%–50% of salary |
| **Performance Weighting** | | |
| Company Performance | 100% | |
| Company product sales and cash-EBIT performance | | 10% |
| Business Unit Performance | | 40% |
| Individual Performance | | 50% |

The Compensation Committee met in February 2013 to approve bonuses in respect of 2012. For 2012 the Corporate Performance Measures were exceeded and resulted in a payout of 127.1% of the target.

The 2012 and 2011 bonuses awarded to AEC Members are summarised in the table below:

| | **Bonus awarded for year ending 31 December** | |
|---|---|---|
| | **2012 % of salary[1]** | **2011 % of salary[1]** |
| Jean-Paul Clozel (CEO) | 127.1% | 100% |
| Other AEC Members | 117.9% | 64.2% |

AEC Members are included in the above table based on AEC membership for each respective year.

1 Salary at the year-end of each performance year.

## MEDIUM-TERM INCENTIVES

# CHANGES FOR 2013 AND FORWARD

### PERFORMANCE DEFERRED EQUITY INCENTIVE

Beginning in 2013, we have introduced a Performance Deferred Equity Incentive. The actual equity award can be between 0% and 130% of the target depending on achievement of company goals. The payout of Performance Deferred Equity Incentive will be in the form or Restricted Stock Units, vesting over a period of two years. This new plan will replace the Deferred Cash Profit Sharing Plan as described below.

## DEFERRED CASH PROFIT SHARING BONUS (DISCONTINUED FROM 2013)

Beginning in 2013, this award has been replaced by the Performance Deferred Equity Incentive. However, payouts under this plan will still take place in 2013 and 2014 under awards that were made for 2011 and 2012.

The deferred profit sharing plan has comprised a pool of value based on a percentage of Actelion's operating profit determined by the Compensation Committee at the beginning of each financial year. Participation was offered to selected executives, nominated by the CEO and approved by the Compensation Committee, based on their level of responsibility and performance. Its principal terms were as follows:

- Eligible executives were selected for participation in the plan at the beginning of each financial year and conditionally allocated a number of points in the pool based on their level of responsibility and performance.
- For 2012, award levels were capped at one times individual base salary.
- Following the end of the financial year the incentive pool was allocated to individual participants whose awards are then deferred for a further twelve months (i.e., the 2012 award will be paid out in 2014).
- Payments are conditional on the employment of the participant by the company until the end of the deferral period.

The AEC Members' target payout ranges and weighting of performance measures for 2013 are shown in the table below:

| Performance Deferred Equity Incentive | CEO | Other AEC members |
|---|---|---|
| On-Target Payout Range | 100-130% of base salary | 80%–100% of base salary |
| Performance Criteria | Company product sales and core earnings | |

The potential or effective payouts under the plan for AEC Members in respect of each of the last three financial years are summarised in the table below:

| Performance year/Payout year | 2012/2014[1] | 2011/2013[2] | 2010/2012 |
|---|---|---|---|
| | % of base salary[3] | % of base salary[3] | % of base salary[3] |
| Jean-Paul Clozel (CEO) | 100.0% | 6.2% | 68.3% |
| Other AEC members | 89.5% | 10.1% | 91.6% |

AEC Members included in the above table are based on AEC membership for each respective performance year.

1 2012/14 payments are capped at 100% of each individual AEC member's base annual salary at the end of 2012.
2 Additional payments under the 2011/2013 plan may be made depending on the outcome of outstanding litigation. Any additional payments will be disclosed in the year in which payment is made. Total individual payouts under the 2011/13 plan are capped at the average base salary of the level to which the executive is matched within Actelion's global grading system.
3 Percentage of salary is based on the average salary at the year-end of each performance year.

The operation of the Deferred Cash Profit Sharing Bonus plan is at the discretion of the Board of Directors. The Board of Directors reviews the achievement of strategic initiatives and ensures that the long-term objectives are not compromised for the sake of reaching a higher operating profit. The Board of Directors may decide at any time to suspend or cancel participation of a participant from the deferred cash profit sharing bonus as well as individual bonus payouts.

### LONG-TERM INCENTIVES

Long-term incentives at Actelion are designed to retain key talents and incentivise the creation of value for our shareholders.

- Our long-term incentive award levels are approved by the Compensation Committee, taking into account recommendations from the CEO.
- Eligibility for long term incentives, and award amounts, are based on an executive's level of responsibility as well as individual performance.

## CHANGES FOR 2013 AND FORWARD

With a view to aligning the long-term incentives of managers more closely with the long-term interests of shareholders, a number of new measures will be adopted from 2013:

- We will discontinue the award of stock options.
- Long-term incentive awards will consist of a mix of Restricted Stock Units (RSU) and Performance Stock Units (PSU).
- RSU and PSU will be subject to a three year cliff vesting condition.
- PSU will also be subject to a relative Total Shareholder Return (TSR) performance condition, with performance measured over three financial years. Actelion's TSR will be compared with an index made up of pharmaceutical and biotechnology companies and will vest as follows:
  - None of the PSU will vest if Actelion's TSR is below the TSR peer group median.
  - For TSR equal to the TSR peer group median, 25% of the PSUs will vest.
  - For TSR equal to the 58.3rd percentile of the TSR peer group, 50% of the PSUs will vest.
  - For TSR equal to the 75th percentile or higher of the TSR peer group, 100% of the PSU will vest.
  - Between each point, awards will vest on a straight-line basis
- Actelion's relative TSR performance will be measured against a peer group of 40 companies.

## LONG-TERM INCENTIVES FOR 2012

For 2012, members of senior management, including AEC Members, were eligible to receive RSUs, stock options or a mix of the two based on their individual choice.

### KEY ELEMENTS OF LONG-TERM INCENTIVES GRANTED IN 2012

| Equity Plan Type | Employee Share Plan (ESP) | Employee Stock Option Plan (ESOP) |
|---|---|---|
| Equity Instrument | Restricted Stock Units (RSUs) | Stock Options |
| Vesting Schedule | 3 years cliff (100%) from grant date | |
| Expiry | – | 10.5 years after grant date |
| Strike Price | – | Closing share price on last trading day prior to grant date |
| Forfeiture | Lapse immediately on cessation of employment, other than in predefined good leaver circumstances, or at the discretion of the Committee. In such circumstances awards would not normally vest until the normal vesting date and are pro-rated to reflect the amount of time elapsed since grant | |
| Change in Control | In case of a change in control, the Board of Directors has the ability to permit accelerated vesting of outstanding awards | |

Equity allocations to AEC Members since 2011 are summarised in the table below:

| | Year of Award | Number of Equities | Fair Value on the Date of the Award | Strike Price |
|---|---|---|---|---|
| Jean-Paul Clozel (CEO) | | | | |
| ESOP | 2012 | 53,333 | CHF 652,796 | CHF 40.30 |
| DSOP | 2011 | 60,489 | CHF 668,403 | CHF 47.85 |
| ESP | 2012 | 14,185 | CHF 539,597 | – |
| DSP | 2011 | 20,163 | CHF 964,800 | – |
| Other AEC Members (total) | | | | |
| ESOP | 2011 | 38,760 | CHF 643,028 | CHF 51.55 |
| ESP | 2012 | 58,344 | CHF 1,861,757 | – |
| | 2011 | 63,738 | CHF 3,200,922 | – |

AEC members are included in the above table based on AEC membership at the time of equity allocations.

Equity allocations for 2013 will be disclosed in the 2013 Annual Report, as they were not granted at the time of publication of this report.

## ACTELION SHARE CHALLENGE 2011 PLAN – 2012 VESTING

The Actelion Share Challenge Plan was initiated in 2008 to promote a long-term perspective for managing the business in alignment with shareholder interests and to reward long-term employee dedication.

The challenge was based on the achievement of three objectives related to Actelion's performance: revenue generation, product development and product launches. The revenue generation objective was achieved in 2010 and the remaining two objectives were achieved in 2011.

The Board of Directors confirmed that the three performance conditions were met and approved the allocation of RSUs, which vested on January 3, 2012 according to plan regulations.

Awards granted to AEC members who joined Actelion through the end of 2009 under the Actelion Share Challenge Plan vested on January 3, 2012.

| | RSUs Allocated | Value at Date of Vesting |
|---|---|---|
| Jean-Paul Clozel (CEO) | 10,000 | CHF 331,400 |
| Other AEC Members | 9,005 | CHF 298,426 |

AEC members included in the above table based on AEC membership at the time of vesting.

There are no outstanding awards under this plan.

## AEC BENEFITS

In 2012, the Company paid employer contributions to social security and pension plans on behalf of AEC members totalling CHF 1,083,703. The Company also paid other benefits totalling CHF 64,671.

## TOTAL COMPENSATION FOR THE AEC IN 2012 AND 2011

| | | | Benefits | | | Short-term incentives | | Long-term incentives | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Year/ (No of members)** | **Base Salary** | Pension | Other Benefits[3] | **Social security contribution** | Cash Bonus[4,5] | Deferred profit sharing[6] | Fair Value of ESOP/ DSOP[7&8] | Fair Value of ESP/ DSP[7&8] | **Total** |
| Jean-Paul Clozel (CEO)* | 2012 | 1,108,550 | 190,991 | 320 | 171,151 | 1,408,968 | 1,108,550 | 652,796 | 539,597 | **5,180,923** |
| | 2011[1] | 1,081,500 | 158,754 | 0 | 187,392 | 1,081,500 | 66,642 | 668,403 | 964,800 | **4,208,991** |
| | 2011[2] | 1,081,500 | 158,754 | 0 | 187,392 | 1,050,000 | 416,726 | 668,403 | 964,800 | **4,527,575** |
| Other AEC Members (total) | 2012 (4) | 2,030,800 | 301,864 | 64,351 | 419,697 | 2,394,373 | 1,817,115 | 0 | 1,861,757 | **8,889,957** |
| | 2011 (7)[1] | 2,470,670 | 377,473 | 60,800 | 346,666 | 1,586,147 | 248,545 | 643,028 | 3,200,922 | **8,934,251** |
| | 2011 (7)[2] | 2,470,670 | 377,473 | 60,800 | 346,666 | 1,824,410 | 2,178,502 | 643,028 | 3,200,922 | **11,102,471** |
| **Total** | **2012** | **3,139,350** | **492,855** | **64,671** | **590,848** | **3,803,341** | **2,925,665** | **652,796** | **2,401,354** | **14,070,880** |
| | **2011[1]** | **3,552,170** | **536,227** | **60,800** | **534,058** | **2,667,647** | **315,187** | **1,311,431** | **4,165,722** | **13,143,242** |
| | **2011[2]** | **3,552,170** | **536,227** | **60,800** | **534,058** | **2,874,410** | **2,595,228** | **1,311,431** | **4,165,722** | **15,630,046** |

* Highest paid executive

1 2011 figures presented in accordance with the new presentation and measurement principles, i.e. aligned to performance year.

2 2011 figures as disclosed in the compensation report 2011.

3 Includes transportation allowances, car allowances and fees for membership.

4 Cash bonus payable in respect of each financial year.

5 In 2008 the COO (at the time Head of Business Strategic Operations) was made eligible for a one time special incentive plan based on the achievement of sales and organizational enhancements targets with milestone payments scheduled up to 2013. The targets were fully achieved, which triggered the following payments: 250'000 CHF in 2010, 250'000 CHF in 2011, 1'250'000 CHF in 2012 and 1'250'000 CHF in the first quarter of 2013. In 2011 the CFO was awarded a special award in the amount of 50'000 CHF. In 2012 the Head of Business Corporate Development received a sign-on bonus in the amount of 75'000 CHF.

6 Deferred profit sharing award in respect of each financial year. Payment is deferred by one year following the year of reference subject to employment conditions.

7 Long-term incentives awarded during each financial year.

8 Prior to 2012, the CEO was granted shares under the plans applying to Directors (DSOP and DSP). From 2012 onwards, his shares are granted under the employees' equity plans (ESOP and ESP).

## CLAWBACK PROVISIONS

In 2012, we introduced a clawback provision to enable the company to reclaim from its employees the value of any incentives that are paid as a result of a material misstatement of the company's accounts for the relevant financial year, and/or in circumstances of gross misconduct by an individual participant in the plans.

## CHANGE-IN-CONTROL CLAUSES

The company believes that it needs the flexibility to offer these clauses so it can recruit and retain high calibre executives in an industry where there is a high level of M&A activity. These clauses also help to ensure continuity of management in a potential change-in-control situation, and are appropriate in light of the relatively short notice periods contained in the contracts of our senior executives when compared to notice periods among our industry peers.

### CLAUSES IN EXISTING CONTRACTS

The employment contracts of all AEC members and 78 key employees contain a clause providing for severance payments in case of loss of position because of a change in control of the ownership of Actelion.

For existing participants, the key elements are:

- A severance payment equivalent to twice the total yearly cash compensation, benefits and allowances. This severance payment is only due if, within six months prior to or two years after the effective date of a change in control, the company terminates the employee's employment without cause, or the employee terminates his or her employment with good reason.
- Immediate vesting of any equity awards already granted.

### CHANGES FOR 2013 AND FORWARD

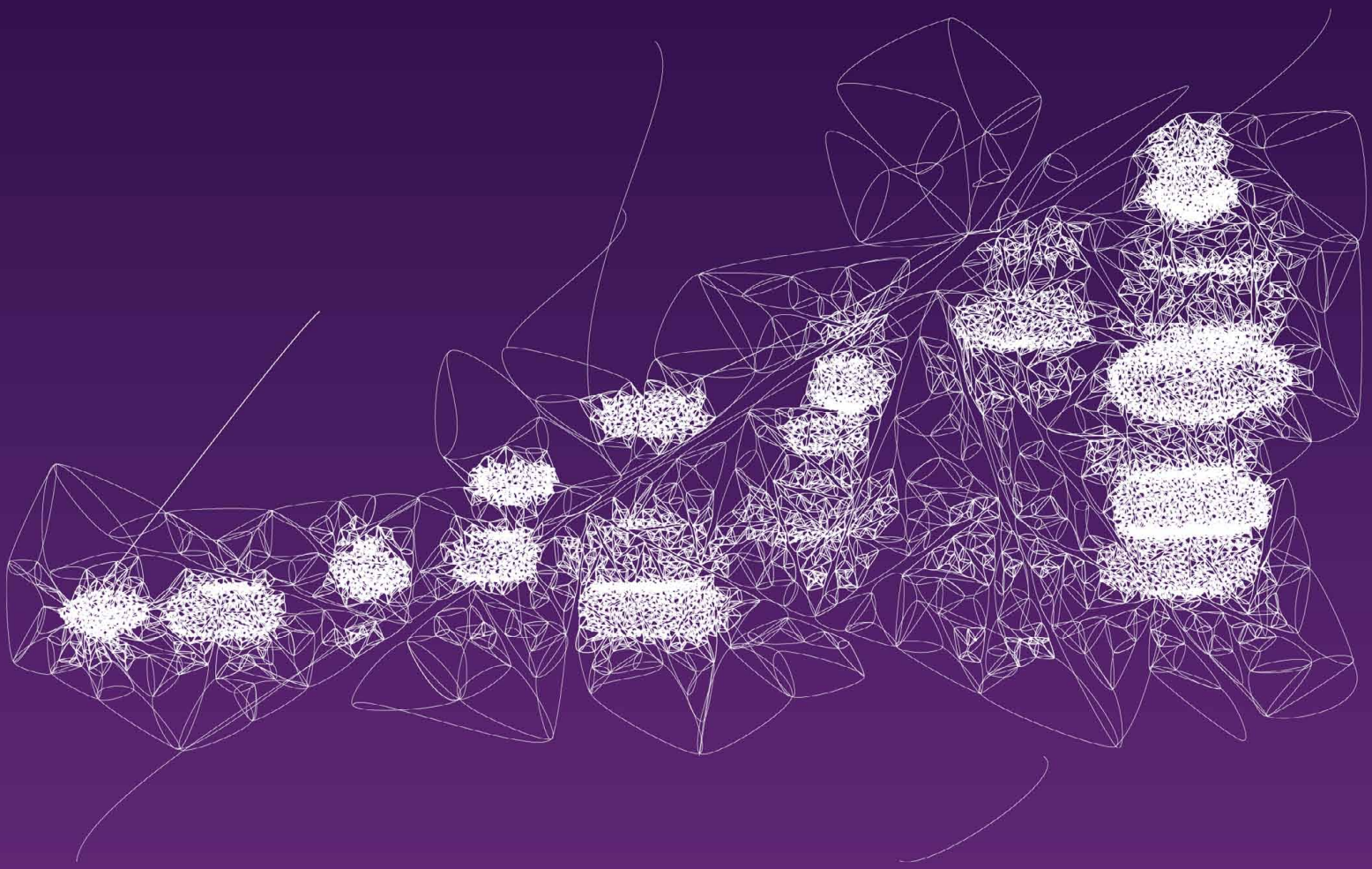
The Committee decided to make the following changes for new participants into the change-in-control program:

- All severance payments under the change-in-control clause will be limited to twelve months' salary.
- A severance payment under the change in control clause will only be due if, within twelve months after the effective date of a change in control, the company terminates the employee's employment without cause, or the employee terminates his or her employment with "good reason."

## CONTRACTUAL TERMINATION

Employment contracts for the CEO and other AEC members provide for a 3-month notice period in case of termination by the employee or the company.

The company has not entered into any other severance agreements with members of the AEC.



# FINANCIAL REPORT DELIVERING FINANCIAL DISCIPLINE

The European debt crisis and slower global economic growth continued to impact the business landscape in 2012. Pressure on government budgets weighed heavily on healthcare markets around the globe. Additionally, the competitive environment continued to adversely affect sales in the United States.

Amid these challenges, Actelion delivered a strong sales performance in 2012. Total product sales for the full year were CHF 1,722.1 million. This represents an increase of 1% in Swiss Francs and a decrease of 2% in local currencies.

Operating expenditure amounted to CHF 1,306.9 million, a decrease of 27% compared to the previous reporting period, mainly driven by the litigation provision occurred in 2011 as well as tight cost control in 2012. The resulting net income for 2012 was CHF 303.2 million compared to a net loss of CHF 146.3 million in 2011. Diluted earnings per share amount to CHF 2.57 compared to a loss per share of CHF 1.23.

Retaining an appropriate balance between attractive shareholder returns, investment in the business and a strong capital structure will remain a priority in the future. Actelion's Board proposes to increase the dividend payment to CHF 1.00 from CHF 0.80 per share and will ask for shareholder approval to do so at the upcoming Annual General Meeting on April 18, 2013.

During 2012, the company bought back 6.4 million shares at a total cost of CHF 264.2 million on the second trading line as part of the CHF 800 million share repurchase program announced in October 2010 and canceled 4.4 million shares. This brings the number of treasury shares held on December 31, 2012 to 13.8 million, or 11% of the total issued share capital. The Board is committed to completing the current repurchase program by the fourth quarter of 2013.

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENTS

| (in CHF thousands, except per share amounts) | Notes | Twelve months ended December 31, 2012 | 2011 |
|---|---|---|---|
| **Net revenue** | | | |
| Product sales | 23 | 1,722,089 | 1,712,991 |
| Contract revenue | 4/23 | 6,307 | 83,072 |
| **Total net revenue** | | **1,728,396** | **1,796,063** |
| | | | |
| **Operating expenses**[1] | | | |
| Cost of sales[2] | | 196,336 | 196,485 |
| Research and development | | 460,471 | 457,691 |
| Selling, general and administration | | 610,856 | 749,896 |
| Amortization of acquired intangible assets | 12 | 39,266 | 39,204 |
| Litigation provision | 17 | - | 340,626 |
| **Total operating expenses** | | **1,306,929** | **1,783,902** |
| **Operating income** | | **421,467** | **12,161** |
| | | | |
| Interest income | | 2,058 | 6,247 |
| Interest on litigation | 17 | (41,576) | (19,734) |
| Interest expense on bonds | 15 | (12,040) | (18,129) |
| Interest expense | | (503) | (2,208) |
| Impairment on financial assets | 8 | (348) | (24,735) |
| Other financial income (expense), net | 1/8 | (10,585) | (22,903) |
| **Income before income tax expense** | | **358,473** | **(69,301)** |
| | | | |
| Income tax expense | | (55,247) | (77,018) |
| **Net income (loss)** | | **303,226** | **(146,319)** |
| | | | |
| **Basic net income (loss) per share** | 6 | **2.61** | **(1.23)** |
| Weighted-average number of common shares (in thousands) | | 116,129 | 118,832 |
| | | | |
| **Diluted net income (loss) per share** | 6 | **2.57** | **(1.23)** |
| Weighted-average number of common shares (in thousands) | | 118,120 | 118,832 |
| | | | |
| **[1]Includes stock-based compensation as follows:** | | | |
| Research and development | | 20,964 | 35,194 |
| Selling, general and administration | | 25,652 | 49,716 |
| **Total stock-based compensation** | | **46,616** | **84,910** |

[2] Excludes amortization of intangible assets as presented separately.

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Twelve months ended December 31, | |
|---|---|---|
| (in CHF thousands) | **2012** | **2011** |
| **Net income (loss)** | **303,226** | **(146,319)** |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | 1,693 | (43,672) |
| Change of unrecognized components of net periodic benefit costs | (6,323) | 7,126 |
| Amortization of components of net periodic benefit costs | 455 | 1,691 |
| Holding gains (losses) on marketable securities reclassified to net income | - | (112) |
| **Other comprehensive income (loss), net of tax** | **(4,175)** | **(34,967)** |
| **Comprehensive income (loss)** | **299,051** | **(181,286)** |

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

## CONSOLIDATED BALANCE SHEETS

| (in CHF thousands, except number of shares) | Notes | December 31, 2012 | December 31, 2011 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7/8 | 1,022,272 | 1,281,037 |
| Short-term deposits | | 100,747 | 50,000 |
| Derivative instruments | 8 | 7,682 | 1,457 |
| Marketable securities | 8 | - | 5,520 |
| Trade and other receivables, net | 9 | 412,929 | 536,481 |
| Inventories | 10 | 56,389 | 63,859 |
| Other current assets | 11 | 25,035 | 33,811 |
| Deferred tax assets, current portion | 5 | 5,784 | 9,952 |
| **Total current assets** | | **1,630,838** | **1,982,117** |
| Restricted cash for litigation | 8/17 | 368,740 | - |
| Property, plant and equipment, net | 13 | 402,535 | 424,659 |
| Other non-current assets | | 27,188 | 23,385 |
| Intangible assets, net | 12 | 169,822 | 204,267 |
| Goodwill | 12 | 74,331 | 74,940 |
| Deferred tax assets, less current portion | 5 | 20,832 | 22,710 |
| **Total assets** | | **2,694,286** | **2,732,078** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 90,932 | 101,781 |
| Accrued expenses | 14 | 351,920 | 365,467 |
| Deferred revenue, current portion | | 1,925 | 10,135 |
| Other current liabilities | 2/8 | 15,309 | 49,448 |
| **Total current liabilities** | | **460,086** | **526,831** |
| Deferred revenue, less current portion | | 3,277 | 4,843 |
| Other non-current liabilities | 2/8 | 6,514 | 18,014 |
| Litigation provision | 17 | 431,534 | 404,696 |
| Long-term financial debt | 15 | 235,431 | 235,578 |
| Pension liability | 18 | 38,473 | 31,271 |
| Deferred tax liabilities | 5 | 327 | 391 |
| **Total liabilities** | | **1,175,642** | **1,221,624** |
| **Shareholders' equity** | 19 | | |
| Common shares (par value CHF 0.50 per share, authorized 180,850,214 and 185,735,290 shares; issued 126,773,027 and 130,464,351 shares in 2012 and 2011, respectively) | | 63,387 | 65,232 |
| Additional paid-in capital | | 943,580 | 1,213,004 |
| Accumulated profit | | 1,429,724 | 1,126,498 |
| Treasury shares, at cost | | (718,984) | (699,392) |
| Accumulated other comprehensive income (loss) | 21 | (199,063) | (194,888) |
| **Total shareholders' equity** | | **1,518,644** | **1,510,454** |
| **Total liabilities and shareholders' equity** | | **2,694,286** | **2,732,078** |

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Twelve months ended December 31, | |
|---|---|---|
| (in CHF thousands) | **2012** | **2011** |
| **Cash flow from operating activities** | | |
| Net income (loss) | 303,226 | (146,319) |
| Adjustments to reconcile net income to net cash provided from operating activities: | | |
| Depreciation and amortization | 81,888 | 82,857 |
| Stock-based compensation, incl. treasury shares to members of Board of Directors | 47,464 | 87,016 |
| Excess tax benefits from share-based payment arrangements | (2,769) | (915) |
| Deferred revenue | (6,110) | (79,215) |
| (Gains) Losses on derivative instruments | (28,517) | 56,477 |
| (Gains) Losses on marketable securities, incl. other-than-temporary impairment | 1,309 | 30,523 |
| Interest expense on bonds and litigation | 38,938 | 37,863 |
| Trade and other receivables | 110,152 | (46,088) |
| Inventories | 7,431 | (4,521) |
| Other assets | 6,411 | 7,663 |
| Trade and other payables | (9,314) | (2,029) |
| Other liabilities | 5,659 | 385,194 |
| Changes in other operating cash flow items | 16,583 | (3,604) |
| **Net cash flow provided by (used in) operating activities** | **572,351** | **404,902** |
| | | |
| **Cash flow from investing activities** | | |
| Restricted cash for litigation | (370,588) | - |
| Purchase of short-term and long-term deposits | (500,747) | (50,000) |
| Proceeds from short-term and long-term deposits | 450,000 | 250,000 |
| Purchase of property, plant and equipment | (33,708) | (89,406) |
| Proceeds from marketable securities | 4,179 | 11,949 |
| Purchase of intangible assets | (5,570) | (6,226) |
| Purchase of other non-current assets | (4,536) | - |
| Acquisition of a business, incl. deferred and contingent consideration payments | (27,442) | (18,375) |
| **Net cash flow provided by (used in) investing activities** | **(488,412)** | **97,942** |
| | | |
| **Cash flow from financing activities** | | |
| Dividend payment | (93,686) | (95,316) |
| Repayment and repurchase of convertible debt | - | (459,950) |
| Proceeds from long-term financial debt, net of expense | - | 232,664 |
| Payments on capital leases | (61) | (65) |
| Proceeds from exercise of stock options, net of expense | 22,488 | 14,243 |
| Purchase of treasury shares | (264,173) | (109,257) |
| Excess tax benefits from share-based payment arrangements | 2,769 | 915 |
| **Net cash flow provided by (used in) financing activities** | **(332,663)** | **(416,766)** |
| | | |
| Net effect of exchange rates on cash and cash equivalents | (10,041) | (986) |
| **Net change in cash and cash equivalents** | **(258,765)** | **85,092** |
| Cash and cash equivalents at beginning of period | 1,281,037 | 1,195,945 |
| **Cash and cash equivalents at end of period** | **1,022,272** | **1,281,037** |
| | | |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for: | | |
| Interest | 14,753 | 28 |
| Taxes | 60,245 | 57,190 |

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

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| (in CHF thousands, except number of shares) | Common shares | | Additional paid-in capital | Accum. profit | Treasury shares | Accum. other comprehensive income (loss) | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | | | |
| **At January 1, 2011** | **119,366,427** | **64,912** | **1,209,857** | **1,272,817** | **(592,461)** | **(159,921)** | **1,795,204** |
| **Comprehensive income (loss), net of tax:** | | | | | | | |
| Net income (loss) | - | - | - | (146,319) | - | - | (146,319) |
| Other comprehensive income (loss) | - | - | - | - | - | (34,967) | (34,967) |
| **Comprehensive income (loss), net of tax** | **-** | **-** | **-** | **(146,319)** | **-** | **(34,967)** | **(181,286)** |
| Excess tax benefits and underrealization from share-based payment arrangements | - | - | (110) | - | - | - | (110) |
| Exercise of stock options | 639,776 | 320 | 13,923 | - | - | - | 14,243 |
| Transactions in treasury shares | (2,888,083) | - | (217) | - | (106,931) | - | (107,148) |
| Stock-based compensation expense | - | - | 84,867 | - | - | - | 84,867 |
| Dividend payment | - | - | (95,316) | - | - | - | (95,316) |
| **At December 31, 2011** | **117,118,120** | **65,232** | **1,213,004** | **1,126,498** | **(699,392)** | **(194,888)** | **1,510,454** |
| **Comprehensive income (loss), net of tax:** | | | | | | | |
| Net income (loss) | - | - | - | 303,226 | - | - | 303,226 |
| Other comprehensive income (loss) | - | - | - | - | - | (4,175) | (4,175) |
| **Comprehensive income (loss), net of tax** | **-** | **-** | **-** | **303,226** | **-** | **(4,175)** | **299,051** |
| Excess tax benefits and underrealization from share-based payment arrangements | - | - | (2,686) | - | - | - | (2,686) |
| Exercise of stock options | 739,751 | 370 | 14,693 | - | - | - | 15,063 |
| Transactions in treasury shares | (4,927,149) | - | (72,109) | - | (183,791) | - | (255,900) |
| Stock-based compensation expense | - | - | 46,348 | - | - | - | 46,348 |
| Cancelation treasury shares (share repurchase program) | - | (2,215) | (161,984) | - | 164,199 | - | - |
| Dividend payment | - | - | (93,686) | - | - | - | (93,686) |
| **At December 31, 2012** | **112,930,722** | **63,387** | **943,580** | **1,429,724** | **(718,984)** | **(199,063)** | **1,518,644** |

The accompanying notes form an integral part of these 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 presentation**

The Group's consolidated financial statements have been prepared under Generally Accepted Accounting Principles in the United States ("US GAAP"). The Accounting Standards Codification ("ASC" or "Codification") established by the Financial Accounting Standards Board ("FASB") is the single authoritative source of US GAAP to be applied by non-governmental entities. All amounts are presented in Swiss francs ("CHF"), unless otherwise indicated.

**Scope of consolidation**

The consolidated financial statements include the accounts of the Group and its wholly-owned affiliated companies in which the Group has a direct or indirect controlling financial interest and exercises control over their operations (generally more than 50% of the voting rights). Investments in common stock of entities other than subsidiaries where the Group has the ability to exercise significant influence over the operations of the investee (generally between 20%-50% of the voting rights) are accounted for under the equity method.

Variable interest entities ("VIE"), irrespective of their legal structure, are consolidated if the Group has determined to be the primary beneficiary as defined in the *Variable Interest Entities* Subsection of FASB ASC ("ASC 810-10-25-20 to 59") and thus has the power to direct the activities that most significantly impact the VIE's economic performance and will also absorb the majority of the VIE's expected losses or receive the majority of the VIE's expected residual returns, or both. For determination whether or not an entity is a VIE, the Group considers if the equity at risk for the entity is sufficient to support its operations, if the voting rights of the equity holders are in disproportion to their risk and rewards or if substantially all of the entity's activities are conducted on behalf of the Group.

**Principles of consolidation**

Businesses acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or until the date of disposal. The acquisition method of accounting follows the guidance codified in the *Business Combinations* Topic of the FASB ASC ("ASC 805"). Intercompany transactions and balances are eliminated.

**Business Combinations**

The purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. The excess of the consideration transferred over the fair value of the Group's share of the identifiable acquired net assets is recorded as goodwill. Acquired in-process research and development projects ("IPR&D"), regardless of whether they have an alternative future use, are recognized as indefinite-lived intangible assets. Contingent liabilities assumed in a business combination are recognized on the basis of information known at the time of the initial purchase price allocation. If the fair value of the contingencies is not determinable at the date of acquisition and till the end of the allocation period, the Group follows the guidance of the *Contingencies* Topic of FASB ASC ("ASC 450") in respect to these liabilities. Adjustments after the expiration of the allocation period are recognized as an element of net income. Acquisition-related costs, except costs related to the issuance of debt or equity securities, are expensed in the periods in which they are incurred and the services are received. Pro forma disclosures include revenue and earnings of the combined entity as of the beginning of the comparable prior annual reporting period.

**Use of estimates**

The preparation of financial statements in conformity with US GAAP requires management to make judgments, assumptions and estimates that affect the amounts and disclosures reported in the consolidated financial statements and accompanying notes. On an on-going basis, management evaluates its estimates, including those related to revenue

recognition for contract revenue, allowance for doubtful accounts, stock-based compensation, intangible assets, clinical trial accruals, impairment of indefinite lived intangibles including goodwill, provisions, loss contingencies and income taxes. The Group bases its estimates on historical experience and on various market-specific and other relevant assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

**Revenue recognition**

*Product sales*
The Group recognizes revenue from product sales when there is persuasive evidence that a sales arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is reasonably assured. If collectibility is not reasonably assured, revenue is deferred and only recognized upon cash receipt. Provisions for rebates and discounts granted to government agencies, wholesalers, retail pharmacies, managed care and other customers are recorded as a reduction of revenue at the time the related revenues are recognized or when the incentives are offered. They are calculated on the basis of historical experience and the specific terms in the individual agreements. Cash discounts offered to customers to encourage prompt payment are recorded as revenue deductions based on contractual terms, historical utilization rates and Group's expectation regarding future utilization rates. Accruals for product returns are recorded as deductions from revenue if the products are damaged or defective when received by the customer. Estimates on expected returns are based primarily on historical return patterns.

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

*Multiple-Deliverable Revenue Arrangements*
The Group's revenue arrangements with multiple elements generally relate to collaborative agreements with third parties, which are typical transactions in the biopharmaceutical industry and usually include multiple elements such as product licensing, research and development activities, manufacturing and supply, royalty payments etc. At inception, the arrangement's consideration is allocated to all deliverables based on their relative selling price. The selling price for each deliverable is determined using vendor specific objective evidence of that price, if it exists; otherwise third-party evidence of the selling price is used. If neither exists for a deliverable, the Group applies its best estimate of the selling price for that deliverable.

*Contract revenue*
Contract revenue includes license fees and milestone payments associated with collaborative agreements with third parties. Collaborative agreements with third parties represent the Group's major agreements with multiple elements. The significant deliverables generally include license fees and milestone payments, which are recognized as contract revenue when the services are performed and collectibility is reasonably assured. License fees are treated as separate units of accounting only if upon careful evaluation of the facts and circumstances in the individual contracts it has been determined that they have a standalone value to the customer. The assessment of standalone value depends on the customer's ability to recover a substantial portion of the consideration paid to the Group either through resale or use. Revenue from non-refundable, upfront license fees and performance milestones where the Group has continuing involvement is recognized ratably over the estimated performance or agreement period, depending on the terms of the agreement. The recognition of revenue is prospectively adjusted for subsequent changes in the development or agreement period. Revenue associated with performance milestones where the Group has no continuing involvement or service obligation is recognized upon achievement of the milestone. Payments received in excess of amounts earned are classified as deferred revenue until earned.

Following the guidance codified in the *Collaborative Arrangements* Topic of FASB ASC ("ASC 808"), the Group presents the result of activities for which it acts as the principal on a gross basis and reports any payments received from (made to) other collaborators based on other applicable GAAP. The Group's accounting policy for its qualifying collaborative agreements (See Note 4. Collaborative agreements) is to evaluate amounts due from (owed to) other collaborators based on the nature of each separate activity.

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

**Research and development ("R&D")**
R&D expense consists primarily of compensation and other expenses related to R&D 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 R&D costs are charged to expense when incurred following the guidance codified in the *Research and Development* Topic of FASB ASC ("ASC 730").

Payments made to acquire individual R&D 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. Payments made to acquire individual R&D assets that do not have an alternative future use, are expensed as R&D costs. R&D costs for services rendered under collaborative agreements are charged to expense when incurred. Reimbursements for R&D activities received from other collaborators are classified as reduction of the Group's R&D expense (See Note 4. Collaborative agreements).

**Advertising and promotional costs**
The Group expenses the costs of advertising, including promotional expenses, as incurred. Advertising and promotional costs were CHF 128.6 million and CHF 135.4 million in 2012 and 2011, respectively.

**Legal fees**
Legal fees related to loss contingencies are expensed as incurred and included in selling, general and administration expenses.

**Patents and trademarks**
Costs associated with the filing and registration of patents and trademarks are expensed in the period in which they occur, and included in R&D expenses.

**Stock-based compensation**
Stock-based compensation follows the guidance codified in the *Compensation – Stock Compensation* Topic of FASB ASC ("ASC 718"). As such, costs for awards granted after July 1, 2005, are recognized in earnings using the fair-value based method. Compensation costs for unvested stock options and awards that were outstanding at July 1, 2005, are recognized in earnings over the requisite service period based on the grant-date fair value of those options and awards.

The fair values of awards granted under share option plans until December 2004 were estimated at grant or purchase dates using a Black-Scholes option pricing model. The fair values of awards granted after December 2004 are estimated by use of a Binomial Lattice option pricing model. The model input assumptions are determined based on available internal and external data sources. The risk free rate used in the model is based on the 10 year Swiss zero coupon rate. The probability of death is derived from data of the Swiss Federal Statistical Office. The expected volatility is based on equal weighting of historic and forward looking data which includes the Group's historic volatility of a period equal to the options' contractual life and implied volatility on the longest outstanding warrants, convertible debt and traded options issued by the Group, if available. Prior to 2012, in accordance with ASC 718-10-55-37(c), the expected volatility also considered average peer group volatility. The dividend yield is based on the expected dividend yield over the expected term of the awards granted. Resignation, redundancy, retirement and early exercise behavior assumptions are based on the Group's historical headcount data and analyses of historical early exercises of the Group's employees, respectively. The Group recognizes compensation costs considering estimated future forfeiture rates. The latter are reviewed annually or whenever indicators are present that actual forfeitures may differ materially from previously established estimates.

Amortization of total compensation costs for the Standard Share Option Plans ("SSOP") and for the Employee Share Plan ("ESP") is recognized on a straight-line basis over the requisite service period for the entire award (See Note 20. Stock-based compensation). Expenses related to performance based awards are recognized ratably over the requisite service period for each separately vesting portion of such awards. Stock-based compensation costs related to employees

engaged in the production process generally are recognized in a manner similar to all other compensation paid to these employees and are capitalized as part of inventory. Due to the immateriality of such cost, no stock-based compensation cost was capitalized in the periods presented. Stock option exercises are settled out of the conditional capital or with the treasury shares, which the Group purchases on the market.

**Taxes**
The Group accounts for income taxes in accordance with the *Income Taxes* Topic of FASB ASC (primarily codified in "ASC 740"). Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rules and laws that will be in effect when differences are expected to reverse. The Group performs periodic evaluations of recorded tax assets and liabilities and maintains a valuation allowance if deemed necessary. Uncertain tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on tax audit, including resolution of related appeals or litigation processes, if any. The recognized tax benefits are measured as the largest benefit of having a greater than fifty percent likelihood of being sustained upon settlement. Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favorable or unfavorable effects on the future effective tax rate, which would directly impact the Group's financial position or results of operations. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of capital expenditures, and changes in overall levels of pre-tax earnings. Interest and penalties related to uncertain tax positions are recognized as income tax expense.

**Earnings per share ("EPS")**
In accordance with *Earnings per Share* Topic of FASB ASC ("ASC 260"), basic EPS are computed by dividing net income available to common shareholders by the weighted-average common shares outstanding for the fiscal year. Diluted EPS reflect the potential dilution that could occur if dilutive securities, such as share options, restricted stock units or convertible debt, were exercised, vested or converted into common shares or resulted in the issuance of common shares that would participate in net income. In accordance with ASC 260-10-45-19, the Group does not consider any potential common shares in the computation of diluted EPS if there is a loss from continuing operations (See Note 6. Earnings per share).

**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 Holding Company's right to pay dividends may be limited in specific circumstances (See Note 19. Shareholders' equity).

**Cash and cash equivalents**
The Group considers all highly liquid investments with a contractual maturity of three months or less to be cash equivalents. Additionally, the Group includes all amounts held in money market funds as cash equivalents.

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

**Marketable securities**
The Group classifies marketable securities in accordance with guidance primarily codified in the *Investments – Debt and Equity Securities* Topic of FASB ASC ("ASC 320") as either available-for-sale ("AFS"), held-to-maturity ("HTM") or trading. AFS securities are carried at fair value with unrealized gains and losses recorded as a separate component of shareholders' equity. HTM 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. Trading securities are carried at fair value with unrealized holding gains and losses reported in other financial income (expense), net.

The Group reviews marketable securities for impairment whenever circumstances indicate that a decline in the fair value of the security below its cost may be other than temporary ("other-than-temporary-impairment" or "OTTI"). Debt securities with a fair value below their amortized cost are considered impaired. Such impairments are considered other

than temporary if the Group has the intent or can be required to sell the investment or it does not expect recovery of the entire cost basis of the security till maturity. If it is unlikely that the Group can be forced to sell the debt security, OTTI is split between a credit loss, which relates to collectibility of estimated cash flows to be received and is immediately recognized in net income, and other losses, not related to collectibility and recognized in other comprehensive income (loss). Equity securities are considered other than temporarily impaired upon analyses of certain indicators, like the length of time and the extent to which the market value of the investment has been less than its cost; the financial conditions and the long-term prospects of the issuer as well as Group's intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in market value. OTTIs on equity securities are immediately recognized in net income.

**Derivative instruments and foreign currency exchange risk**
A significant portion of the Group's operations is denominated in foreign currencies, principally in US Dollars, Euros and Yen. Exposures to fluctuations in foreign currencies may adversely impact the Group's net income and net assets. The Group uses derivatives to partially offset these risks (See Note 8. Financial assets and liabilities). The Group records all derivatives on the balance sheet at fair value with changes in fair value reported in other financial income (expense), net. The Group's derivative instruments, while providing economic hedges under the Group's policies, do not qualify for hedge accounting as defined by the *Derivatives and Hedging* Topic of FASB ASC ("ASC 815").

The Group determines the fair value of its derivative contracts based on observable inputs, which include foreign exchange rates, counterparty information and other related inputs. Changes in the fair value of all derivative instruments are recognized immediately in other financial income (expense), net in the consolidated income statement. Fair value amounts recognized for the right to reclaim and the obligation to return cash collateral arising from derivative instruments recognized at fair value and executed with the same counterparty under a master netting arrangement are not offset.

The Group does not regularly enter into agreements containing embedded derivatives. However, when such agreements are executed, an assessment is made based on the criteria set out in ASC 815 to determine if the derivative is required to be bifurcated and accounted for as a standalone derivative instrument.

**Fair value measurements**
The Group follows the guidance included in the *Fair Value Measurements and Disclosures* Topic of FASB ASC ("ASC 820"). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. Unless otherwise indicated, the Group's financial assets and liabilities are carried at fair value. Observable market data is used when available. When a quoted price in an active market for a liability is not available, the Group uses one of the following approaches: a) quoted prices for identical liabilities when traded as assets; b) quoted prices for similar liabilities when traded as assets; or c) another valuation technique which is consistent with the principles of ASC 820 like the price, which the Group would pay to transfer (or receive to enter into) an identical liability at the measurement date. The Group does not consider the existence of contractual restrictions that prevent the transfer of a liability when estimating the fair value of a liability. Transfers between Level 1, 2 or 3 within the fair value hierarchy are recognized at the end of the reporting period when the respective transaction occurred.

As a practical expedient, the net asset value per share is considered fair value for investments in certain entities that calculate net asset value per share or its equivalent and that are part of the pension plan assets of the Group (See Note 18. Pension plans).

As of January 1, 2012, the Group adopted prospectively ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRSs, ("ASU 2011-04"), an update to ASC 820, *Fair Value Measurement*. The amendments specify that: a) the concepts of highest and best use and valuation premise in a fair value measurement are only relevant when measuring the fair value of non-financial assets; b) that the fair value of own

equity instruments should be determined from the perspective of a market participant that holds such instruments as assets; and c) that in addition to the existing disclosures there should also be quantitative disclosures about the unobservable inputs used in Level 3 fair value measurements. ASU 2011-04 also introduced two significant changes to the existing accounting guidance related to changes in the fair value measurements of financial instruments managed within a portfolio and to the application of premiums or discounts in the absence of Level 1 inputs. It permits entities that manage their financial instruments on the basis of net exposure to also measure the fair value of such instruments on a net basis and prohibits the usage of blockage factors based on the transaction quantity of the instruments measured at fair value. Furthermore, the revised guidance requires information about the valuation processes used by a reporting entity and the sensitivity of fair value measurements to changes in unobservable inputs. ASU 2011-04 became effective for public entities during annual and interim reporting periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a material impact on the Group's financial position, results of operations and cash flows.

**Financial instruments indexed to own shares**

The costs of contracts indexed to own shares which meet all of the applicable criteria for equity classification as outlined in the *Contracts in Entity's Own Shares* Subtopic of FASB ASC ("ASC 815-40"), are classified in shareholder's equity. The Group applies settlement date accounting to such instruments.

**Accounts receivable**

Accounts receivable are stated at net realizable value after deducting an allowance for doubtful accounts. Such receivables with maturities of one year or less that arose from the sale of goods or services are excluded from the scope of ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ("ASU 2010-20"), an update to the *Receivables* Topic of FASB ASC ("ASC 310"). Due to their short-term nature, the carrying value of accounts receivable approximates their fair value. 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. Group's estimates on its allowance for doubtful accounts are determined based on existing contractual obligations; on historical, current and expected payment patterns of the customers and individual customer circumstances; on analysis of days sales outstanding by customer, region or country; on a review of the local economic environment and of the most recent information about public costs of borrowing and its potential impact on government funding and reimbursement practices. If available information indicates the existence of impairment conditions and the amount of loss can be reasonably estimated, the Group establishes an allowance for groups of similar types of receivables that may be uncollectible, even though the particular receivables might not yet be identifiable. Actual results may differ significantly from these estimates. Changes in the estimate of the allowance are recognized as selling, general and administration expense. Historically, the amounts of uncollectible accounts receivable that have been written off have been consistent with management's expectations. See discussion on concentrations of credit risk in Note 22. Concentrations. The Group does not generally require collateral on receivables.

The Group accounts for transfers of trade receivables in accordance with the guidance primarily included in the *Sales of Financial Assets* Subtopic of FASB ASC ("ASC 860-20"). ASC 860-20 requires an entity to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. At the time the Group meets the criteria of ASC 860-20, the balances are removed from trade receivables and costs associated with the sale of receivables are included in the determination of earnings. Sales or transfers that do not meet the requirements of ASC 860-20 are accounted for as secured borrowings in accordance with the *Secured Borrowing and Collateral* Subtopic of FASB ASC ("ASC 860-30"). Additionally, the Group evaluates whether the purchasing entities qualify as VIEs and whether the Group is required to consolidate these entities in accordance with ASC 810-10.

**Inventories**

Inventories are stated at the lower of cost or market value with cost determined by the average cost method. Inventories consist of semi-finished and finished products. The Group periodically reviews the composition of its inventories in order to identify obsolete, slow-moving or otherwise unsalable items. If unsalable items are observed and there are no alternate uses for the inventory, the Group adjusts inventory to net realizable value.

**Property, plant and equipment**
Property, plant and equipment are recorded at historical cost less accumulated depreciation and amortization. Repairs and maintenance costs are expensed as incurred.

The estimated useful lives are as follows:

| Group of assets | Useful life |
|---|---|
| Computers | 3 years |
| Furniture and fixtures | 5 years |
| Laboratory equipment | 5 years |
| Leasehold improvements | 5 to 10 years |
| Technical Installations | 10 to 20 years |
| Buildings | 20 to 40 years |

Depreciation and amortization expense is recorded utilizing the straight-line method over the estimated useful life of the assets to their estimated residual value. Leasehold improvements and assets acquired under capital leases are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. Assets acquired under capital leases in which title transfers to the Group at the end of the agreement are recorded at their estimated fair value and depreciated over the useful life of the assets. Amortization expense of capitalized leased equipment is included in depreciation expense. If material, capitalized interest on construction in-progress is included in property, plant and equipment.

**Goodwill and intangible assets**
Goodwill represents the excess of purchase price over the estimated fair value of net assets acquired in a business combination. Goodwill is not amortized but tested annually for impairment and whenever events and changes in circumstances suggest that the carrying amount may not be recoverable. Recoverability of goodwill is measured at the reporting unit level based on a two-step approach. First, the carrying amount of the reporting unit is compared to its fair value. If the carrying value of the reporting unit exceeds its fair value or the reporting unit has zero or a negative carrying amount, a second step determines the fair value of the reporting unit's assets and liabilities and as such the implied fair value of the reporting unit's goodwill. To the extent that the carrying value of the reporting unit's goodwill exceeds its implied fair value of goodwill, an impairment is recognized.

Intangible assets with definite lives consist primarily of acquired existing licenses and internally used software, which are amortized on a straight-line basis over the useful lives of the respective assets ranging from three to ten years. The Group develops its own assumptions about renewal or extension options used to determine the amortization period of a recognized intangible asset, consistent with its expected use of the asset. Intangible assets with definite lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Intangible assets with indefinite lives are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the assets might be impaired. Costs incurred to renew or extend the term of a recognized intangible asset are expensed and classified as selling, general and administration expenses.

**Impairment of long-lived assets**
Long-lived assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Potential indicators of impairment include but are not limited to: 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 US Food and Drug Administration ("FDA") 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. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. The cash flow estimates applied in such calculations are based on management's best estimates, using appropriate and customary assumptions and projections at the time. In the event that such cash flows

are not expected to be sufficient to recover the carrying amount of the assets, the assets are written down to their estimated fair values. Long-lived assets to be disposed of are not depreciated and reported at the lower of carrying amount or fair value less cost to sell.

**Restructuring activities**

Costs associated with restructuring activities are recognized in accordance with the requirements of the *Exit and Disposal Cost Obligations* Topic of FASB ASC ("ASC 420-10"). Involuntarily employee termination benefits pursuant to a one-time benefit arrangement are recorded at fair value at the communication date for all employees who are not required to render service beyond the minimum retention period defined by law or contract. If employees are required to render services in order to receive the termination benefits, a liability is measured initially at the communication date based on the fair value of the liability at termination date and recognized ratably over the future service period. Contract termination costs are measured at fair value and recognized when the Group terminates the contract. If the contract is an operating lease, a liability is recognized at fair value at the cease-use-date of the property. Any remaining lease rentals without future economic benefits to the Group are reduced by estimated sublease rentals that could be reasonably obtained for the property, even if the Group does not intend to enter into a sublease arrangement. Other costs associated with a restructuring activity are measured at fair value when incurred.

**Financial debt**

*Convertible debt*

The Group accounts for convertible debt in accordance with the guidance primarily codified in FASB ASC 470-20, *Debt with Conversion and other options.* Convertible debt with a cash conversion option is separated into a liability and an equity component at initial recognition by a) recording the liability component at the fair value of a similar liability that does not have an associated equity component thus reflecting the Group's nonconvertible debt borrowing rate and b) attributing the remaining proceeds from issuance to the equity component. The resulting discount on the debt is accreted as interest expense on bonds in the consolidated income statements. Debt issuance costs are also allocated to a liability and an equity component in proportion to the allocation of the fair value of the bond. Liability issuance costs are recorded in other current assets and are amortized over the life of the bond using the effective interest method.

*Other long-term financial debt*

Long-term financial debt without conversion or other options is reported at amortized cost. Any difference between the proceeds received and the principal value due on redemption (discount or premium) is amortized over the duration of the debt instrument and is recognized within interest expense on bonds using the effective interest rate method. Debt issuance costs are recorded in other non-current assets and are amortized over the life of the debt instrument.

**Pension accounting**

The Group accounts for pension assets and liabilities in accordance with the provisions of the *Compensation – Retirement Benefits* Topic of FASB ASC ("ASC 715"), which requires the recognition of the funded status of pension plans in the Group's balance sheet. The liability in respect to defined benefit pension plans is the projected benefit obligation calculated annually by independent actuaries using the projected unit credit method. The projected benefit obligation as of December 31 represents the actuarial present value of the estimated future payments required to settle the obligation that is attributable to employee services rendered before that date. The expense for such pension plans, represented by the net periodic benefit cost, is included in the personnel expenses of the various functions where the employees are engaged. Plan assets are recorded at their fair value. Unvested prior service costs arising from retroactive amendments to pension plans are originally reflected in accumulated other comprehensive income (loss) and distributed to income over the employees' remaining service period. Vested prior service costs including those related to retirees are immediately recognized in the consolidated income statements. Gains or losses arising from plan curtailments or settlements are accounted for at the time they occur. Any net pension asset is limited to the present value of the future economic benefits available to the Group in the form of refunds from the plan or expected reductions in future contributions to the plan. In interim periods, a net pension asset reflects Group's prepayments of annual employee and employer plan contributions. Actuarial gains and losses arising from differences between the actual and the expected return on plan assets are recognized in accumulated other comprehensive income (loss) and amortized over the requisite service period.

**Comprehensive income (loss)**
Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains/losses on available-for-sale securities, currency translation adjustments, actuarial gains (losses) and prior service costs resulting from retroactive amendments of defined benefit plans. The components of comprehensive income (loss) are shown net of related taxes where the underlying assets or liabilities are held in jurisdictions that are expected to generate a future tax benefit or liability (See Note 21. Accumulated other comprehensive income (loss)).

As of January 1, 2012, the Group applied retrospectively the requirements of ASU 2011-05, Presentation of Comprehensive Income, ("ASU 2011-05"), an update to the *Comprehensive Income* Topic of FASB ASC ("ASC 220"), and ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income ("AOCI") in ASU 2011-05. ASU 2011-05 increased the prominence of items reported under other comprehensive income and eliminated the option to present elements of other comprehensive income as part of the statement of changes in stockholders' equity. It requires an entity to present all non-owner changes in stockholders' equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. For public entities the provisions of both accounting standard updates became effective for annual and interim reporting periods beginning after December 15, 2011. As the amended guidance only clarified the presentation of items reported in other comprehensive income but did not change their nature, recognition, measurement or classification requirements, the adoption of ASU 2011-05 and ASU 2011-12 did not have a material impact on the Group's financial position, results of operations and cash flows.

**Foreign currencies**
The Group follows the guidance included in the *Foreign Currency Matters* Topic of FASB ASC ("ASC 830"). The reporting currency of the Group is the Swiss Franc. Except for certain foreign finance entities, the functional currency of Group's subsidiaries is generally the respective local currency. A limited number of foreign finance entities use CHF as their functional currency as their cash flows and transactions are primarily denominated in CHF.

Income, expense and cash flows of foreign subsidiaries are translated into the Group's reporting currency at monthly average exchange rates and the corresponding balance sheets at the period-end exchange rate. Exchange differences arising from the translation of the net investment in foreign subsidiaries and long-term internal financial debt are recorded in currency translation adjustment ("CTA") in shareholders' equity. Translation gains and losses accumulated in CTA are included in the consolidated income statements when the foreign operation is completely liquidated or sold.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the subsidiary's income statements in the corresponding period. The aggregate transaction loss included in other financial income (expense), net in 2012 and 2011 amounts to CHF 20.5 million and CHF 8 million, respectively.

**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. The Group may use interest rate swap contracts to manage its net exposure to interest rate changes.

**Segment information**
The Group follows the guidance established in the *Segment Reporting* Topic of FASB ASC ("ASC 280") for reporting information on operating segments in interim and annual financial statements. The Group operates in one segment, which primarily focuses on the development and commercialization of innovative medicines for unmet medical needs. The majority of the Group's products have similar economic and other characteristics, including the nature of the products and production processes, type of customers, distribution methods and regulatory environment. 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.

**Subsequent events**
The Group evaluates subsequent events in accordance with the *Subsequent Events* Topic of FASB ASC ("ASC 855") through the date the financial statements are available to be issued (See Note 25. Subsequent events).

**Recent accounting pronouncements**

*ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment*
In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, ("ASU 2012-02"), an update to the *Intangibles – Goodwill and Other* Topic of FASB ASC ("ASC 350"). ASU 2012-02 permits an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If based on this qualitative assessment it is not more like than not that the fair value of the indefinite-lived intangible asset is below its carrying amount, an entity is not required to perform the quantitative impairment test in accordance with FASB ASC Subtopic 350-30, *General Intangibles Other Than Goodwill.* ASU 2012-02 is effective for annual and interim impairment tests for fiscal years beginning after September 15, 2012. Early adoption is permitted. The Group does not expect a material impact on its financial position, results of operations and cash flows upon adoption.

*ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, and ASU 2013-01 Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*
In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, ("ASU 2011-11"), an update to the *Balance Sheet* Topic of FASB ASC ("ASC 210"). ASU 2011-11 requires enhanced disclosures about financial instruments and derivatives that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable master netting agreement, irrespective of whether they are offset. ASU 2011-11 is effective for annual and interim reporting periods beginning on or after January 1, 2013. The amended guidance should be applied retrospectively for all comparative periods presented.

In January 2013, with the issuance of ASU 2013-01, the FASB limited the scope of the new balance sheet offsetting disclosures stipulated in ASU 2011-11 to derivatives accounted for under ASC 815, repurchase agreements, and securities lending transactions to the extent that they are a) offset in the financial statements; or b) subject to an enforceable master netting arrangement or similar agreement. The effective dates of ASU 2013-01 are consistent with the effective dates of ASU 2011-11. The Group does not expect an impact on its financial position, results of operations and cash flows upon adoption of ASU 2011-11 and ASU 2013-01.

## NOTE 2.
## ACQUISITIONS

**GeneraMedix**
In 2009, the Group acquired from privately-held GeneraMedix Inc. ("GXI") a new formulation of epoprostenol sodium with improved thermal stability which was accounted for as a business combination in accordance with the requirements of the guidance codified in ASC 805. In conjunction with the acquisition, the Group assumed a deferred and a contingent consideration for a maximum undiscounted amount of USD 80 million and USD 20 million, respectively. The corresponding fair values at the date of acquisition amounted to USD 65.3 million and USD 15.1 million, respectively. Since denominated in USD, both considerations are revalued at each reporting date.

The deferred consideration was payable for the three consecutive years following the acquisition date whereas Actelion had the right to not make all or a portion of these deferred payments and thus forgo its rights to commercialize Veletri® (epoprostenol for injection) in various countries. In 2011 and 2010, the Group settled CHF 18.4 million (USD 20 million) and CHF 42.9 million (USD 40 million) of the deferred consideration, respectively. With the last payment of CHF 18.2 million (USD 20 million) the Group settled in full the deferred consideration liability during 2012.

The contingent consideration is related to future patent issuance events in various markets and thus re-measured at fair value at each reporting date using Level 3 inputs. The resulting fair value adjustments of the contingent consideration are included in selling, general and administration expenses. In December 2012, the Group settled CHF 9.2 million (USD 10 million) related to a patent issuance in one of these markets.

As of December 31, 2012, the fair value of the contingent consideration amounts to CHF 8.6 million (USD 9.4 million). Thereof, CHF 7.4 million (USD 8 million) are included in other current liabilities and CHF 1.2 million (USD 1.4 million) are disclosed as other non-current liabilities. The table below states the changes in the contingent consideration during the twelve months ended December 31, 2012:

| December 31, 2011 | | Contingent consideration expense | | Settlements | | Foreign currency translation | December 31, 2012 | |
|---|---|---|---|---|---|---|---|---|
| USD | CHF | USD | CHF | USD | CHF | CHF | USD | CHF |
| 18,258 | 17,153 | 1,127 | 1,059 | (10,000) | (9,242) | (383) | 9,385 | 8,587 |

In determining the fair value of the contingent consideration the Group considered present value calculations of the expected cash-outflows as well as probabilities of amounts and timing of settlement of the contingencies. At December 31, 2012, and December 31, 2011, the Group applied a discount rate of 6.29% and 7.18%, respectively. This discount rate corresponds to the Bloomberg Composite US Industrial BB yield, which management believes is equivalent to a market participant's cost of borrowing. In addition, management relies on input from internal and external patent lawyers as well as latest available information on status of procedures and actions from the respective patent offices to estimate the probability and timing of occurrence of patent issuance events. The following table outlines the significant unobservable inputs used in the fair value measurement of the contingent consideration as of December 31, 2012 and 2011, respectively:

| Level 3 fair value measurement | Valuation technique | Unobservable input | Assumptions | |
|---|---|---|---|---|
| | | | December 31, 2012 | December 31, 2011 |
| Contingent consideration arising from acquisitions | Discounted cash flows | Probability of patent issuance | 100% | 100% |
| | | Period of patent issuance | 2013–2014 | 2012–2013 |
| | | Discount rate | 6.29% | 7.18% |

A decrease of the probability of patent issuance could lead to a significantly lower fair value measurement of the contingent consideration in the period of revaluation. An issuance of a final negative office action from any of the patent offices concerned would lead to a decrease of that probability to 0% and de-recognition of the respective portion of the contingent consideration. Similarly, a significant delay in patent office procedures or significant increase of the discount rate could lead to a significant decrease in the fair value measurement of the contingent consideration in the period of revaluation. Except for the case of final patent rejection, none of the changes in the unobservable inputs would lead to a change of the maximum undiscounted amount of the contingency of USD 10 million.

## NOTE 3.
## LICENSING AGREEMENTS

On April 18, 2008, the Group entered into an exclusive license agreement with Nippon Shinyaku Co., Ltd. ("Nippon") on a novel orally available selective IP receptor agonist NS-304 originally discovered and synthesized by Nippon for the treatment of PAH. Under the terms of the agreement between February 2008 and January 2010, Nippon received from the Group upfront payments of USD 30 million (CHF 30.3 million), which have been expensed as R&D costs. The Group will make further milestone payments depending on achievement of certain development and approval milestones and sales targets. If the Group is successful in obtaining regulatory approval, the Group will pay royalties to Nippon on a percentage of net sales of products with NS-304 as the active ingredient.

In conjunction with the acquisition of CoTherix on January 9, 2007, the Group gained access to the license granted from Bayer Schering Pharma AG for Ventavis®.

On November 22, 2002, the Group entered into a license agreement with Oxford GlycoSciences ("OGS") for miglustat, the active ingredient of Zavesca® (miglustat). OGS has since been acquired by Celltech Group plc, which was subsequently acquired by UCB SA. The Group was granted exclusive marketing rights to sell Zavesca® (miglustat) in all countries except Israel and the adjacent West Bank and Gaza Strip territories where the Group ensures the drug supply to Teva Pharmaceutical Industries Ltd., the license holder of Zavesca® (miglustat) in Israel. In addition, in 2005 the Group assumed full responsibility for manufacturing and supply chain, patent-related activities, clinical and pre-clinical activities of Zavesca® (miglustat). Consequently, the Group made payments of EUR 7.5 million (CHF 11.7 million) to UCB, which were capitalized as an intangible asset and amortized over the remaining patent life of eight years, in exchange for a single-digit royalty rate on future Zavesca® (miglustat) sales in glycosphingolipid ("GSL") storage disorders (See Note 12. Goodwill and intangible assets).

On November 4, 1998, the Group entered into a license agreement with F. Hoffman-La Roche ("Roche") for bosentan, the active ingredient in the Group's product, Tracleer® (bosentan). 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. Payments of CHF 9 million made to Roche subsequent to receiving regulatory approval were capitalized as intangible assets and amortized over ten 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 (See Note 12. Goodwill and intangible assets).

## NOTE 4.
## COLLABORATIVE AGREEMENTS

On February 23, 2012, the Group entered into a long-term collaborative agreement with Auxilium Pharmaceuticals, Inc. (NASDAQ: AUXL or "Auxilium") to develop, supply and commercialize Xiaflex® (collagenase clostridium histolyticum), a novel biologic for the potential treatment of Dupuytren's contracture and Peyronie's disease.

Under the terms of the agreement, the Group received exclusive rights to commercialize Xiaflex® for the treatment of Dupuytren's contracture and Peyronie's disease in Canada, Australia, Brazil and Mexico upon receipt of the respective regulatory approvals. The Group is primarily responsible for the applicable regulatory and commercialization activities for Xiaflex® in these countries. Auxilium remains primarily responsible for the global development of Xiaflex® in Peyronie's disease and will be responsible for all clinical and commercial drug manufacturing and supply. The Group will be responsible for clinical development activities and associated costs corresponding to any additional trials required for the specific territories.

Upon signature of the agreement, the Group made an upfront payment of USD 10 million (CHF 9.1 million), which has been recorded as R&D expense. Upon achievement of specific regulatory, pricing and sales milestones Auxilium is eligible to receive payments totaling up to USD 58 million. Auxilium will also receive increasing tiered double-digit royalties based on sales of Xiaflex® in Actelion's territories and will supply the product to the Group at a predetermined cost.

In July 2012, Auxilium was granted an approval by Health Canada for Xiaflex® for the treatment of Dupuytren's contracture. Subsequently, the regulatory sponsorship of the dossier was transferred to the Group, which is now responsible for further applicable regulatory and commercialization activities in Canada. Pursuant to the terms of the agreement, the Group paid the first regulatory milestone of USD 0.5 million, which in accordance with its policy were capitalized and will be amortized on a straight-line basis over the expected use of the intangible asset. In addition, the Group reimbursed

Auxilium for regulatory approval costs of USD 0.5 million which have been recorded as R&D expense. As of December 31, 2012, there were no further payments received from (paid to) or amounts due from (payable to) Auxilium.

In 2008, the Group entered into an exclusive worldwide (excluding Japan) collaboration agreement with GlaxoSmithKline ("GSK") to develop and commercialize the Group's almorexant, a dual orexin receptor antagonist in Phase III development for treatment of primary insomnia. The Group received an upfront payment of CHF 150 million which has been deferred and amortized over the estimated development period. On January 28, 2011, the Group and GSK announced that clinical development of almorexant has been discontinued. As of March 31, 2011, the Group determined that it had fulfilled all performance obligations related to the upfront payment and, as such, recognized the entire amount of the remaining unamortized deferred revenue balance of CHF 76.5 million as contract revenue in the three months period ending March 31, 2011. In addition, in 2011, the Group received net reimbursements for R&D activities performed under this agreement of CHF 0.6 million. In 2012, the Group and GSK mutually terminated the orexin alliance formed in July 2008. The termination did not have an impact on Group's financial position, results of operations and cash flows.

In 2003, the Group and Merck formed an exclusive worldwide alliance to discover, develop and market new classes of renin inhibitors. Under the terms of the agreement, the Group received upfront and milestone payments in the total of USD 47 million (CHF 57.4 million), which were deferred and were recognized through December 31, 2009. Following a review of its strategic research portfolio, in 2012, Merck terminated the renin alliance formed in 2003, thus returning all rights to the rennin inhibitors discovered during the alliance to Actelion. The termination did not have an impact on Group's financial position, results of operations and cash flows.

In December 2000, the Group entered into an agreement with Genentech Inc. ("Genentech") for the co-exclusive, royalty-bearing right and license to research, develop, manufacture and sell bosentan, the active ingredient in Tracleer®, in the United States. Upon signing the contract the Group received an upfront payment of USD 35 million (CHF 56.4 million), which was deferred and amortized over twelve years. In December 2001, the Group received FDA approval for bosentan in the United States for the treatment of PAH and began paying Genentech a royalty on net sales. For the years ended December 31, 2012 and 2011, the Group recognized revenue of CHF 4.7 million and CHF 4.9 million, respectively, related to this agreement.

In February 2000, the Group entered into an agreement with Genentech for the co-exclusive, royalty-bearing right and license to research, develop, manufacture and sell tezosentan in the United States. Genentech may elect to co-promote the drug for certain indications in the United States or receive a royalty on net sales of tezosentan in the United States. Upon signing the contract the Group received an upfront payment of USD 15 million (CHF 24.7 million), which is being recognized over sixteen years. For each of the years ended December 31, 2012 and 2011, the Group recognized revenue of CHF 1.5 million under this agreement.

## NOTE 5.
## INCOME TAXES

The following table sets forth the income before income tax expense:

| | For the twelve months ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Switzerland | 340,596 | 262,216 |
| Foreign | 17,877 | (331,517) |
| **Total income before taxes** | **358,473** | **(69,301)** |

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

| | For the twelve months ended December 31, | |
|---|---|---|
| **Current tax expense** | **2012** | **2011** |
| Switzerland | 18,746 | 20,801 |
| Foreign | 17,255 | 27,241 |
| **Total current tax expense** | **36,001** | **48,042** |
| | | |
| **Deferred tax (benefit) expense** | | |
| Switzerland | 913 | 1,026 |
| Foreign | 18,333 | 27,950 |
| **Total deferred tax (benefit) expense** | **19,246** | **28,976** |
| | | |
| **Total income tax expense** | **55,247** | **77,018** |

Income taxes payable and accrued as of December 31, 2012 and 2011, amounted to CHF 31.7 million and CHF 42.9 million, respectively. Significant components of the Group's deferred tax assets as of December 31, 2012 and 2011, are shown below. As of December 31, 2012 and 2011, a valuation allowance of CHF 214.6 million and CHF 190.3 million, respectively, has been recognized for certain Group companies primarily based on their historical cumulative operating losses. The increase in valuation allowance in 2012 is mainly related to the increase of operating tax loss carry forwards and to the interest accrued on the litigation provision (See Note 17. Commitments, contingencies and guarantees), which the Group does not expect to be utilizable.

| | December 31, | |
|---|---|---|
| **Deferred tax assets** | **2012** | **2011** |
| Net benefit from operating loss carry forwards | 67,270 | 52,414 |
| Deferred revenue | 434 | 781 |
| Stock compensation expense | 12,910 | 14,721 |
| Accrued expenses | 15,218 | 7,317 |
| Intangible assets | 4,131 | 5,305 |
| Tax credits | 2,015 | 13,146 |
| Long-term financial debt | - | 12,846 |
| Litigation provision | 145,976 | 133,367 |
| Other temporary differences | 9,752 | 10,362 |
| **Deferred tax assets** | **257,706** | **250,259** |
| | | |
| Valuation allowance for deferred tax assets | (214,586) | (190,302) |
| **Total deferred tax assets** | **43,120** | **59,957** |

| | December 31, | |
|---|---|---|
| **Deferred tax liabilities** | **2012** | **2011** |
| Intangible assets | 16,321 | 26,865 |
| Other temporary differences | 510 | 822 |
| **Total deferred tax liabilities** | **16,831** | **27,687** |

Current deferred tax assets and liabilities as well as non-current deferred tax assets and liabilities are presented net in the balance sheet.

As of December 31, 2012, the gross value of unused tax loss carry forwards with their expiry dates is as follows:

| | Tax losses |
|---|---|
| One year | 106 |
| Two years | 215 |
| Three years | - |
| Four years | - |
| Five years | 1,139 |
| Six years | 1,945 |
| Seven years | 2,132 |
| More than seven years | 212,451 |
| **Total tax losses** | **217,988** |

Reconciliation between the effective income tax expense and expense computed using the Swiss statutory tax rate of 20.6%:

| | 2012 | 2011 |
|---|---|---|
| Tax at Swiss statutory tax rate | 73,846 | (14,276) |
| Non deductible expenses | 9,164 | 3,075 |
| Non taxable income | (57,741) | (28,576) |
| Tax rates different from the Swiss statutory rate | 11,771 | (52,926) |
| Tax credits | 11,131 | (4,536) |
| Tax reserve build (release) | (9,262) | 14,726 |
| Change in valuation allowance | 24,284 | 143,750 |
| Other items | (7,946) | 15,781 |
| **Effective income tax expense** | **55,247** | **77,018** |

The tax benefit of tax loss carry forwards used in 2012 and 2011 are CHF 38.5 million and CHF 38.7 million, respectively. The impact of changes in enacted tax rates for 2012 and 2011 is CHF 0 million and CHF 6.6 million, respectively.

The movements of the uncertain tax positions for 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| **Uncertain tax positions, beginning of year** | **57,246** | **42,520** |
| Additions based on tax positions related to the current period | 5,519 | 14,200 |
| Additions based on tax positions of prior years | - | 1,785 |
| Reductions based on tax positions of prior years | (12,314) | (877) |
| Foreign exchange | (2,467) | (382) |
| **Uncertain tax positions, end of year** | **47,984** | **57,246** |

Future recognition of uncertain tax positions of CHF 37.5 million and CHF 27.3 million would affect the effective tax rate in 2012 and 2011, respectively. In 2012 and 2011, the Group recognized tax expense of CHF 0.6 million and CHF 1.9 million related to interest and penalties on tax positions, respectively. The statute of limitations for assessment in the major jurisdictions in which the Group operates is open for the years 2006-2012. No reserves are expected to reverse in the next twelve months.

## NOTE 6.
## EARNINGS PER SHARE

Basic and diluted earnings per share are based on weighted-average common shares and exclude shares that would have an anti-dilutive effect. For the twelve months ended December 31, 2012 and 2011, 14,127,211 and 15,398,483 anti-dilutive shares were excluded from the EPS calculation, respectively. In accordance with ASC 260-10-45-19, the Group did not consider any potential common shares in the computation of diluted EPS as of December 31, 2011, due to the loss from continuing operations.

The following table sets forth the basic and diluted earnings per share calculations:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | **Basic** | **Diluted** | **Basic** | **Diluted** |
| **Numerator** | | | | |
| Net income (loss) | 303,226 | 303,226 | (146,319) | (146,319) |
| **Net income (loss) available for earnings per share calculation** | **303,226** | **303,226** | **(146,319)** | **(146,319)** |
| | | | | |
| **Denominator** | | | | |
| Weighted-average number of common shares | 116,128,849 | 116,128,849 | 118,831,959 | 118,831,959 |
| Incremental shares for assumed conversion: | | | | |
| Share options | - | 1,990,695 | - | - |
| **Total average equivalent shares** | **116,128,849** | **118,119,544** | **118,831,959** | **118,831,959** |
| | | | | |
| **Earnings (loss) per share** | **2.61** | **2.57** | **(1.23)** | **(1.23)** |

## NOTE 7.
## CASH AND CASH EQUIVALENTS

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

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Cash [1] | 1,017,422 | 1,276,436 |
| Short-term bank deposits | 4,850 | 4,601 |
| **Total** | **1,022,272** | **1,281,037** |

[1] Includes CHF 0.7 million pledged for an unused credit line of CHF 5 million (December 31, 2011 - CHF 0.5 million).

In January 2012, in conjunction with the Asahi litigation, the Group was required to pledge USD 375 million in cash or investments to secure surety bonds posted as collateral at the California Court of Appeal, US, in order to securitize the awards granted to Asahi by the State Court in California, US (See Note 17. Commitments, contingencies and guarantees). The Group pledged USD 250 million and CHF 140 million in cash as collateral and re-classified the restricted amounts from cash to restricted cash for litigation (See Note 8. Financial assets and liabilities).

## NOTE 8.
## FINANCIAL ASSETS AND LIABILITIES

The following table states Group's financial assets and liabilities carried at fair value:

| | December 31, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Total** | **Level 1** | **Level 2** |
| **Financial assets carried at fair value**[1] | | | | | | |
| Cash and cash equivalents | 1,022,272 | 1,022,272 | - | 1,281,037 | 1,281,037 | - |
| Derivative financial instruments | 7,682 | - | 7,682 | 1,457 | - | 1,457 |
| Debt securities[2] | - | - | - | 5,520 | 5,520 | - |
| Restricted cash for litigation | 368,740 | 368,740 | - | - | - | - |
| **Total** | **1,398,694** | **1,391,012** | **7,682** | **1,288,014** | **1,286,557** | **1,457** |
| | | | | | | |
| **Financial liabilities carried at fair value**[1] | | | | | | |
| Derivative financial instruments[3] | 394 | - | 394 | 22,687 | - | 22,687 |
| Contingent consideration | See Note 2. Acquisitions for Level 3 disclosures | | | | | |
| **Total** | **394** | **-** | **394** | **22,687** | **-** | **22,687** |

[1] For the twelve months ended December 31, 2012, no transfers to or from Level 1 and Level 2 took place.
[2] Included in marketable securities.
[3] Included in other current liabilities.

### Derivative financial instruments

Derivative financial instruments are deployed to manage foreign currency and interest rate exposures and are not used for speculative purposes (See Note 1. Description of business and summary of significant accounting policies).

The following tables reflect the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract as of December 31, 2012 and 2011. Contract or underlying principal amounts indicate the volume of outstanding positions at the balance sheet date and do not represent amounts at risk.

| **Derivative financial instruments not designated as hedging instruments** | **Contract or underlying principal amount** | **Location of gain or (loss) recognized in income on derivatives** | **Amount of gain recognized in income on derivatives** | **Amount of (loss) recognized in income on derivatives** |
|---|---|---|---|---|
| **December 31, 2012** | | | | |
| Forward rate contracts | 198,678 | Other financial income (expense), net | 30,844 | (19,587) |
| **Total** | **198,678** | | **30,844** | **(19,587)** |
| | | | | |
| **December 31, 2011** | | | | |
| Forward rate contracts | 301,634 | Other financial income (expense), net | 50,479 | (59,426) |
| **Total** | **301,634** | | **50,479** | **(59,426)** |

| **Derivative financial instruments not designated as hedging instruments** | **Asset derivatives** | | **Liability derivatives** | |
|---|---|---|---|---|
| | **Balance Sheet location** | **Fair value** | **Balance Sheet location** | **Fair value** |
| **December 31, 2012** | | | | |
| Forward rate contracts | Derivative instruments | 7,682 | Other current liabilities | 394 |
| **Total** | | **7,682** | | **394** |
| | | | | |
| **December 31, 2011** | | | | |
| Forward rate contracts | Derivative instruments | 1,457 | Other current liabilities | 22,687 |
| **Total** | | **1,457** | | **22,687** |

As of December 31, 2012 and 2011, all foreign currency forwards are privately negotiated OTC contracts with maturities of twelve months or less and entered into with counterparties with a minimum Standard & Poor's ("S&P") credit rating of A+. The Group determines the fair value of these derivative contracts using an income-based industry standard valuation model which utilizes counterparty information and other observable inputs, which include foreign currency spot rates, forwards points and stated maturities.

Derivative financial instruments include gross unrealized gains of CHF 28.5 million (December 31, 2011: gross unrealized losses of CHF 56.5 million), all related to foreign currency transactions, which have been recorded in other financial income (expense), net.

*Credit and interest rate risk related to derivative and money market instruments*
The Group is exposed to credit losses in the event of non-performance by counterparties, which are creditworthy financial institutions with S&P credit ratings as of December 31, 2012, in a range from A to AA+. The Group has not experienced any credit loss in the past and believes that the risk of loss related to counterparties in derivative contracts and money market instruments is remote.

In addition, the Group reviews on an ongoing basis the creditworthiness of counterparties to foreign exchange and interest rate agreements. The Group has not experienced and does not expect to incur any significant losses from failure of counterparties to perform under such agreements. For concentrations of credit risk related to the Group's investments in money market instruments and derivatives see Note 22. Concentrations.

**Marketable securities**

*Debt Securities*
At December 31, 2011, the Group held Greek zero-coupon bonds with maturities from December 2012 to December 2013 ("2012-2013 bonds") with a face value of EUR 18.5 million and a fair value of EUR 4.5 million. The bonds were received in conjunction with the settlement of the Greek hospital debt for the years 2007 to 2009, classified as available-for-sale and recorded under short-term marketable securities. For the twelve months ended December 31, 2011, the Group had recognized OTTIs related to the 2012-2013 bonds of EUR 9.3 million (CHF 11.3 million), which have been classified as impairment on financial assets in the 2011 consolidated income statement.

In conjunction with the Greek bail-out and following the February 21, 2012, Eurogroup statement (referred to as "private sector involvement" or "PSI") Greece provided an offer to all private bond holders to exchange Greek-law governed bonds issued prior to December 31, 2011 for PSI bonds and notes guaranteed by the European Financial Stability Facility ("EFSF") having a face value of 46.5% of the face value of the exchanged bonds. Actelion did not consent to the offer. With the agreement of more than 95% of the private bond holders, Greece activated an aggregate collective action clause on March 12, 2012, and forced an exchange of the 2012-2013 bonds for PSI bonds and EFSF notes. The Group realized a loss of EUR 0.4 million (CHF 0.5 million) upon exchange, which has been recorded in other financial income (expense), net. As the settlement of the 2012–2013 bonds with new debt instruments represented a cashless exchange of assets, the transaction did not have an impact on the consolidated statements of cash flows.

In addition, in the first quarter of 2012 the Group recognized an other-than-temporary impairment of EUR 0.3 million (CHF 0.4 million), which is presented in a separate line in the income statement. In the second quarter of 2012 the Group sold all PSI bonds and EFSF notes and received cash proceeds of EUR 3.5 million (CHF 4.2 million), which are recorded within the investing section of the consolidated statements of cash flows. In conjunction with the sale, the Group realized a loss of EUR 0.4 million (CHF 0.5 million). Transaction costs were immaterial.

*Equity Securities*
During 2011 the Group sold equity investments, which were classified as available-for-sale marketable securities and recorded under long-term financial assets. In conjunction with the sale, the Group received cash proceeds of CHF 7 million, reclassified unrealized holding gains of CHF 0.1 million, which were accumulated as of December 31, 2010,

in AOCI, from other comprehensive income (loss) to net income and realized a loss of CHF 6.2 million. Transaction costs were immaterial.

**Restricted cash for litigation**

In January 2012, in conjunction with the Asahi litigation, certain insurance companies issued USD 623.6 million in surety bonds which were posted as collateral at the California Court of Appeal, US, in order to securitize the awards granted to Asahi by the State Court in California, US (See Note 17. Commitments, contingencies and guarantees). In return, the Group was required to pledge USD 375 million in cash or investments or their equivalent in other currencies in order to secure the surety bonds. As of December 31, 2012, the Group has pledged USD 250 million and CHF 140 million in cash as collateral. Consequently, the Group re-classified the restricted amounts from cash to restricted cash for litigation, which has been recorded within long-term assets in the consolidated balance sheets. As the interest accruing on the deposit accounts is at market rates, not restricted and can be used by the Group at any time, the fair value of the restricted cash for litigation is determined using Level 1 inputs.

The amount of cash collateral required might further change depending on the duration of the appeal procedures and in case of significant currency exchange fluctuations. The restriction will remain until the verdict issued by the California Court of Appeal becomes enforceable or, if applicable, until a final judgment of the California Supreme Court has been issued.

**Investment in associated companies**

On February 27, 2012, the Group acquired 20.1% of privately-held EchoSense Inc., Tortola, British Virgin Islands ("EchoSense") for a cash consideration of USD 5.1 million (CHF 4.5 million). EchoSense is a medical device company, which develops novel non-invasive and non-imaging ultrasound Doppler and signal processing technologies capable of extracting parametric information regarding both the coronary arteries and the pulmonary system, including but not limited to pulmonary blood pressure measurements. EchoSense is currently conducting clinical studies with its portable, non-invasive ultrasound system having graphic and numeric (parametric) outputs that serve to diagnose and evaluate, in real time, the state of different cardiac and pulmonary diseases and thus improve treatment.

The Group can at its option increase its investment in the common stock of EchoSense depending on the success of the ongoing clinical studies up to 31.1%. Upon analyses under the VIE model (See Note 1. Description of business and summary of significant accounting policies) the Group concluded that EchoSense is a VIE but the Group is not the primary beneficiary. As such, the Group's maximum exposure to loss as a result of its involvement with EchoSense is the investment in common stock of EchoSense. In accordance with its accounting policy for investments in common stock where the Group can exercise significant influence over the operations of the investee, the Group applies the equity method and has recorded the investment at cost as other non-current assets. The Group adjusts quarterly the carrying amount of the investment in order to reflect its share of the earnings (losses) of EchoSense. As of December 31, 2012, the Group has recognized its share of loss of USD 0.4 million (CHF 0.4 million), which has been classified as other income (expense), net. The basis difference between the carrying value of the investment and the Company's underlying net assets amounts to USD 3.6 million (CHF 3.2 million) and is mainly related to not recognized IPR&D assets by the investee. In accordance with its accounting policy, the Group reviews the investment for impairment annually or when events and circumstances indicate that the investment in EchoSense might be impaired.

**Purchase option Trophos SA**

In July 2010, the Group obtained, for a consideration of EUR 10 million (CHF 13.4 million), an option to acquire Trophos SA, a French clinical stage pharmaceutical company ("Trophos") developing drugs for patients with neurodegenerative diseases. The exercise of the option was contingent on the Group's receipt and review of the results of an ongoing Phase III study with olesoxime.

In line with the Group's policy to account for purchase options that do not meet the definition of a derivative as outlined in the Codification Master Glossary and because it represented an advance for the purpose of control, the purchase option was initially recorded at cost as a long-term financial asset and subsequently accounted for at its original cost, less any recorded impairment losses.

On December 13, 2011, following the disclosure of the Phase III results in patients suffering amyotrophic lateral sclerosis (ALS), the Group decided not to exercise the option to acquire Trophos SA. Consequently, the long-term financial asset has been written-off and classified as impairment on financial assets in the 2011 consolidated income statement.

**Financial liabilities carried at amortized cost**

As of December 31, 2012, and December 31, 2011, the Group's financial liabilities carried at amortized cost amount to CHF 235.4 million and CHF 235.6 million, respectively, and relate to the issuance of a bond on December 7, 2011 (See Note 15. Borrowings).

The following table states Group's financial liabilities carried at amortized cost:

| | December 31, 2012 | December 31, 2011 |
|---|---|---|
| Long-term financial debt | 235,431 | 235,578 |
| **Total** | **235,431** | **235,578** |

## NOTE 9.
## TRADE AND OTHER RECEIVABLES

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

| | 2012 | 2011 |
|---|---|---|
| Trade receivables | 398,179 | 527,547 |
| Other receivables | 35,921 | 55,827 |
| **Trade and other receivables, gross** | **434,100** | **583,374** |
| Allowance for doubtful accounts | (21,171) | (46,893) |
| **Total trade and other receivables, net** | **412,929** | **536,481** |

As of December 31, 2012 and 2011, approximately 40% and 44% of trade accounts receivables are due from public institutions funded by governmental agencies in certain Southern European countries. The decrease resulted mainly due to increased cash collections in these countries, most significantly in Spain.

In June 2012, the Group received in cash EUR 90 million (CHF 108.3 million), which related to Spanish public sector trade receivables outstanding as of December 31, 2011. Consequently, the Group released the corresponding allowance for doubtful accounts amounting to EUR 16.8 million (CHF 20.4 million), which was recorded at December 31, 2011.

In addition, in 2012 and 2011, the Group transferred EUR 8.7 million (CHF 10.5 million) and EUR 6.9 million (CHF 8.5 million), respectively, of its trade accounts receivable owned by other foreign subsidiaries to third-party financial institutions without recourse. None of these financial institutions meets the criteria of a VIE subject to consolidation. The consideration received was paid in cash. The factoring transactions were accounted for as a sale and the related receivables excluded from the accompanying consolidated balance sheets. Transaction costs and net losses realized were not material.

For concentrations of credit risk related to Group's trade receivables see Note 22. Concentrations.

## NOTE 10. INVENTORIES

Inventories consisted of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Semi-finished products | 33,282 | 40,449 |
| Finished products | 23,107 | 23,410 |
| **Total** | **56,389** | **63,859** |

Semi-finished products primarily include active pharmaceutical ingredients used in production of finished goods.

## NOTE 11. OTHER CURRENT ASSETS

Other current assets consisted of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Unearned income | 760 | 1,033 |
| Prepaid expenses | 24,275 | 32,778 |
| **Total** | **25,035** | **33,811** |

## NOTE 12. GOODWILL AND INTANGIBLE ASSETS

Except for the effect of foreign currency translation, the net carrying amount of goodwill has not been adjusted in the current reporting period. The following table summarizes the changes in 2012:

| Balance at January 1 | Translation effects | Balance at December 31 |
|---|---|---|
| 74,940 | (609) | 74,331 |

Intangible assets other than goodwill consisted of the following at December 31:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Acquired licenses | 254,984 | (154,679) | 100,305 | 258,447 | (124,822) | 133,625 |
| Acquired IPR&D intangibles | 58,305 | - | 58,305 | 58,305 | - | 58,305 |
| Acquired software and other | 33,064 | (21,852) | 11,212 | 33,615 | (21,278) | 12,337 |
| **Total** | **346,353** | **(176,531)** | **169,822** | **350,367** | **(146,100)** | **204,267** |

In 2012, the Group abandoned fully amortized intangible assets related to acquired software in the total amount of CHF 5.5 million. The gross carrying amounts of the respective asset class and the related accumulated amortization have been reduced correspondingly.

The aggregated amortization expense of intangible assets amounted to CHF 39.3 million and CHF 39.2 million in 2012 and 2011, respectively. The weighted-average amortization period for acquired licenses amounts to eight years and for acquired software to three years (See Note 1. Description of business and summary of significant accounting policies and Note 3. Licensing agreements).

The expected future annual amortization expense of intangible assets other than goodwill and IPR&D assets is as follows:

| For the year ending December 31, | Amortization expense |
|---|---|
| 2013 | 36,678 |
| 2014 | 33,268 |
| 2015 | 12,919 |
| 2016 | 8,940 |
| 2017 | 8,903 |
| Thereafter | 10,809 |
| **Total expected future amortization** | **111,517** |

## NOTE 13.
## PROPERTY, PLANT AND EQUIPMENT

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

| | 2012 | 2011 |
|---|---|---|
| At cost: | | |
| Land | 29,956 | 30,273 |
| Buildings | 218,754 | 213,233 |
| Furniture and fixtures and lab equipment | 168,813 | 148,485 |
| Computers | 28,578 | 28,580 |
| Other tangible assets | 28,635 | 29,587 |
| Construction in progress | 107,070 | 116,813 |
| Less: Accumulated depreciation | (179,271) | (142,312) |
| **Property, plant and equipment, net** | **402,535** | **424,659** |

In 2012 and 2011, the Group abandoned fully depreciated tangible assets related to computers, furniture, fixtures and lab equipment and other tangible assets in the total amount of CHF 4.5 million and CHF 26 million, respectively. The gross carrying amounts of the respective asset classes and the related accumulated depreciation have been reduced correspondingly.

For the twelve months ended December 31, 2012 and 2011, the Group invested CHF 21.6 million and CHF 68.5 million in tangible assets, respectively. As of December 31, 2012 and 2011, CHF 9.6 million and CHF 21.7 million of those were unpaid and appropriately excluded from presentation in the consolidated statements of cash flows. In conjunction with the restructuring (See Note 14. Accrued expenses) the Group recognized an impairment of tangible assets of CHF 1.1 million, which is included in depreciation and amortization in the consolidated statements of cash flows. Depreciation expense of property, plant and equipment including capital leases was CHF 41.5 million and CHF 43.7 million in 2012 and 2011, respectively. Gains and losses on asset disposals were not material.

## NOTE 14.
## ACCRUED EXPENSES

*Accrued expenses*

Accrued expenses consisted of the following at December 31:

| | 2012 | 2011 |
|---|---|---|
| Personnel and compensation costs | 97,969 | 110,777 |
| Accrued taxes | 33,829 | 44,775 |
| Rebates and allowances | 128,558 | 106,113 |
| Research and development | 25,819 | 33,411 |
| Marketing and royalties | 14,448 | 15,157 |
| Fixed assets | 10,189 | 20,012 |
| Inventory | 3,591 | 1,181 |
| Professional services | 14,675 | 13,027 |
| Other accrued expenses | 22,842 | 21,014 |
| **Total** | **351,920** | **365,467** |

*Restructuring costs and accruals*

In conjunction with the review of its strategic portfolio and the decision to re-focus its R&D efforts into specialty areas, the Group in 2012 implemented measures to align the organization with the updated strategic nature and focus of its operations. The implemented measures required a reduction of personnel through a combination of cancelation of open positions, natural attrition, early retirements and layoffs. Following a mandatory consultation process with the Group's employee representatives, in the third quarter of 2012, management established social plans for the major locations and functions affected by the restructuring. The total restructuring costs in connection with employee termination benefits is expected to be CHF 6.9 million, all of which has been incurred in fiscal year 2012. The majority (CHF 6.3 million) of the one-time termination benefits was paid out in the fourth quarter of 2012. The Group expects to satisfy the remaining obligations owed to employees affected by the restructuring by the end of 2013. As such, the corresponding liabilities have been classified within accrued expenses in the consolidated balance sheets. In addition, the Group reversed stock-based compensation expense related to unvested employee awards of CHF 1.3 million - See Note 20. Stock-based compensation.

In addition, the restructuring measures will lead to a relocation of employees and abandonment of leased property in the third quarter of 2013. In accordance with its policy (See Note 1. Description of business and summary of significant accounting policies) the Group will establish the related accruals at the cease-use date of the leased property. The total restructuring costs in connection with the lease termination is expected to be CHF 1.6 million, all of which is expected to be incurred in fiscal year 2013.

Furthermore, the restructuring activities led to impairment of tangible assets, mainly related to improvements in the leased space to be abandoned in 2013. The total restructuring costs in connection with an impairment of tangible assets is expected to be CHF 1.1 million, all of which has been incurred in fiscal year 2012.

The total restructuring costs incurred in 2012 of CHF 6.7 million have been allocated to the operating functions impacted. CHF 5.4 million thereof have been included in R&D expense and CHF 1.3 million in selling, general and administration expense. As of December 31, 2012, the restructuring accruals amount to CHF 0.6 million and are disclosed within other accrued expenses in the table above.

## NOTE 15.
## BORROWINGS

The aggregate contractual maturities of all debt obligations due subsequent to December 31, 2012 are as follows:

| | 2011 bond | |
|---|---|---|
| **Payable on December 7,** | **Type of payment** | **Amount** |
| 2013 | Annual interest | 11,456 |
| 2014 | Annual interest | 11,456 |
| 2015 | Repayment of debt incl. annual interest | 246,457 |
| Thereafter | | - |
| **Total** | | **269,369** |

As of December 31, 2012, the total book value of all debt obligations was CHF 235.4 million and consisted of CHF 235 million related to the principal amount of the bond issued in 2011 and CHF 0.4 million related to the unamortized portion of the premium received at issuance of the bond.

**2011 bond**

On December 7, 2011, the Group issued CHF 235 million in 4.875% interest bearing bonds ("2011 bond") with maturity at par on December 7, 2015. The issue price was set at 100.25%. Interest is payable annually on December 7 in arrears. The Group has the right without the consent of the current 2011 bonds' holders to reopen this issue by the issuance of further bonds which will be fungible with the currently outstanding bonds (i.e. identical especially in respect of the terms of the bonds, final maturity and interest rate). In addition, at any time, the Group is entitled to purchase 2011 bonds in the open market or otherwise, at any price and at the option of the Group, the bonds may be held, resold or surrendered for cancelation. If purchases are made by tender, tenders for such bonds have to be made available to all holders of the 2011 bonds alike. Up to two months prior to the maturity date on December 7, 2015, and within 30 days following a change of control notice by the Group, the 2011 bond is, in accordance with its terms, redeemable at the option of the bond holders. Subject to a period of not less than 30 nor more than 60 days prior notice, the Group may redeem the bonds at any time prior to the maturity date, in whole, but not in part only, at par plus accrued interest, if 85% or more of the aggregate principal amount have been redeemed or purchased and canceled at the time of such notice.

The 2011 bond is listed on the SIX Swiss Exchange. As of December 31, 2012, its fair value amounts to 107.3 % (Level 1).

The Group accounts for the 2011 bond at amortized cost. The difference between the proceeds received and the principal amount due on redemption (premium) of CHF 0.6 million and the debt issuance costs of CHF 2.9 million are amortized over the duration of the bond and are recognized, using the effective interest rate method, as interest expense on bonds in the income statement. At December 31, 2012, other non-current assets include debt issuance costs of CHF 2.1 million (December 31, 2011: CHF 2.9 million).

As of December 31, 2012, the Group recognized total CHF 11.5 million interest expense. Thereof, CHF 10.7 million related to the interest paid to the bondholders on December 7, 2012, and CHF 0.8 million to the interest accrued and payable on December 7, 2013 (December 31, 2011: CHF 0.8 million). In addition, for the twelve months ended December 31, 2012, the Group recorded interest expense of CHF 0.6 million related to the amortization of the premium and the debt issuance cost, net (December 31, 2011: CHF 0.04 million).

**2006 convertible bond**

In November 2006, the Group issued CHF 460 million in zero coupon convertible bonds ("2006 convertible bond") with a yield to maturity of zero percent and non-callable for life. The 2006 convertible bond was, in accordance with its terms, convertible free of charge into cash up to the principal amount and any conversion value above the principal amount may have been settled, at the option of the Group, into cash or shares or a combination of cash and shares. The conversion option expired unutilized on October 22, 2011.

On November 9, 2011, the Group purchased at 99.5% and canceled 2006 convertible bonds with a face value of CHF 10 million. On November 22, 2011, the Group repaid the remaining 2006 convertible bonds with a face value of CHF 450 million.

Due to the cash conversion option the Group bifurcated the liability and equity components of the bond, applying an effective interest rate of 3.995% to determine the carrying amount of the liability component. For the twelve months ended December 31, 2011, the Group recognized interest expense of CHF 15.9 million, which related to the amortization of the discount on the liability component. The discount was amortized through the maturity date of the bond.

**Credit facilities**

At December 31, 2012, the Group had a credit line of CHF 10 million as margin cover for over-the-counter trades, a credit line of CHF 5 million deployable for issuance of letters of credit, a credit line of JPY 500 million (CHF 5.3 million) established as an over-draft facility and senior mortgage certificates in the total amount of CHF 15.9 million. All credit facilities were unused as of December 31, 2012.

## NOTE 16.
## LEASE COMMITMENTS

**Operating leases**

The Group has several operating leases for its office space, R&D facilities and various equipment. The leases expire between 2013 and 2077, most of them with options to extend for one to ten years. The aggregate of the minimum annual operating lease payments are expensed on a straight-line basis over the term of the related lease. The amount by which straight-line rent expense differs from actual lease payments is recognized as either prepaid rent or deferred rent liability and is amortized in later years.

Future minimum payments under non-cancelable operating and capital leases at December 31, 2012, are as follows:

| For the year ending December 31, | Operating leases | Capital leases |
|---|---|---|
| 2013 | 32,221 | 61 |
| 2014 | 24,057 | 61 |
| 2015 | 18,888 | 2 |
| 2016 | 15,102 | - |
| 2017 | 13,123 | - |
| Thereafter | 50,357 | - |
| **Total minimum payments** | **153,748** | **124** |
| Less amounts representing interest | | (4) |
| **Present value of future lease payments** | | **120** |
| Less current portion of lease payments | | (59) |
| **Non-current portion of lease payments** | | **61** |

Rent expense under operating leases was CHF 35.1 million and CHF 36 million for the years ended December 31, 2012 and 2011, respectively.

## NOTE 17.
## COMMITMENTS, CONTINGENCIES AND GUARANTEES

**Commitments**

In conjunction with the completion of its major facility projects, the Group has entered into capital commitments totaling CHF 7 million, which are expected to be paid in 2013 and 2014.

In the ordinary course of business the Group has entered into purchase commitments related to long-term manufacturing and supply agreements in the total amount of CHF 9.1 million for 2013, CHF 5 million for 2014, CHF 5.4 million for 2015, CHF 6.5 million for 2016 and CHF 5 million for 2017.

**Contingencies**

The Group records accruals for loss contingencies to the extent that their occurrence is deemed to be probable and the related damages are estimable. If a range of liability is probable and estimable and some amount within the range appears to be a better estimate than any other amount within the range, the Group accrues that amount. If a range of liability is probable and estimable and no amount within the range appears to be a better estimate than any other amount within the range, the Group accrues the minimum of such probable range. Interest on litigation includes premium on the surety bonds, which is accrued on a prospective basis and classified as non-operating expense. Litigation claims that the Group is involved in involve highly complex issues which are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, the Group cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for these contingencies. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Group's assessments are based on estimates and assumptions that have been deemed reasonable by management. Litigation is inherently unpredictable, and excessive verdicts do occur. Although the Group believes to have substantial defenses in these matters, the Group could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period.

*Asahi Kasei litigation*

On November 19, 2008, plaintiff Asahi Kasei Pharma Corporation ("Asahi") filed a complaint at the State Court in California, US, against Actelion Ltd and its subsidiaries Actelion Pharmaceuticals US Inc., Actelion Pharmaceuticals Ltd, Actelion US Holding Company, CoTherix, Inc. ("CoTherix") and three individual officers. The action arises from a dispute involving the license and development agreement between Asahi and CoTherix for the drug compound fasudil that has been terminated upon the acquisition of CoTherix in 2007. In its Third Amended complaint Asahi had asserted claims for interference with contract, interference with prospective economic advantage, breach of confidentiality agreement, breach of common law duty of confidence, claims under California's false advertising statute, claims for violations of California's Cartwright Act and for violations of California's unfair competition law. The jury trial began in February 2011 at the State Court in San Mateo County, California, and continued until May 4, 2011. On procedural grounds the trial continued until November 18, 2011, when the final judgment was issued. Prior, during or subsequent to the jury trial Asahi voluntarily dismissed the claims under the California's false advertising statute and California's unfair competition law. The State Court granted summary adjudication in favor of Actelion on the Cartwright Act claims and granted CoTherix summary adjudication on all claims against it. Asahi appealed the dismissal of the Cartwright Act claims against CoTherix, and that appeal was denied in March 2012 by the California Court of Appeal. Asahi's subsequent petition for review of the decision of the California Court of Appeal was definitively denied by the California Supreme Court on June 13, 2012.

On November 18, 2011, the State Court issued final judgment in favor of Asahi for USD 377.3 in compensatory damages, USD 30 million in punitive damages and USD 0.3 million in cost reimbursements. In addition, should this final judgment be confirmed by the California Court of Appeal, Asahi would be entitled to receive pre-judgment interest of USD 8.1 million and additional simple post-judgment interest of 10% p.a., which will be applied on the total amount of the awards until paid.

Consequently, the Group recorded a provision of USD 407.7 million, which represents the final amount awarded to Asahi by the State Court and which led to a net loss for the twelve months ended December 31, 2011. Furthermore, as of December 31, 2012, the Group provided for the cumulative estimated amount of interest of USD 64 million (December 31, 2011: USD 23.1 million). Since denominated in USD, the contingencies are revalued at each reporting date.

The Group appealed the entire judgment in December 2011. The amount of cash to be paid, if any, and the timing of such payment will depend on the outcome of the appeal process and the timing of enforceability of the appeal verdict. Because a final resolution of the case is not expected within the next twelve months the provision and the corresponding interest have been recorded as a litigation provision.

In conjunction with the appeal, in January 2012, the Group was required to provide surety bonds in total of USD 623.6 million at the California Court of Appeal, US, in order to securitize the awards granted to Asahi by the State Court in California, US. The surety bonds were issued and posted as collateral by certain insurance companies at the California Court of Appeal, US, in January 2012. In return, the Group was required to pledge USD 375 million in cash or investments in order to secure the surety bonds. The amount of collateral required might further change depending on the duration of the appeal procedures and in case of significant currency exchange fluctuations. As of December 31, 2012, the Group had pledged USD 250 million and CHF 140 million in cash as collateral (See Note 8. Financial assets and liabilities).

*US Department of Justice investigation*
In September 2010, a Group's subsidiary received a subpoena from the US Attorney's Office for the Northern District of California, requesting documents relating, among others, to marketing and sales practices of Tracleer® (bosentan) in the United States. The Group provided the documents requested pursuant to the subpoena and co-operates in additional requests by the US Authorities. As of December 31, 2012, the investigation is ongoing and the Group cannot reasonably evaluate the timing of resolution and the final outcome.

*Other contingencies*
The Group is involved in commercial disputes in certain jurisdictions. The possible losses which might arise as a result of the corresponding arbitration proceedings range from CHF 0 million to CHF 18 million. As of February 8, 2013, the date these consolidated financial statements were available to be issued, the Group cannot reasonably estimate the final outcome. The Group expects a resolution of these proceedings within 2013.

**Guarantees**
In order to secure its obligations from derivative trading, cash pooling, overdraft facilities and forward transactions in foreign currencies, the Group has issued guarantees and a letter of indemnity to various financial institutions in the total amount of CHF 75.7 million.

In the ordinary course of business the Group has entered into certain guarantee contracts and letters of credit amounting to CHF 5.9 million. The guarantees primarily relate to operating leases and credit lines for subsidiaries in foreign jurisdictions. Due to the nature of these arrangements, the Group has never been required to make payments under these contracts and does not expect any potential required future payments to be material.

## NOTE 18.
## PENSION PLANS

**Swiss Employee Pension Plan**

The Group maintains a pension plan (the "Basic Plan") covering all of its employees in Switzerland. The Plan insures remuneration up to a maximum annual base salary of CHF 150,000 as well as additional cash incentives paid voluntarily by the Group to its employees. In addition to retirement benefits, the Basic Plan provides benefits on death or long-term disability of its employees.

The Basic Plan is organized under the legal form of a pension foundation. The Group and its employees pay retirement contributions, which are defined as a percentage of the employees' covered salaries. Interest is credited to the employees' accounts at the minimum rate provided in the Basic Plan, payment of which is guaranteed by the insurance contract, which represents the Basic Plan's primary asset. In 2012 and 2011, the guaranteed interest rate for withdrawal benefits amounted to 1.5% and 2% for the mandatory portion of the contributions paid and 1.25% and 1.5% for the non-mandatory portion of the contributions paid, respectively. Future benefit payments are managed by the insurance company. The foundation entered into an insurance contract with a third party insurance company to minimize the risk associated with the pension obligation. This investment strategy was adopted as a means to reduce the uncertainty and volatility of the Basic Plan's assets for the Group. Investment strategy and policies are determined by the insurance company. The foundation council's decision power in relation to investment strategies and asset allocation is limited to the amount of available inappropriated foundation reserves as determined by Swiss pension law. The targeted allocation for these funds (if any) is as follows:

| | Targeted allocation |
|---|---|
| **Asset category** | **Ranges in %** |
| Cash and notes receivable issued by banks or insurance companies | 0-100% |
| Equity securities Switzerland including funds | 0-30% |
| Equity securities foreign issuers including funds | 0-20% |
| Debt securities in CHF including funds | 0-100% |
| Debt securities in foreign currencies including funds | 0-20% |
| Real estate including funds | 0-30% |

**Swiss Management Pension Plan**

The Group also maintains a defined benefit plan ("the Swiss Management Pension Plan") that also provides retirement benefits and risk insurance for death and disability for components of remuneration in excess of the maximum insurable amount of base salary described in the previous paragraph. The Swiss Management Pension Plan insures base salary above CHF 150,000, and annual incentives, up to an aggregate maximum of CHF 835,200. It is funded through contributions by the Group and its employees.

The targeted allocation for plan assets is as follows:

| | Targeted allocation |
|---|---|
| **Asset category** | **Ranges in %** |
| Cash and notes receivable issued by Swiss banks or insurance companies | 0-10% |
| Equity securities Switzerland including funds | 8-18% |
| Equity securities foreign issuers including funds | 8-18% |
| Swiss debt securities in CHF including funds | 29-48% |
| International debt securities in CHF including funds | 10-22% |
| Debt securities in foreign currencies including funds | 4-12% |
| Real Estate Switzerland including funds | 0-10% |

In addition, the Group maintains other pension plans outside Switzerland, which are not material to the Group. The Group uses a measurement date of December 31 for all pension plans.

Net periodic benefit costs for the Group's defined benefit pension plans include the following components:

| | For the twelve months ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Service cost | 19,643 | 19,652 |
| Interest cost | 6,500 | 6,102 |
| Expected return on plan assets | (7,030) | (6,361) |
| Amortization of net actuarial (gain) loss | 455 | 1,638 |
| **Net periodic benefit cost** | **19,568** | **21,031** |

The following table provides the weighted-average assumptions used to calculate net periodic benefit cost and the actuarial present value of projected benefit obligations ("PBO") as of December 31:

| **Weighted-average assumptions to determine net cost** | **2012** | **2011** |
|---|---|---|
| Discount rate for all defined benefit plans of the Group | 2.02% | 2.52% |
| Salary increase | 2.01% | 2.01% |
| Long-term rate of return on assets | 2.70% | 3.10% |

The present value of the PBO is determined using the projected unit credit method (See Note 1. Description of business and summary of significant accounting policies). For active plan participants, the PBO corresponds to the present value of retirement, survivors', disability and termination benefits on the measurement date and considers future salary and pension increases as well as service termination probabilities. For retirees, the PBO corresponds to the present value of the current annuity, including future pension increases. As at December 31, 2012 and 2011, the Group applied mortality and disability probabilities as outlined in the BVG 2010 generation tables. The BVG 2010 tables represent the most recently updated basis for such assumptions commonly applied by independent actuaries in Switzerland. The Group decided on the application of the generation tables as these already consider future increases in life expectancy and deliver as such more accurate results in respect of the PBO as of the measurement date.

The weighted-average discount rate applied for the calculation of the PBO as at December 31, 2012, is 2.02%. A decrease of the discount rate by 0.25%, would increase the PBO by CHF 7.6 million.

The expected long-term rate of return on plan assets represents a weighted-average of expected returns per asset category. It considers the real interest rate and the expected inflation as basis and adds the expected risk premiums per asset category. The expected risk premiums per asset category are verified with the historical yields based on publicly available information from various indices like SPI, MSCI Word in CHF, HFRI etc. In 2012, the Group has utilized an expected long-term rate of 2.7% for determination of the expected return on the Basic Plan's assets and 5.2% for equity securities, 1.2% for debt securities in CHF, 2% for debt securities in foreign currencies, 4.5% for Swiss real estate and 0.25% for liquidity for determination of the expected long-term rate of return of the Swiss Management Plan's assets, thus arriving at an overall expected long-term rate of return on plan assets of 2.7%. In 2011, the Group has utilized an expected long-term rate of 3% for determination of the expected return on the Basic Plan's assets. For the other asset categories the Group has applied expected returns of 7% for Swiss equity securities, 6.5% for foreign equity securities, 3% for debt securities in CHF, 3.5% for debt securities in foreign currencies, 4.5% for Swiss real estate and 2% for liquidity, thus arriving at an overall expected long-term rate of return on plan assets of 3.1%.

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

| | 2012 | 2011 |
|---|---|---|
| **Projected benefit obligation, beginning of year** | **250,767** | **230,227** |
| Service cost | 19,643 | 19,652 |
| Interest cost | 6,500 | 6,102 |
| Plan participants' contribution | 12,194 | 11,892 |
| Benefits paid | (639) | (187) |
| Premiums paid | (4,763) | (4,513) |
| Net transfer in/out | (24,143) | (1,585) |
| Actuarial loss (gain) | 11,503 | (10,842) |
| Foreign currency exchange rate changes | (180) | 21 |
| **Projected benefit obligation, end of year** | **270,882** | **250,767** |

| | 2012 | 2011 |
|---|---|---|
| **Fair value of plan assets, beginning of year** | **219,496** | **194,156** |
| Actual return on plan assets | 12,713 | 3,374 |
| Employer contributions | 17,560 | 16,392 |
| Plan participants' contributions | 12,194 | 11,892 |
| Benefits paid | (639) | (187) |
| Premiums paid | (4,763) | (4,513) |
| Net transfer in/out | (24,143) | (1,585) |
| Foreign currency exchange rate changes | (9) | (33) |
| **Fair value of plan assets, end of year** | **232,409** | **219,496** |
| | | |
| **Accumulated benefit obligation** | **258,809** | **238,330** |

The following table provides information about the fair value of the plan assets per asset category as of December 31:

| Asset category | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | in CHF | as % of total plan assets | Level 2 in CHF | in CHF | as % of total plan assets | Level 2 in CHF |
| Basic Plan (Insurance contract) | 209,962 | 90.35% | 209,962 | 198,083 | 90.25% | 198,083 |
| Equity security funds | 6,221 | 2.68% | 6,221 | 6,195 | 2.82% | 6,195 |
| Debt security funds | 14,470 | 6.23% | 14,470 | 13,873 | 6.32% | 13,873 |
| Real estate funds | 1,317 | 0.57% | 1,317 | 1,295 | 0.59% | 1,295 |
| Other | 439 | 0.19% | 439 | 50 | 0.02% | 50 |
| **Total plan assets** | **232,409** | **100%** | **232,409** | **219,496** | **100%** | **219,496** |

Fair value of the Basic Plan's assets is the estimated cash surrender value of the insurance contract at the respective balance sheet date. The cash surrender value consists of the withdrawal benefits of the Basic Plan's members determined in accordance with the requirements of the Swiss pension law, benefits derived from surplus sharing by the insurance company of CHF 8.4 million (2011: 6.8 million) and premiums paid in excess to premiums owed by the Group of CHF 5.1 million (2011: 0.1 million).

The fair value of the Swiss Management Pension Plan's assets has been estimated using the net asset value per share of the investments. As of December 31, 2012 and 2011, the investments in all asset classes can be redeemed at any time without a notice or waiting period.

The debt security funds primarily invest in bonds of obligors with a minimum rating of A+ with a limitation for individual investments at 15% and limited exceptions for obligations of the Swiss Federation and countries with a minimum credit quality of AA. The equity security funds primarily invest in Swiss and foreign large caps with respective limitations of 25% and 15% per individual investment within the portfolio. The strategy of the real estate funds is to primarily invest in residential property from 50% to 75% and in lease of commercial use property from 60% to 90%.

The movement in the net asset or liability and the amounts recognized in the balance sheet as of December 31, were as follows:

| | 2012 | 2011 |
|---|---|---|
| Present value of obligations | (270,882) | (250,767) |
| Fair value of plan assets | 232,409 | 219,496 |
| **Funded status** | **(38,473)** | **(31,271)** |

As of December 31, 2012, an amount of CHF 33 million net of tax related to the pension plans has been recognized in other comprehensive income (loss) (December 31, 2011: CHF 27.2 million). In principle, this represents not yet recognized components of net periodic benefit costs such as not amortized actuarial gains (losses) and, if applicable, not recognized prior year service costs or transition obligations that arise at initial adoption of changed authoritative guidance. In conjunction with the restructuring, the Group recognized CHF 0.2 million of actuarial gains to net income.

| | 2012 | 2011 |
|---|---|---|
| **Components of net periodic benefit costs, beginning of year** | **(27,164)** | **(35,981)** |
| Net gain (loss) arising during the period | (6,878) | 7,856 |
| Amortization of net gain (loss)[1] | 455 | 1,638 |
| Foreign currency exchange rate changes | 130 | (54) |
| Taxes | 425 | (623) |
| **Total included in other comprehensive income (loss), end of year** | **(33,032)** | **(27,164)** |

[1] In financial year 2013, the Group expects an amortization of not recognized components of net periodic benefit costs of CHF 0.8 million.

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

| | |
|---|---|
| **Expected employer contributions** | |
| 2013 (estimated) | 15,937 |
| | |
| **Expected future benefit payments** | |
| 2013 | 2,202 |
| 2014 | 1,543 |
| 2015 | 2,839 |
| 2016 | 2,571 |
| 2017 | 3,352 |
| Thereafter | 30,137 |

Certain of the Group's subsidiaries sponsor defined contribution plans with Group's contributions fixed at 1% to 27% of the employee's annual salary. These plans are structured as saving schemes without further obligation of the Group. Total expense of these defined contribution plans was CHF 7 million and CHF 6.3 million in 2012 and 2011, respectively.

*Significant concentrations of risk*

The Group is exposed to a credit loss in the event of non-performance by the insurance company which is currently rated from Standard & Poor's with a stable A-. A significant portion of this credit risk is mitigated by a Swiss Federal Institution ("Sicherheitsfonds") stipulated by Swiss pension law. In the event of default of a Swiss pension plan this institution will cover the minimum benefits mandatorily required by Swiss pension law.

## NOTE 19.
## SHAREHOLDERS' EQUITY

**Conditional capital**

Since inception, the Group has created conditional capital for the establishment of share option plans, convertible bonds and similar forms of financing. At December 31, 2012, the Group had conditional capital of CHF 27 million of which CHF 10.8 million relate to share option plans and CHF 16.2 million to convertible bonds and similar forms of financing.

Movements in conditional capital are as follows:

| | |
|---|---|
| **January 1, 2011** | **28,098** |
| Forfeited Challenge Award options | (142) |
| Exercise of options | (320) |
| **December 31, 2011** | **27,636** |
| Forfeited Challenge Award options | (227) |
| Exercise of options | (370) |
| **December 31, 2012** | **27,039** |

**Treasury shares**

At December 31, 2012, the Group held 13,842,305 treasury shares including those acquired via the share repurchase program (2011: 13,346,231). The average purchase price of all treasury shares held amounts to CHF 51.94 (2011: CHF 52.40).

*Treasury shares acquired via the Share Repurchase Program ("SRP")*

On October 21, 2010, the Group announced the repurchase of up to CHF 800 million of Actelion's common stock over the period of three years. At the Annual General Meeting ("AGM") on May 5, 2011, the shareholders approved to cancel shares bought through this program and to reduce the issued share capital accordingly. The buyback, which is carried out via a second trading line on the SIX Swiss Exchange, is expected to be completed no later than October 31, 2013. Actelion's Board of Directors and senior management believe that the share repurchase program represents an appropriate use of the Group's cash, while allowing sufficient flexibility for continued investments in R&D, in-licensing and potential M&A opportunities. As at December 31, 2012, the Group held total 5,072,100 treasury shares acquired at an average price of CHF 43.21 through the SRP (December 31, 2011: total 3,118,075 treasury shares held, acquired at an average price of CHF 38.23).

*Common shares*

At the AGM on May 4, 2012, the shareholders approved the cancelation of 4,431,075 issued shares, which were acquired via the SRP at an average purchase price of CHF 37.06. The Group canceled the shares and reduced the issued share capital accordingly by the end of the third quarter of 2012.

*Treasury shares bought on the first trading line*

At December 31, 2012, the Group held 8,770,205 treasury shares mainly acquired on the first trading line on the SIX Swiss Exchange (December 31, 2011: 10,228,156) at an average price of CHF 56.99 (December 31, 2011: CHF 56.72). For the twelve months ended December 31, 2012, the Group did not acquire any treasury shares via the first trading line. Members of the Board of Directors received 20,429 treasury shares acquired at an average price of CHF 54.26 as compensation. In addition, during 2012, the Group transferred 1,151,668 treasury shares acquired at an average price of CHF 54.53 to Actelion's employees in exchange for restricted stock units which vested either due to the full achievement of the conditions of the Actelion's 2011 Share Challenge Plan on January 3, 2012, or in accordance with the conditions of the Employee Share Plan (See Note 20. Stock-based compensation). Furthermore, the Group used 285,854 treasury shares acquired at an average price of CHF 57.64 to offset the effect of option exercises by its employees.

Treasury shares are deducted from equity at their cost value and are shown as a separate component of shareholders' equity. Except for the shares acquired through the SRP, the Group intends to further use the repurchased stock to offset dilution caused by the issuance of shares related to the Group's share-based payment plans.

**Dividends**
The AGM on May 4, 2012, approved a cash dividend for 2011 of CHF 0.80 per share. Based on this approval, the Group distributed gross dividends of CHF 93.7 million to its shareholders (2011: CHF 95.3 million).

The Board of Directors will propose a cash dividend for 2013 of CHF 1 per share to the shareholders at the Annual General Meeting on April 18, 2013. The distribution is subject to shareholders' approval at the Annual General Meeting.

## NOTE 20.
## STOCK-BASED COMPENSATION

**Share-based payment arrangements**
The Group has several share-based payment plans for employees and members of the Board of Directors. Total compensation costs recognized in the consolidated financial statements with respect to these plans were CHF 46.3 million and CHF 84.9 million in 2012 and 2011, respectively. Total related tax benefits of CHF 9.2 million and CHF 10.3 million were recognized in 2012 and 2011, respectively, of which CHF 5.9 million and CHF 6.3 million, respectively, were provided for (See Note 5. Income taxes).

The following assumptions have been applied in the valuation model:

| | For the twelve months ended December 31, | |
|---|---|---|
| | **2012** | **2011** |
| Expected term | 4 years | 5 years |
| Interest rate | 0.68% | 1.78% |
| Volatility | 39.10% | 38% |
| Expected dividend yield | 2.35% | 1.57% |

**Standard Share Option Plans ("SSOP")**
The SSOP include the employee share option plan ("ESOP") and the directors' share option plan ("DSOP"). ESOP conditions are regularly reviewed and modified by the Board of Directors. Consequently, vesting conditions of standard share options granted to employees and directors may differ depending on the timing of option allocation and the results of the Board's review of the ESOP conditions. Options granted until March 31, 2009, generally vest over a four-year period with 25% of the options becoming exercisable each year. Options granted since April 1, 2009, generally vest and become exercisable three years after the grant date. Effective March 1, 2011, ESOP options are allocated only to members of senior management who can elect to receive the equivalent of their allocated restricted stock units under the Employees Share Plan in options under SSOP.

Standard share options granted to members of the Board of Directors out of the DSOP vest immediately. Standard share options granted to senior management out of the ESOP vest three years after the grant date. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the grant date.

The following table summarizes activities under the SSOP for the twelve months ended December 31:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Share options | Weighted-average exercise price | Share options | Weighted-average exercise price |
| **Outstanding, beginning of year** | **12,591,801** | **45.86** | **13,456,025** | **44.90** |
| Granted | 152,246 | 36.66 | 350,669 | 49.75 |
| Forfeited | (716,785) | 52.88 | (575,117) | 51.68 |
| Exercised | (1,025,605) | 22.12 | (639,776) | 22.63 |
| **Outstanding, end of year** | **11,001,657** | **47.48** | **12,591,801** | **45.86** |
| Exercisable, end of year | 8,839,558 | | 8,445,215 | |

During 2012, the Group provided 285,854 treasury shares (See Note 19. Shareholders' equity) in exchange for option exercises.

The following is a summary of options outstanding and exercisable under the SSOP at December 31, 2012:

| | Share options outstanding | | | Share options exercisable | | |
|---|---|---|---|---|---|---|
| Range of exercise prices | Share options outstanding | Weighted-average remaining contractual life in years | Weighted-av. exercise price | Share options exercisable | Weighted-average remaining contractual life in years | Weighted-av. exercise price |
| 5.01–15.00 | 73,845 | 0.3 | 12.39 | 73,845 | 0.3 | 12.39 |
| 15.01–25.00 | 235,074 | 1.3 | 21.30 | 235,074 | 1.3 | 21.30 |
| 25.01–35.00 | 1,869,031 | 3.4 | 27.67 | 1,778,193 | 3.1 | 27.36 |
| 35.01–45.00 | 278,855 | 8.2 | 42.55 | 173,980 | 7.6 | 43.99 |
| 45.01–55.00 | 6,234,052 | 6.5 | 51.53 | 4,294,875 | 6.0 | 52.93 |
| 55.01–65.00 | 2,306,800 | 4.7 | 56.97 | 2,279,591 | 4.7 | 56.95 |
| 65.01–75.00 | 4,000 | 5.2 | 67.00 | 4,000 | 5.2 | 67.00 |
| **Total** | **11,001,657** | | | **8,839,558** | | |

The Group recorded stock-based compensation expense for the SSOP of CHF 17 million and CHF 45.1 million for the years ended December 31, 2012 and 2011, respectively, which is being amortized over the vesting periods of the related options. In conjunction with the restructuring, in 2012, the Group reversed CHF 0.4 million stock-based compensation expense related to unvested awards under the SSOP. The total intrinsic value of options exercised during the years ended December 31, 2012 and 2011, was CHF 17.2 million and CHF 16.1 million, respectively. The aggregate intrinsic value of options outstanding and options exercisable at December 31, 2012, was CHF 38.7 million and 37.4 million, respectively. The fair value of options vested was CHF 41.7 million and CHF 25.7 million in 2012 and 2011, respectively. 2,420 options with a weighted-average exercise price of CHF 10.61 expired during the twelve months ended December 31, 2012. There were no expirations during 2011.

The weighted-average grant date fair values of options granted during the years ended December 31, 2012 and 2011, were CHF 11.27 and CHF 14.89, respectively.

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

| | 2012 | |
|---|---|---|
| | **Share options** | **Weighted-average grant date fair values** |
| **Outstanding non-vested, beginning of year** | **4,146,586** | **19.39** |
| Granted | 152,246 | 11.27 |
| Forfeited | (207,168) | 18.23 |
| Vested | (1,929,565) | 21.60 |
| **Outstanding non-vested, end of year** | **2,162,099** | **16.93** |

As of December 31, 2012, there was CHF 5.2 million of total unrecognized compensation cost related to non-vested options which is expected to be recognized over a weighted-average period of 0.58 years.

**Challenge Award**

In 2004, the Group initiated a special one-time incentive plan ("Challenge Award") linked to specific market and performance conditions to be achieved. On March 31, 2007, all conditions have been met and no further options have been distributed under the plan. Upon achievement, granted options vested and became exercisable in four equal installments between April 2, 2007, and October 2, 2008. The exercise price of all options granted under the Challenge Award was CHF 57.20. These options expire ten and a half years after the grant date. There were no expirations during the periods presented.

The following table summarizes activities under the Challenge Award for the twelve months ended December 31:

| | **2012** | **2011** |
|---|---|---|
| | **Share options** | **Share options** |
| **Outstanding, beginning of year** | **5,222,277** | **5,506,947** |
| Forfeited | (454,001) | (284,670) |
| Exercised | - | - |
| **Outstanding, end of year** | **4,768,276** | **5,222,277** |
| Exercisable, end of year | 4,768,276 | 5,222,277 |

Weighted-average remaining contractual life for options outstanding and exercisable at December 31, 2012, is 2.6 years. The total intrinsic value of options exercised during the years ended December 31, 2012 and 2011, was zero.

Since the Challenge Award is fully vested since October 2, 2008, all compensation costs related to the Challenge Award have been fully recognized. The aggregate intrinsic value of options outstanding and exercisable at December 31, 2012 was zero.

**The 2011 Actelion Share Challenge Plan**

In 2008, the Group implemented the Actelion Share Challenge 2011 Plan ("the Plan"). Under the Plan, the Group allocated restricted stock units ("RSUs") of its publicly traded shares to all permanent employees who joined the Group by the end of 2009 at the latest. The last options granted under the Plan were distributed in the first quarter of 2010.

An RSU corresponds to a right of one Group share. The Plan was intended to promote a long-term perspective on managing business in alignment with shareholder interests and to reward long-term employee dedication. The Plan was based on three performance criteria, which related strictly to the Group's performance in the area of revenues and product development.

If the three performance criteria were achieved on or before December 31, 2011, 100% of the allocated RSUs would have vested, been converted into Group's shares and been transferred to the employees (Full Achievement). If only one or two of the three goals were achieved by December 31, 2011, the allocated RSUs would have partially vested and been transferred to the participants on January 3, 2012, whereas the unvested portion of the allocated RSUs would have become null and void (Partial Achievement).

During 2011 and 2010, two of the performance conditions were met and the related share equivalents appropriately included in the calculation of dilutive EPS (See Note. 6 Earnings per share). On January 3, 2012, the Board of Directors evaluated that the third performance condition was also achieved by December 31, 2011. Consequently, 732,625 treasury shares (See Note 19. Shareholders' equity) have been transferred to the employees in exchange for the RSUs that vested under the Plan on January 3, 2012. The Group fully recognized all compensation costs related to the Plan as of December 31, 2011.

The following table summarizes activities under the Plan for the twelve months ended December 31:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | RSU | Weighted-average grant date fair values | RSU | Weighted-average grant date fair values |
| **Outstanding, beginning of year** | **738,820** | **52.90** | **799,490** | **52.96** |
| Vested | (732,625) | 52.89 | - | - |
| Forfeited | (6,195) | 41.61 | (60,670) | 53.70 |
| **Outstanding, end of year** | **-** | **-** | **738,820** | **52.90** |
| Exercisable, end of year | - | | - | - |

The weighted-average exercise price of RSUs vested and forfeited is zero. Stock-based compensation expense for the Plan amounted to CHF 9.9 million for the year ended December 31, 2011.

**Employee Share Plan ("ESP")**

In 2009, the Group initiated a new stock-based compensation award – the Employee Share Plan ("the ESP"). Under the ESP, the Group allocated RSUs of its publicly traded shares to all permanent employees in addition to options distributed under SSOP. At the time of grant members of senior management can elect to receive the equivalent of their allocated RSUs under ESP in options under SSOP. An RSU corresponds to a right of one Group share. RSUs granted under the ESP vest on the third anniversary of the grant date.

The following table summarizes activities under the ESP for the twelve months ended December 31:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | RSU | Weighted-average grant date fair values | RSU | Weighted-average grant date fair values |
| **Outstanding, beginning of year** | **2,082,809** | **49.57** | **1,109,301** | **49.67** |
| Granted | 1,144,055 | 32.08 | 1,104,960 | 49.43 |
| Forfeited | (181,190) | 44.77 | (131,452) | 49.18 |
| Vested | (419,043) | 52.14 | | |
| **Outstanding, end of year** | **2,626,631** | **41.88** | **2,082,809** | **49.57** |
| Exercisable, end of year | - | - | - | - |

For the twelve months ended December 31, 2012, 419,043 RSUs vested under the ESP and the corresponding number of treasury shares has been transferred to the eligible employees (See Note 19. Shareholders' equity). As at December 31, 2011, no RSUs had vested under the ESP.

The weighted-average exercise price of RSUs granted, outstanding and forfeited is zero.

The Group recorded stock-based compensation expense for the ESP of CHF 29.4 and CHF 29.9 million for the years ended December 31, 2012 and 2011, respectively. In conjunction with the restructuring, in 2012, the Group reversed CHF 0.9 million stock-based compensation expense related to unvested awards under the ESP. As of December 31, 2012, total unrecognized compensation costs related to non-vested RSUs amount to CHF 40.8 million. These costs are expected to be recognized over 0.96 years.

At December 31, 2012, 3,265,963 conditional shares were available for grant of future share options and RSUs under SSOP and ESP. In 2012 and 2011, no additional conditional capital has been approved to be used in connection with SSOP and similar stock-based compensation awards.

## NOTE 21.
## ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Movements in accumulated other comprehensive income (loss) consist of the following for the twelve months ended December 31, 2012 and 2011, respectively:

| | Accumulated OCI (loss), net of tax | | | | |
|---|---|---|---|---|---|
| | **January 1, 2012** | **Changes arising during period** | **Reclassification or amortization through net income** | **Translation effects** | **December 31, 2012** |
| Foreign currency translation adjustments[1] | (167,724) | 1,823 | - | (130) | (166,031) |
| Not recognized components of net periodic benefit costs[2] | (27,164) | (6,453) | 455 | 130 | (33,032) |
| **Total accumulated OCI (loss)** | **(194,888)** | **(4,630)** | **455** | **-** | **(199,063)** |

| | Accumulated OCI (loss), net of tax | | | | |
|---|---|---|---|---|---|
| | **January 1, 2011** | **Changes arising during period** | **Reclassification or amortization through net income** | **Translation effects** | **December 31, 2011** |
| Foreign currency translation adjustments[1] | (124,052) | (44,069) | - | 397 | (167,724) |
| Not recognized components of net periodic benefit costs[3] | (35,981) | 7,523 | 1,691 | (397) | (27,164) |
| Unrealized gains (losses) on available-for-sale securities[4] | 112 | | (112) | - | - |
| **Total accumulated OCI (loss)** | **(159,921)** | **(36,546)** | **1,579** | **-** | **(194,888)** |

[1] Income taxes are not provided for foreign currency translation relating to permanent investments in international subsidiaries.
[2] Excludes income taxes amounting to CHF 2.1 million and CHF 2.5 million on January 1, and December 31, 2012, respectively.
[3] Excludes income taxes amounting to CHF 2.7 million and CHF 2.1 million on January 1, and December 31, 2011, respectively.
[4] Income taxes are not provided for unrealized gains (losses) on available-for-sale securities because these gains are taxed at zero percent.

In 2011, CHF 0.1 million unrealized holding gains related to sold AFS equity securities have been reclassified from other comprehensive income and realized into earnings (See Note 8. Financial assets and liabilities).

## NOTE 22.
## CONCENTRATIONS

Cash and cash equivalents, short-term deposits, marketable securities, derivatives and accounts receivable are financial instruments, which potentially subject the Group to concentrations of credit risk. The Group invests its excess cash in deposits with major banks and other high quality money market instruments at creditworthy financial institutions. The majority of these financial institutions has S&P credit ratings as of December 31, 2012, in a range from A to AA+ and is partially protected by a Swiss state guarantee.

Deposits and other money market investments mature on average within four months and the Group has not incurred any related credit losses.

In addition, the Group reviews on an ongoing basis the creditworthiness of counterparties to foreign exchange and interest rate agreements. The Group has not experienced and does not expect to incur any significant losses from failure of counterparties to perform under the agreements.

As at December 31, 2012, one financial institution with a rating A accounted for 99% of the short-term deposits of the Group. In addition, cash pledged as collateral in conjunction with the Asahi litigation has been restricted with two financial institutions with a S&P rating A. Cash and cash equivalents held by Group subsidiaries with financial institutions with S&P ratings below A are immaterial to the Group as at December 31, 2012.

For the years ended December 31, 2012 and 2011, one distributor accounted for approximately 23% and 26% respectively, of total sales. At December 31, 2012 and 2011, CHF 23.8 million (USD 26 million) and CHF 53.3 million (USD 56.7 million), respectively, of trade accounts receivable related to this distributor. Management believes other distributors could be identified which would purchase the Group's products on comparable terms; however, the establishment of new distributor relationships could take several months. The Group performs ongoing credit evaluations of such distributors.

As of December 31, 2012, EUR 136.6 million (CHF 164.9 million) of gross trade accounts receivable are due from public institutions funded by governmental agencies in Greece, Italy, Spain and Portugal (collectively referred to as "Southern European countries"), thereof EUR 20.5 million are overdue for more than 365 days. This represents a significant decrease compared to December 31, 2011, mainly due to the increased cash collection in Spain (See Note 9. Trade and other receivables).

Taking into consideration the economic downturn and the debt crisis impacting the Southern European countries, the Group continues to closely monitor the macro-economic conditions in the region and the associated impact on the financial markets and its business. Among others, the Group considers analyses of days sales outstanding, of public costs of borrowing and of restructuring measures implemented in these countries, in order to develop estimates and other relevant assumptions believed to be reasonable under the circumstances to adjust its allowance for doubtful accounts (See Note 1. Description of business and summary of significant accounting policies). Actual results may differ significantly from these estimates. As a result of these analyses and of the increased cash collection activities during the current reporting period, the Group adjusted its allowance for doubtful accounts and as of December 31, 2012, provided for EUR 13.1 million (CHF 15.9 million) related to the outstanding public sector receivables in Southern European countries (December 31, 2011: EUR 36.4 million). The Group believes that the deterioration of the credit and economic conditions as well as the inherent variability of timing of cash receipts in the Southern European countries may result in an

increase in the average length of time that it takes to collect the accounts receivable outstanding in these countries or in additional discounts to be applied on older outstanding receivables. Furthermore, the Group continues to implement various measures to increase cash collection in these countries, including among others negotiations of payment plans or of non-recourse factoring, legal claims or interest charges for late payments. Product sales to public sector customers where collectibility cannot be reasonably assured are only recognized upon cash receipt.

The Group is dependent upon toll manufacturers to manufacture its products. For the year ended December 31, 2012, one supplier accounted for approximately 23% of total purchases, while in 2011 another supplier accounted for approximately 18% of total purchases. Management believes other suppliers could provide similar products on comparable terms. A change in suppliers, however, could cause a delay in fulfillment of customer orders and a possible loss of sales, which could adversely affect operating results. Management believes that the Group maintains sufficient inventory levels to minimize the impact that a change in suppliers would have on operating results.

The detailed disclosures regarding risk management process that are required by Swiss Company Law are included in the accompanying statutory financial statements of Actelion Ltd, Allschwil ("Holding Company Statements").

## NOTE 23.
## SEGMENT AND GEOGRAPHIC INFORMATION

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

The Group's geographic information is as follows:

| | Switzerland | United States | Europe | Other | Total |
|---|---|---|---|---|---|
| **December 31, 2012** | | | | | |
| Product revenue from external customers | 26,715 | 709,646 | 616,955 | 368,773 | **1,722,089** |
| Contract revenue from external customers | 6,269 | - | - | 38 | **6,307** |
| Property, plant and equipment | 363,885 | 33,601 | 2,010 | 3,039 | **402,535** |
| | | | | | |
| **December 31, 2011** | | | | | |
| Product revenue from external customers | 24,728 | 703,173 | 641,183 | 343,907 | **1,712,991** |
| Contract revenue from external customers | 82,909 | - | - | 163 | **83,072** |
| Property, plant and equipment | 378,986 | 38,069 | 3,092 | 4,512 | **424,659** |

## NOTE 24.
## RELATED PARTY TRANSACTIONS

During 2012, a Board member held a Board seat with Basilea Pharmaceuticals Ltd. ("Basilea"), a biopharmaceutical company with primary focus on antibiotics and antifungals. In the ordinary course of business the Group entered into transactions with Basilea amounting to CHF 0.5 million in 2012. During 2011, Board members held a Board seat with Covance Inc., a provider of clinical development services, and Basilea. In the ordinary course of business the Group entered into transactions with these related parties amounting to CHF 7.1 million in 2011. As of December 31, 2012 and 2011, outstanding receivables from or payables to related parties are not material. In addition, the Group leases certain assets from related parties. The total lease payments in 2012 and 2011 were not material.

The detailed disclosures regarding executive remuneration that are required by Swiss Company Law are included in the Holding Company Statements.

## NOTE 25.
## SUBSEQUENT EVENTS

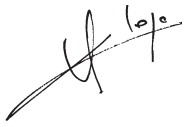
The Group has evaluated subsequent events through February 8, 2013, which represents the date the consolidated financial statements were available to be issued. These events have been disclosed in the respective notes to these consolidated financial statements.

# REPORT OF ACTELION MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Actelion's Board of Directors and Management of the Group are responsible for establishing and maintaining adequate internal control over financial reporting. Actelion's internal control system was designed to provide reasonable assurance to Actelion's Management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of its published consolidated financial statements. All internal control systems no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Actelion Management assessed the effectiveness of the Group's internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria established within Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment Management has concluded that, as of December 31, 2012, Actelion's internal control over financial reporting is effective based on those criteria.

Ernst & Young AG, Switzerland, an independent registered public accounting firm, has issued an opinion on the effectiveness of the Group's internal control over financial reporting which is included in this Annual Report on pages 112 to 113.



Dr. Jean-Paul Clozel
CEO

Andrew J. Oakley
CFO

Allschwil, February 8, 2013

# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and Shareholders of Actelion Ltd and its subsidiaries

We have audited Actelion Ltd's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Actelion Ltd's Board of Directors and management are responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Actelion Ltd maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States), the 2012 consolidated financial statements of Actelion Ltd and our report dated February 8, 2013, expressed an unqualified opinion thereon.

Ernst & Young AG

Jürg Zürcher
Licensed Audit Expert
(Auditor in charge)

Pramit Mehta
Licensed Audit Expert

Basel, February 8, 2013

# REPORT OF THE STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of Actelion Ltd, Allschwil

As statutory auditor, we have audited the consolidated financial statements of Actelion Ltd, which comprise the consolidated balance sheets as of December 31, 2012, and December 31, 2011, and the related consolidated income statements, statements of comprehensive income, statements of cash flows, statements of changes in shareholders' equity, and notes thereto (pages 66 to 110), for the years then ended.

*Board of Directors' Responsibility*
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Actelion Ltd as of December 31, 2012, and December 31, 2011, and the consolidated results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States and comply with Swiss law.

Report on Other Legal and Regulatory Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Actelion Ltd's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 8, 2013, expressed an unqualified opinion on the effectiveness of Actelion Ltd's internal control over financial reporting.

Ernst & Young AG

Jürg Zürcher
Licensed Audit Expert
(Auditor in charge)

Pramit Mehta
Licensed Audit Expert

Basel, February 8, 2013

# HOLDING COMPANY STATEMENTS

## BALANCE SHEET

| (in CHF thousands, except number of shares) | December 31, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | 304,844 | 630,727 |
| Other receivables | 2,232 | 1,999 |
| Other receivables with group companies | 775,523 | 643,466 |
| Prepayments and accrued income | 814 | 1,479 |
| **Total current assets** | **1,083,413** | **1,277,671** |
| **Non-current assets** | | |
| Restricted cash for litigation | 368,740 | - |
| Investments in subsidiaries | 606,594 | 615,343 |
| Treasury shares | 257,560 | 163,439 |
| Long-term loans to subsidiaries | 717,880 | 833,276 |
| Long-term financial assets | 4,536 | - |
| **Total non-current assets** | **1,955,310** | **1,612,058** |
| **Total assets** | **3,038,723** | **2,889,729** |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Trade and other payables | 16,851 | 6,193 |
| Trade and other payables with group companies | 112,490 | 112,195 |
| Accrued expenses | 2,903 | 2,836 |
| **Total current liabilities** | **132,244** | **121,224** |
| **Non-current liabilities** | | |
| Other non-current liabilities | 31,216 | 29,227 |
| Long-term financial debt | 235,000 | 235,000 |
| **Total non-current liabilities** | **266,216** | **264,227** |
| **Total liabilities** | **398,460** | **385,451** |
| **Shareholders' equity** | | |
| Common shares (par value CHF 0.50 per share, authorized 180,850,214 and 185,735,290 shares; issued 126,773,027 and 130,464,351 shares in 2012 and 2011, respectively) | 63,387 | 65,232 |
| General legal reserve | | |
| Capital contribution reserve | 844,676 | 913,180 |
| Other legal reserve | 40,110 | 40,110 |
| Treasury shares reserve | 718,984 | 699,392 |
| Accumulated profit | 973,106 | 786,364 |
| **Total shareholders' equity** | **2,640,263** | **2,504,278** |
| **Total liabilities and shareholders' equity** | **3,038,723** | **2,889,729** |

## INCOME STATEMENT

| (in CHF thousands) | Twelve months ended December 31, 2012 | 2011 |
|---|---|---|
| Financial income | 517,096 | 569,119 |
| **Total income** | **517,096** | **569,119** |
| Administrative expense | (6,750) | (39,656) |
| Valuation adjustment investments | (98,752) | (163,259) |
| Expiration derivative Instruments | - | (9,726) |
| Impairment on financial assets | - | (13,445) |
| Financial expense | (61,790) | (88,051) |
| **Total expense** | **(167,292)** | **(314,137)** |
| **Income before taxes** | **349,804** | **254,982** |
| Income taxes | (438) | (5) |
| **Income after taxes (net income)** | **349,366** | **254,977** |

# NOTES TO THE FINANCIAL STATEMENTS 2012

## 1. ACCOUNTING PRINCIPLES

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

## 2. CHANGES IN PRESENTATION

In 2012, the Company changed the presentation of the Actelion Executive Committee ("AEC") remuneration and of the highest total compensation. To ensure comparability, 2011 numbers have been correspondingly adjusted in the relevant tables in Note 13. Compensation and shareholdings of the members of the Board of Directors and AEC. None of the changes had an impact on the Company's financial position or result of operations.

## 3. MATERIAL INVESTMENTS

| Company | Country | Location | Ownership interest | Consolidation method | Function | Share capital |
|---|---|---|---|---|---|---|
| Actelion Pharmaceuticals Australia Pty Ltd | Australia | Sydney | 100% | Full | Sales | AUD 2,016,667 |
| Actelion Pharmaceuticals Austria GmbH | Austria | Vienna | 100% | Full | Sales | EUR 35,000 |
| Actelion Pharmaceuticals do Brasil Ltda | Brazil | Rio de Janeiro | 100% | Full | Sales | BRL 13,861,708 |
| Actelion Pharmaceuticals Canada Inc. | Canada | Laval | 100% | Full | Sales | CAD 100,000 |
| Actelion Pharmaceuticals France SAS | France | Paris | 100% | Full | Sales | EUR 12,200,000 |
| Actelion Pharmaceuticals Deutschland GmbH | Germany | Freiburg | 100% | Full | Sales | EUR 1,000,000 |
| Actelion Pharmaceuticals Hellas SA | Greece | Athens | 100% | Full | Sales | EUR 421,500 |
| Actelion Pharmaceuticals Italia S r l | Italy | Milan | 100% | Full | Sales | EUR 15,000 |
| Actelion Pharmaceuticals Japan Ltd | Japan | Tokyo | 100% | Full | Sales | JPY 95,000,000 |
| Actelion Pharmaceuticals Nederland BV | Netherlands | Woerden | 100% | Full | Sales | EUR 50,010 |
| Actelion Pharmaceuticals Espana SL | Spain | Barcelona | 100% | Full | Sales | EUR 127,100 |
| Actelion Pharmaceuticals Sverige AB | Sweden | Danderyd | 100% | Full | Sales | SEK 1,000,000 |
| Actelion Ilac Ticaret L.S. | Turkey | Istanbul | 100% | Full | Sales | TRY 4,357,375 |
| Actelion Pharmaceuticals Ltd (CH) | Switzerland | Allschwil | 100% | Full | R&D, Production, Marketing, Sales | CHF 614,610 |
| Actelion Pharmaceuticals UK Ltd | United Kingdom | London | 100% | Full | Sales | GBP 250,000 |
| Actelion Registration Ltd | United Kingdom | London | 100% | Full | Holder marketing authorization EU | GBP 1 |
| Actelion Pharmaceuticals US Inc. | United States | San Francisco | 100% | Full | Sales | USD 5,000 |
| Actelion Pharma Schweiz AG | Switzerland | Baden | 100% | Full | Marketing | CHF 100,000 |
| Actelion Clinical Research, Inc. | United States | New Jersey | 100% | Full | Clinical Development | 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 S.à.r.l | Luxembourg | Luxembourg | 100% | Full | Financing | EUR 12,500 |
| Actelion Production Ltd | Switzerland | Allschwil | 100% | Full | Production, Marketing, Sales | CHF 100,000 |
| Actelion Pharmaceuticals Israel Ltd | Israel | Ramat-Gan | 100% | Full | Clinical Development | ILS 100 |
| Actelion Pharmaceuticals Portugal | Portugal | Lisboa | 100% | Full | Sales | EUR 5,000 |
| Actelion Pharmaceuticals Belgium NV | Belgium | Mechelen | 100% | Full | Sales | EUR 600,000 |
| Actelion Pharmaceuticals Korea Ltd | South Korea | Seoul | 100% | Full | Sales | KRW 100,000,000 |

| Company | Country | Location | Ownership interest | Consolidation method | Function | Share capital |
|---|---|---|---|---|---|---|
| Actelion US Holding Co. | United States | Delaware | 100% | Full | US Holding | USD 1 |
| CoTherix Inc. | United States | San Francisco | 100% | Full | Sales | USD 1 |
| Actelion Cyprus Ltd | Cyprus | Nicosia | 100% | Full | Financing | CHF 81,400 |
| Actelion Pharmaceuticals Singapore PTE Ltd | Singapore | Singapore | 100% | Full | Sales | SGD 2 |
| Actelion Pharmaceuticals Mexico S.A. De C.V. | Mexico | Mexico City | 100% | Full | Sales | MXN 11,000,000 |
| Actelion Pharmaceuticals (Shanghai) Company Ltd | China | Shanghai | 100% | Full | Sales | USD 200,000 |
| Actelion Pharmaceuticals India Private Ltd | India | Mumbai | 100% | Full | Clinical Development | INR 500,000 |
| Actelion One SA | Luxembourg | Luxembourg | 100% | Full | Holder IP rights | CHF 55,000 |
| Actelion Pharma Polska Sp. z.o.o. | Poland | Warsaw | 100% | Full | Sales | PLN 50,000 |
| Actelion Pharmaceuticals RUS LLC | Russia | Moscow | 100% | Full | Marketing | RUB 10,000 |
| Areus, Inc. | United States | San Francisco | 100% | Full | Real Estate Holding | USD 10,876,000 |
| Actelion Re SA | Luxembourg | Luxembourg | 100% | Full | Insurance Solutions | CHF 6,000,000 |
| Actelion Pharmaceuticals CZ, s.r.o. | Czech Republic | Prague | 100% | Full | Sales | CZK 200,000 |
| Actelion Pharmaceuticals SK, s.r.o. | Slovak Republic | Bratislava | 100% | Full | Sales | EUR 5,000 |
| Actelion Pharmaceuticals Hungaria LLC | Hungary | Budapest | 100% | Full | Marketing | HUF 50,000,000 |
| Actelion Pharmaceuticals Taiwan Ltd | Taiwan | Taipeh | 100% | Full | Sales | TWD 600,000 |

## 4. SHARE CAPITAL AND GENERAL LEGAL RESERVE

### Share capital

At December 31, 2012, the issued share capital amounts to CHF 63,386,514 (2011: CHF 65,232,176) consisting of 126,773,027 (2011: 130,464,351) common shares, including 13,842,305 treasury shares (2011: 13,346,231) with a nominal value of CHF 0.50 each. The shares are registered and fully paid-in. Each share is entitled to one vote.

### General legal reserve

*Capital contribution reserve*

The capital contribution reserve is presented separately within the general legal reserve. Any dividend distribution made out of the capital contribution reserve after January 1, 2011 is neither subject to Swiss withholding tax nor subject to income tax on individual shareholders who are residents of Switzerland. Only capital contributions paid after December 31, 1996 qualify for the tax exemption and are classified within the capital contribution reserve.

Changes in the capital contribution reserve are mainly due to dividend payments.

## 5. CONDITIONAL CAPITAL

### Conditional capital

Since inception, the Group has created conditional capital for the establishment of share option plans, convertible bonds and similar forms of financing. At December 31, 2012, the Group had conditional capital of CHF 27 million of which CHF 10.8 million relate to share option plans and CHF 16.2 million to convertible bonds and similar forms of financing.

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

| | |
|---|---|
| **January 1, 2011** | **28'098** |
| Forfeited Challenge Award options | (142) |
| Exercise of options | (320) |
| **December 31, 2011** | **27'636** |
| Forfeited Challenge Award options | (227) |
| Exercise of options | (370) |
| **December 31, 2012** | **27,039** |

## 6. RESTRICTED CASH FOR LITIGATION

In conjunction with the Asahi litigation, in January 2012, certain insurance companies issued USD 623.6 million in surety bonds which were posted as collateral at the California Courts of Appeal, US, in order to securitize the awards granted to Asahi by the State Court in California, US – See Note 17. Commitments, contingencies and guarantees in the audited consolidated financial statements for the twelve months ended December 31, 2012. Consequently, the Company and its affiliates were required to pledge USD 375 million in cash or investments to secure the surety bonds. As of December 31, 2012, the Company had pledged USD 250 million and CHF 140 million in cash as collateral. The amount of collateral required might further change depending on the duration of the appeal procedures and in case of significant currency exchange fluctuations. The restriction will remain until the verdict issued by the California Court of Appeal becomes enforceable or, if applicable, until a final judgment of the California Supreme Court has been issued - See Note 8. Financial assets and liabilities in the audited consolidated financial statements for the twelve months ended December 31, 2012.

## 7. TREASURY SHARES

At December 31, 2012, the Company held 13,842,305 treasury shares including those acquired via the share repurchase program (2011: 13,346,231). The average purchase price of all treasury shares held amounts to CHF 51.94 (2011: CHF 52.40).

**Treasury shares acquired via the Share Repurchase Program ("SRP")**
On October 21, 2010, the Company announced the repurchase of up to CHF 800 million of the Company's common stock over the period of three years. At the Annual General Meeting ("AGM") on May 5, 2011, the shareholders approved to cancel the shares bought through this program and to reduce the issued share capital accordingly. The buyback, which is carried out via a second trading line on the SIX Swiss Exchange, is expected to be completed no later than October 31, 2013. Actelion's Board of Directors and senior management believe that the share repurchase program represents an appropriate use of the Company's cash, while allowing sufficient flexibility for continued investments in R&D, in-licensing and potential M&A opportunities. As of December 31, 2012, the Company held total 5,072,100 treasury shares acquired at an average price of CHF 43.21 through the SRP (2011: 3,118,075 treasury shares at an average price of CHF 38.23).

At the AGM on May 4, 2012, the shareholders approved the cancelation of 4,431,075 issued shares, which were acquired via the SRP at an average purchase price of CHF 37.06. The Company canceled the shares and reduced the issued share capital accordingly by the end of the third quarter of 2012.

**Treasury shares bought on the first trading line**
At December 31, 2012, the Company held 8,770,205 treasury shares mainly acquired on the first trading line on the SIX Swiss Exchange (2011: 10,228,156) at an average price of CHF 56.99 (2011: CHF 56.72). During 2012, the Company did not acquire any treasury shares via the first trading line. Members of the Board of Directors received 20,429 treasury shares acquired at an average price of CHF 54.26 as compensation. The treasury shares are considered as long-term investment and therefore valued at lower of cost or market.

In addition, during 2012, the Company transferred 1,151,668 treasury shares acquired at an average price of CHF 54.53 to Actelion's employees in exchange for restricted stock units which vested either due to the full achievement of the conditions of the Actelion's 2011 Share Challenge Plan on January 3, 2012, or in accordance with the conditions of the Employee Share Plan (See Note 20. Stock-based compensation in the audited consolidated financial statements for the twelve months ended December 31, 2012). Furthermore, the Company used 285,854 treasury shares acquired at an average price of CHF 57.64 to offset the effect of option exercises by its employees.

## 8. LONG-TERM FINANCIAL ASSETS

**EchoSense Inc**.
On February 27, 2012, the Company acquired 20.1% of privately-held EchoSense Inc., Tortola, British Virgin Islands ("EchoSense") for a cash consideration of USD 5.1 million (CHF 4.5 million). EchoSense is a medical device company which develops novel non-invasive and non-imaging ultrasound Doppler and signal processing technologies capable of extracting parametric information regarding both the coronary arteries and the pulmonary system. The Company capitalized the investment as a long-term financial asset.

**Trophos SA**
On July 19, 2010, the Company obtained, for non-refundable consideration of EUR 10 million (CHF 13.5 million), an option to acquire Trophos SA, a French clinical stage pharmaceutical entity developing drugs for patients with neurodegenerative diseases. The exercise of the option was contingent on the Company's receipt and review of the results of an ongoing Phase III study with olesoxime. In 2010, the Company recognized the payment at cost as a long-term financial asset.

On December 13, 2011, following the disclosure of the Phase III results in patients suffering from amyotrophic lateral sclerosis (ALS), the Company decided not to exercise the option to acquire Trophos SA. Consequently, the long-term financial asset was written-off and disclosed as impairment on financial assets in the income statement.

## 9. OTHER NON-CURRENT LIABILITIES

The other non-current liabilities balance of CHF 31.2 million as of December 31, 2012 (2011: CHF 29.2 million), relates to punitive damages awarded to Asahi by the State Court in California, US, and accrued interest thereon. Note 17. Commitments, contingencies and guarantees in the audited consolidated financial statements for the twelve months ended December 31, 2012, provides further information on the current status of the litigation procedures.

## 10. LONG-TERM FINANCIAL DEBT

On December 7, 2011, the Company issued CHF 235 million in 4.875% interest bearing bonds ("2011 bond") with denominations of CHF 5,000 and multiples thereof and with maturity December 7, 2015. The issue and redemption price were set at 100.25% and 100%, respectively. Interest is payable annually on December 7. Note 15. Borrowings in the audited consolidated financial statements for the twelve months ended December 31, 2012, provides further details on the terms and conditions of the 2011 bond.

A premium of CHF 0.6 million received at issuance and representing the difference between the cash proceeds obtained and the principal amount due on redemption, has been fully recognized as financial income as of December 31, 2011. Upon materiality considerations, debt issuance cost of CHF 1.6 million and federal issue taxes of CHF 1.2 million have been recorded within financial expense and have not been capitalized.

## 11. GUARANTEES AND COMMITMENTS

In 2012, the Company has increased the first demand guarantee to Deutsche Bank Mortgage Capital, USA, for securing the rent obligations of Actelion Clinical Research, USA, from USD 2,128,357 to USD 3,527,749.

In order to secure its obligations from derivative trading, cash pooling, overdraft facilities and forward transactions in foreign currencies, in 2012 the Company has issued or renewed guarantees and a letter of indemnity to various financial institutions in the total amount of CHF 75.7 million. In addition, the Company carries a joint obligation with a Company's subsidiary to financial institutions to secure lines of credit amounting to CHF 15 million in total. As of December 31, 2012, these credit facilities have not been utilized, but collateralized by CHF 0.5 million in restricted cash.

Furthermore, the Company guarantees financial support to an operating entity to meet its financial obligations in the total amount of CHF 8.6 million (2011: CHF 35.5 million).

In addition, as of December 31, 2012, other guarantees in the amount of CHF 559,559 (2011: CHF 527,570) exist.

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

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

## 12. SIGNIFICANT SHAREHOLDERS

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

| | 2012 | | 2012 | | 2011 | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| | Percentage of share capital | Percentage of voting rights | Percentage of purchase positions | Percentage of sale positions | Percentage of share capital | Percentage of voting rights | Percentage of purchase positions | Percentage of sale positions |
| Members of the Board of Directors, the AEC and Senior Management | >5% | >5% | <3% | - | >5% | >5% | <3% | - |
| Actelion Ltd[2] | >10% | >10% | - | <15% | >10% | >10% | - | >15% |
| Rudolf Maag | >3% | >3% | - | - | >3% | >3% | - | - |
| BB Biotech Invest SA[1] | >3% | >3% | - | - | >3% | >3% | - | - |
| Lazard Asset Management LLC[1] | >3% | >3% | - | - | >3% | >3% | - | - |
| Orbis Investment Management Limited[1] | >5% | >5% | - | - | >5% | >5% | - | - |
| BlackRock, Inc.[1] | >3% | >3% | - | - | <3% | <3% | - | - |

[1] According to shareholders' disclosure notifications to SIX Swiss Exchange. For more information, please refer to http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html

[2] Includes treasury shares purchased via the second trading line and outstanding employee stock-based compensation awards.

## 13. COMPENSATION AND SHAREHOLDINGS OF THE MEMBERS OF THE BOARD OF DIRECTORS AND ACTELION EXECUTIVE COMMITTEE

**Presentation and measurement principles for compensation disclosure**

Fixed remuneration, social contribution, pension and other benefits are disclosed as paid out in the year of reference. Cash bonus is based on an expected achievement of pre-defined targets, accrued in the respective reporting period, re-measured and paid out in the following year. Amounts disclosed as deferred profit sharing are measured in the year of reference, re-measured based on pre-set conditions and paid out in the second year following the year of reference.

**Compensation Board of Directors**

*Total compensation*

In 2012 and 2011, the non-executive and the former members of the Board of Directors (in 2012: 10 individuals; in 2011: 9 individuals) received a total compensation of CHF 1,720,981 and CHF 2,752,204 respectively, consisting of the following:

| | 2012 | 2011 |
|---|---|---|
| Cash compensation | 837,550 | 1,207,282 |
| Social security contributions[1] | 35,287 | 81,252 |
| Option allotment | - | 321,604 |
| Share allotment | 848,144 | 1,142,066 |
| **Total** | **1,720,981** | **2,752,204** |

[1] Certain non-executive directors ("NEDs") were exempted from Swiss social security contributions and received a refund of previously withheld contributions over the course of 2012. The numbers disclosed above reflect the effective contributions withheld in 2012 and 2011.

| Name | Year | Functions | Total compensation in CHF | Remuneration in CHF[1] | Options (DSOP)[2] | | Shares | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Total number | Total fair value in CHF[3] | Total number | Total fair value in CHF[5] |
| **Jean-Pierre Garnier** | 2012 | Chairman<br>Member of the Compensation Committee<br>Member of the Nominating & Governance Committee | 252,082 | 84,000 | - | - | 4,006 | 168,082 |
| | 2011 | Chairman (since September 27, 2011)<br>Member (since May 5, 2011)<br>Member of the Compensation Committee<br>Member of the Nominating & Governance Committee | 891,002 | 486,000 [6] | - | - | 8,464 | 405,002 |
| **Robert E. Cawthorn** | 2012 | Member (until May 4, 2012) | 13,766 | 13,766 | - | - | - | - |
| | 2011 | Member (since September 27, 2011)<br>Chairman (until September 26, 2011) | 360,660 | 158,159 | - | - | 4,232 | 202,501 |
| **Juhani Anttila** | 2012 | Member<br>Member of the Finance & Audit Committee | 180,057 | 180,057 | - | - | - | - |
| | 2011 | Member<br>Member of the Finance & Audit Committee | 239,656 | 104,623 | - | - | 2,822 | 135,033 |
| **Robert J. Bertolini** | 2012 | Member<br>Member of the Finance and Audit Committee | 168,047 | 88,500 | - | - | 1,896 | 79,547 |
| | 2011 | Member (since May 5, 2011)<br>Member of the Finance and Audit Committee | 193,541 | 53,250 | 12,696 | 140,291 | - | - |

| Name | Year | Functions | Total compensation in CHF | Remuneration in CHF[1] | Options (DSOP)[2] | | Shares | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Total number | Total fair value in CHF[3] | Total number | Total fair value in CHF[5] |
| **Carl Feldbaum** | 2012 | Member<br>Chairman of the Nominating & Governance Committee | 168,826 | 56,925 | - | - | 2,667 | 111,901 |
| | 2011 | Member<br>Chairman of the Nominating & Governance Committee | 164,754 | 71,650 | 8,464 | 93,104 | - | - |
| **Peter Gruss** | 2012 | Member (since May 4, 2012)<br>Member of the Nominating & Governance Committee | 230,946 | 104,875 | - | - | 3,219 | 126,071 |
| **Werner Henrich** | 2012 | Member<br>Member of the Compensation Committee | 174,235 | 95,778 | - | - | 1,870 | 78,457 |
| | 2011 | Member<br>Member of the Compensation Committee | 220,752 | 85,719 | - | - | 2,822 | 135,033 |
| **Michael Jacobi** | 2012 | Member<br>Chairman of the Finance & Audit Committee | 186,609 | 131,061 | - | - | 1,324 | 55,548 |
| | 2011 | Member<br>Chairman of the Finance & Audit Committee | 208,808 | 115,281 | 8,464 | 93,527 | - | - |
| **Armin Kessler** | 2012 | Member<br>Chairman of the Compensation Committee<br>Member of the Nominating & Governance Committee | 178,320 | 61,175 | - | - | 2,792 | 117,145 |
| | 2011 | Member<br>Chairman of the Compensation Committee<br>Member of the Nominating & Governance Committee | 212,283 | 77,250 | - | - | 2,822 | 135,033 |
| **Jean Malo** | 2012 | Member<br>Member of the Finance & Audit Committee | 168,093 | 56,700 | - | - | 2,655 | 111,393 |
| | 2011 | Member<br>Member of the Finance & Audit Committee | 222,533 | 87,500 | - | - | 2,822 | 135,033 |
| **Joseph C. Scodari** | 2011 | Vice-Chairman (until 31 July 2011) | 94,245 | 65,663 | 1,058 | 11,691 | 353 | 16,891 |
| **Elias A. Zerhouni[4]** | 2011 | Member (until 31 December 2010) | (56,030) | (16,562) | (1,527) | (17,010) | (508) | (22,458) |
| **Jean-Paul Clozel** | | Delegate | See Section "Highest total compensation" | | | | | |
| **2012 Total (excl. Jean-Paul Clozel)** | | | **1,720,981** | **872,837** | **-** | **-** | **20,429** | **848,144** |
| **2011 Total (excl. Jean-Paul Clozel)** | | | **2,752,204** | **1,288,533** | **29,155** | **321,603** | **23,829** | **1,142,068** |

[1] Remuneration for 2011 includes cash compensation, social security contributions and remuneration for extraordinary activities that were paid for the additional preparatory and follow up work performed by the members of the Board of Directors of Actelion in relation to the AGM 2011.

[2] The Company has a share-based option plan for the Board of Directors ("DSOP"). Options granted to the members of the Board out of the DSOP vest immediately. Each option entitles the holder to one share. Options generally expire between ten and ten and a half years after the grant date. Each director can decide if part of his compensation should be paid out in options (out of the DSOP) or in shares.

[3] The fair value of the options is estimated by the use of a Binomial Lattice option pricing model. The model input assumptions are determined based on available internal and external data sources.

[4] The deductions have been made in 2011 as this member of the Board did not serve for the full board term 2010/2011.

[5] The Company has a share payment plan for the Board of Directors ("DSP"). Each non-executive director can elect to receive a portion of its annual compensation in shares out of the DSP and if a blocking period of one year shall be applied on such shares. The fair value of the shares which can be transacted immediately has been determined based on the share price at grant date. For shares with a one year blocking period, the share price at grant date has been discounted to derive at the applicable fair value.

[6] This includes an exceptional retainer to Jean-Pierre Garnier for his election as Chairman of the Board in September 2011.

**AEC compensation**

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

*Total cash and other compensation*

In 2012 and 2011, the executive member of the Board of Directors and the members of the AEC were awarded the following compensation elements (in CHF):

| | | | Benefits | | | Short-term incentives | | Long-term incentives | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Fixed remuneration | Pension | Other benefits[3] | Soc. security contributions | Cash Bonus | Deferred Profit Sharing | Fair Value of ESOP/ DSOP | Fair Value of ESP/ DSP | Total |
| Jean-Paul Clozel* | 2012 | 1,108,550 | 190,991 | 320 | 171,151 | 1,408,968 | 1,108,550 | 652,796 | 539,597 | 5,180,923 |
| | 2011[1] | 1,081,500 | 158,754 | - | 187,392 | 1,081,500 | 66,642 | 668,403 | 964,800 | 4,208,991 |
| | 2011[2] | 1,081,500 | 158,754 | - | 187,392 | 1,050,000 | 416,726 | 668,403 | 964,800 | 4,527,575 |
| Other Executive Committee Members (total) | 2012 | 2,030,800 | 301,864 | 64,351 | 419,697 | 2,394,373 | 1,817,115 | - | 1,861,757 | 8,889,957 |
| | 2011[1] | 2,470,670 | 377,473 | 60,800 | 346,666 | 1,586,147 | 248,545 | 643,028 | 3,200,922 | 8,934,251 |
| | 2011[2] | 2,470,670 | 377,473 | 60,800 | 346,666 | 1,824,410 | 2,178,502 | 643,028 | 3,200,922 | 11,102,471 |
| **Total** | **2012** | **3,139,350** | **492,855** | **64,671** | **590,848** | **3,803,341** | **2,925,665** | **652,796** | **2,401,354** | **14,070,880** |
| | **2011[1]** | **3,552,170** | **536,227** | **60,800** | **534,058** | **2,667,647** | **315,187** | **1,311,431** | **4,165,722** | **13,143,242** |
| | **2011[2]** | **3,552,170** | **536,227** | **60,800** | **534,058** | **2,874,410** | **2,595,228** | **1,311,431** | **4,165,722** | **15,630,046** |

* Highest paid executive

[1] 2011 figures presented in accordance with the new presentation and measurement principles outlined at the beginning of this footnote.

[2] 2011 figures as disclosed in the financial statements 2011 - See Note 2. Changes in presentation.

[3] Includes transportation allowances, car allowances and fees for memberships.

*Long-term incentives*

The following tables set out the awards under the various schemes operated by Actelion to the executive member of the Board of Directors and the other members of the AEC.

*Standard Share Option Plans ("SSOP")*

Standard share options granted to members of the AEC under the employee share option plan ("ESOP") and to the executive member of the Board under the DSOP are as follows:

| | Year | Plan | Number of Options | Grant date fair value in CHF |
|---|---|---|---|---|
| Jean-Paul Clozel* | 2012 | ESOP III | 53,333 | 12.24 |
| | 2011 | DSOP | 60,489 | 11.05 |
| Other Executive Committee Members (total) | 2012 | ESOP III | - | - |
| | 2011 | ESOP III | 38,760 | 16.59 |

* Highest paid executive

*Employee Share Plan ("ESP I")*

Restricted stock units granted to members of the AEC under the ESP I and shares to the CEO under the Director share plan ("DSP") consist of the following:

| | Year | Plan | Number of RSUs / Shares | Grant date fair value in CHF |
|---|---|---|---|---|
| Jean-Paul Clozel* | 2012 | ESP I | 14,185 | 38.04 |
| | 2011 | DSP | 20,163 | 47.85 |
| Other Executive Committee Members (total) | 2012 | ESP I | 58,344 | 31.91 |
| | 2011 | ESP I | 63,738 | 50.22 |

* Highest paid executive

**Highest total compensation**

In 2012 and 2011, Jean-Paul Clozel, Chief Executive Officer and member of the Board of Directors, received the highest total compensation amounting to CHF 5,180,923 and CHF 4,208,991, respectively, which is composed of the following:

| | 2012 | 2011[1] | 2011[2] |
|---|---|---|---|
| Cash remuneration | 3,626,388 | 2,229,642 | 2,548,226 |
| Social security contributions/ pension | 362,142 | 346,146 | 346,146 |
| Options allotment (DSOP) | - | 668,403 | 668,403 |
| Options allotment (ESOP III) | 652,796 | - | - |
| Share allotment (DSP) | - | 964,800 | 964,800 |
| Share allotment (ESP) | 539,597 | - | - |
| **Total (CHF)** | **5,180,923** | **4,208,991** | **4,527,575** |
| | | | |
| Number of options allocated (DSOP) | - | 60,489 | 60,489 |
| Fair Value at grant date (CHF) | - | 11.05 | 11.05 |
| Number of shares allocated (DSP) | - | 20,163 | 20,163 |
| Fair Value at grant date (CHF) | - | 47.85 | 47.85 |
| Number of options allocated (ESOP III) | 53,333 | - | - |
| Fair Value at grant date (CHF) | 12.24 | - | - |
| Number of shares allocated (ESP) | 14,185 | - | - |
| Fair Value at grant date (CHF) | 38.04 | - | - |

[1] 2011 figures presented in accordance with the new presentation and measurement principles outlined at the beginning of this footnote.

[2] 2011 figures as disclosed in the financial statements 2011 - See Note 2. Changes in presentation.

This compensation relates to both functions – Chief Executive Officer and member of the Board of Directors.

**Loans and other payments to members of the Board of Directors, the AEC and related parties**

*Loans*

No loans were granted to current or former members of the Board of Directors, of the AEC or to "Related Parties" as per Article 663b$^{bis}$ SCO during 2012 and 2011. No such loans were outstanding as of December 31, 2012.

*Other payments*

During 2012 and 2011, no payments (or waivers of claims) other than those set out above were made to current members of the Board of Directors, of the AEC or to "Related Parties" as per Article 663b$^{bis}$ SCO.

*Payments to former members*

During 2012, no payments (or waivers of claims) other than those set out above were made to former members of the Board of Directors or to "Related Parties" as per Article 663b$^{bis}$ SCO. A total amount of CHF 352,937 was paid in 2012 to two former members of the AEC, covering end of service commitments.

**Investments owned by the members of the Board of Directors**

Investments owned by the members of the Board of Directors as of December 31, 2012 and 2011, are as follows:

| | | Number of shares (related voting rights[2]) | | Number of option rights (related potential voting rights[2]) | | Number of RSU (related voting rights[2]) | |
|---|---|---|---|---|---|---|---|
| **Name** | **Functions** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| **Jean-Pierre Garnier** | Chairman<br>Member of the Compensation Committee<br>Member of the Nominating & Governance Comittee | 12,470<br>(<0.1%) | 8,464<br>(<0.1%) | - | - | - | - |
| **Robert E. Cawthorn[1]** | Member (until May 4, 2012) | 507,552<br>(0.40%) | 692,119<br>(0.53%) | 75,795<br>(<0.1%) | 95,795<br>(<0.1%) | - | 1,500<br>(<0.1%) |
| **Jean-Paul Clozel[1]** | Delegate | 5,262,883<br>(4.15%) | 5,248,883<br>(4.03%) | 1,088,670<br>(0.86%) | 1,035,337<br>(0.79%) | 41,353<br>(<0.1%) | 27,095<br>(<0.1%) |
| **Juhani Anttila** | Member<br>Member of the Finance & Audit Committee | - | 2,822<br>(<0.1%) | 10,000<br>(<0.1%) | 10,000<br>(<0.1%) | - | 1,000<br>(<0.1%) |
| **Robert E. Bertolini** | Member<br>Member of the Finance & Audit Committee | 1,896<br>(<0.1%) | - | 12,696<br>(<0.1%) | 12,696<br>(<0.1%) | - | - |
| **Carl Feldbaum** | Member<br>Chairman of the Nominating & Governance Committee | 4,767<br>(<0.1%) | 1,100<br>(<0.1%) | 44,888<br>(<0.1%) | 44,888<br>(<0.1%) | - | 1,000<br>(<0.1%) |
| **Peter Gruss** | Member (since May 4, 2012)<br>Member of the Nominating & Governance Committee | 3,219<br>(<0.1%) | - | 2,654<br>(<0.1%) | - | - | - |
| **Werner Henrich** | Member<br>Member of the Compensation Committee | 22,111<br>(<0.1%) | 14,419<br>(<0.1%) | 15,016<br>(<0.1%) | 15,016<br>(<0.1%) | - | 1,000<br>(<0.1%) |
| **Michael Jacobi** | Member<br>Chairman of the Finance & Audit Committee | 5,185<br>(<0.1%) | 3,526<br>(<0.1%) | 24,888<br>(<0.1%) | 24,888<br>(<0.1%) | - | 335<br>(<0.1%) |
| **Armin Kessler** | Member<br>Chairman of the Compensation Committee<br>Member of the Nominating & Governance Committee | 40,178<br>(<0.1%) | 36,386<br>(<0.1%) | 15,000<br>(<0.1%) | 15,000<br>(<0.1%) | - | 1,000<br>(<0.1%) |
| **Jean Malo** | Member<br>Member of the Finance & Audit Committee | 9,773<br>(<0.1%) | 7,118<br>(<0.1%) | 52,410<br>(<0.1%) | 52,410<br>(<0.1%) | - | 1,000<br>(<0.1%) |
| **Joseph C. Scodari** | Vice-Chairman (until 31 July 2011) | - | 1,879<br>(<0.1%) | - | 17,482<br>(<0.1%) | - | - |
| **Elias A. Zerhouni** | Member (until 31 December 2010) | - | 1,018<br>(<0.1%) | - | 14,897<br>(<0.1%) | - | - |
| **Total** | | **5,870,034<br>(4.63%)[2]** | **6,017,734<br>(4.61%)[2]** | **1,342,017<br>(1.06%)[2]** | **1,338,409<br>(1.03%)[2]** | **41,353<br>(<0.1%)[2]** | **33,930<br>(<0.1%)[2]** |

[1] Including related parties.

[2] Share of the Company's issued capital.

In 2012, the Company introduced new share ownership guidelines for the non-executive members of the Board of Directors. Each non-executive director is required to acquire and retain shares of the Company with a value of at least 100% of his total annual compensation, based on the average value of his holding over one calendar year to December 31 of that calendar year. For new members, this requirement has to be met within three years from their first election to the Board. For current members, the guidelines need to be met within three years from their next re-election after 2012. Shares granted under the DSP are considered in the determination if the respective threshold has been met, while outstanding awards granted under the DSOP do not qualify for that purpose. The three-year period allotted for the acquisition of the requisite numbers of shares may be extended at the discretion of the Board of Directors in case of material changes in the share price.

**Investments owned by the members of the AEC**

Investments owned by the members of the AEC as of December 31, 2012 and 2011, consist of the following:

| | | Number of shares (related voting rights[1]) | | Number of options (related potential voting rights[1]) | | Number of RSU (related voting rights[1]) | |
|---|---|---|---|---|---|---|---|
| **Name** | **Functions** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| **Guy Braunstein** | Head Clinical Development | 1,670 (<0.1%) | - | 59,350 (<0.1%) | 59,350 (<0.1%) | 40,456 (<0.1%) | 28,053 (<0.1%) |
| **Nicolas Franco** | Chief Business Development Officer | - | - | 21,600 (<0.1%) | 21,600 (<0.1%) | 16,289 (<0.1%) | 7,200 (<0.1%) |
| **Andrew J. Oakley** | Chief Financial Officer | 52,461 (<0.1%) | - | 152,950 (0.12%) | 229,950 (0.18%) | 40,848 (<0.1%) | 23,739 (<0.1%) |
| **Otto Schwarz** | Chief Operating Officer | 2,500 (<0.1%) | - | 96,475 (<0.1%) | 96,475 (<0.1%) | 37,037 (<0.1%) | 35,449 (<0.1%) |
| **Simon Buckingham** | Senior Global Advisor[2] Member of the AEC until June 7, 2011 | - | 100,000 (<0.1%) | - | 227,885 (0.18%) | - | 21,857 (<0.1%) |
| **Louis de Lassence** | Head Corporate Services[2] Member of the AEC until June 7, 2011 | - | 112,200 (<0.1%) | - | 178,570 (0.14%) | - | 11,907 (<0.1%) |
| **Roland Haefeli** | Head Investor Relations and Public Affairs[2] Member of the AEC until June 7, 2011 | - | - | - | 219,460 (0.17%) | - | 4,000 (<0.1%) |
| **Isaac Kobrin** | Chief Medical Officer until January 31, 2012[2] Member of the AEC until June 7, 2011 | - | - | - | 212,650 (0.16%) | - | 26,163 (<0.1%) |
| **Jean-Paul Clozel** | Chief Executive Officer | See table "Investments owned by the members of the Board of Directors" | | | | | |
| **Total (excluding Jean-Paul Clozel)** | | **56,631 (<0.1%)[1]** | **212,200 (0.16%)[1]** | **330,375 (0.26%)[1]** | **1,245,940 (0.96%)[1]** | **134,630 (0.11%)[1]** | **158,368 (0.12%)[1]** |

[1] Share of the Company's issued capital.

[2] Shares, options and RSUs received in 2012 as employee of the Company as well as investments owned as of December 31, 2012, are not disclosed.

## 14. RISK ASSESSMENT

In compliance with Article 663b pt 12 SCO the Board of Directors regularly reviews the results of the Company's risk assessment and the implementation of corrective measures. Based on this review, the Board of Directors determined measures to assess the significant risks of the Company and concludes that all identified material risks have been appropriately addressed.

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

| | 2012 | 2011 |
|---|---|---|
| **Retained earnings at beginning of the year** | **786,364** | **678,319** |
| Transfer from capital contribution reserve to accumulated profit | 93,686 | 95,316 |
| Contribution from accumulated profit to other legal reserve | - | (40,000) |
| Dividend payment | (93,686) | (95,316) |
| Treasury shares reserve | (162,624) | (106,932) |
| Net income for the year | 349,366 | 254,977 |
| **Total accumulated profit** | **973,106** | **786,364** |
| | | |
| Transfer from capital contribution reserve to accumulated profit | 112,931 | 93,694 |
| **Total available earnings** | **1,086,037** | **880,058** |
| | | |
| Dividend to be paid (2012: CHF 1 per share; 2011: CHF 0.80 per share) | (112,931) | (93,694) |
| **Balance to be carried forward** | **973,106** | **786,364** |

The gross dividend of CHF 112.9 million is to be distributed out of the capital contribution reserve.

# REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of Actelion Ltd, Allschwil

As statutory auditor, we have audited the financial statements of Actelion Ltd, which comprise the balance sheet, income statement and notes (pages 116 to 128) for the year ended December 31, 2012.

*Board of Directors' responsibility*
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

*Auditor's responsibility*
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*
In our opinion, the financial statements for the year ended December 31, 2012, comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

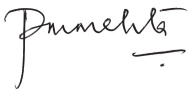
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (Art. 728 Code of Obligations (CO) and Art. 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

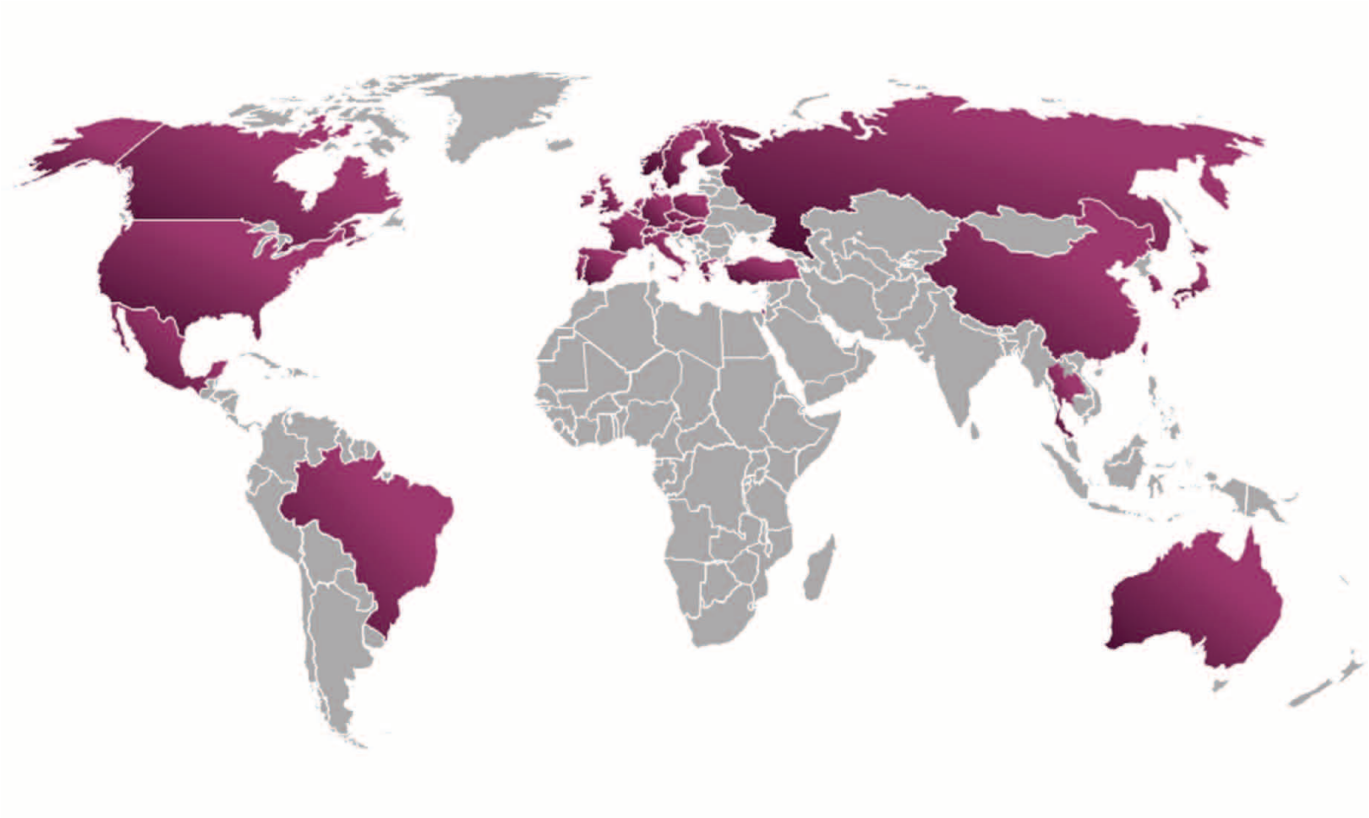
Jürg Zürcher
Licensed Audit Expert
(Auditor in charge)



Pramit Mehta
Licensed Audit Expert

Basel, February 8, 2013

# CONTACTS



Details of Actelion Worldwide can be found on www.actelion.com

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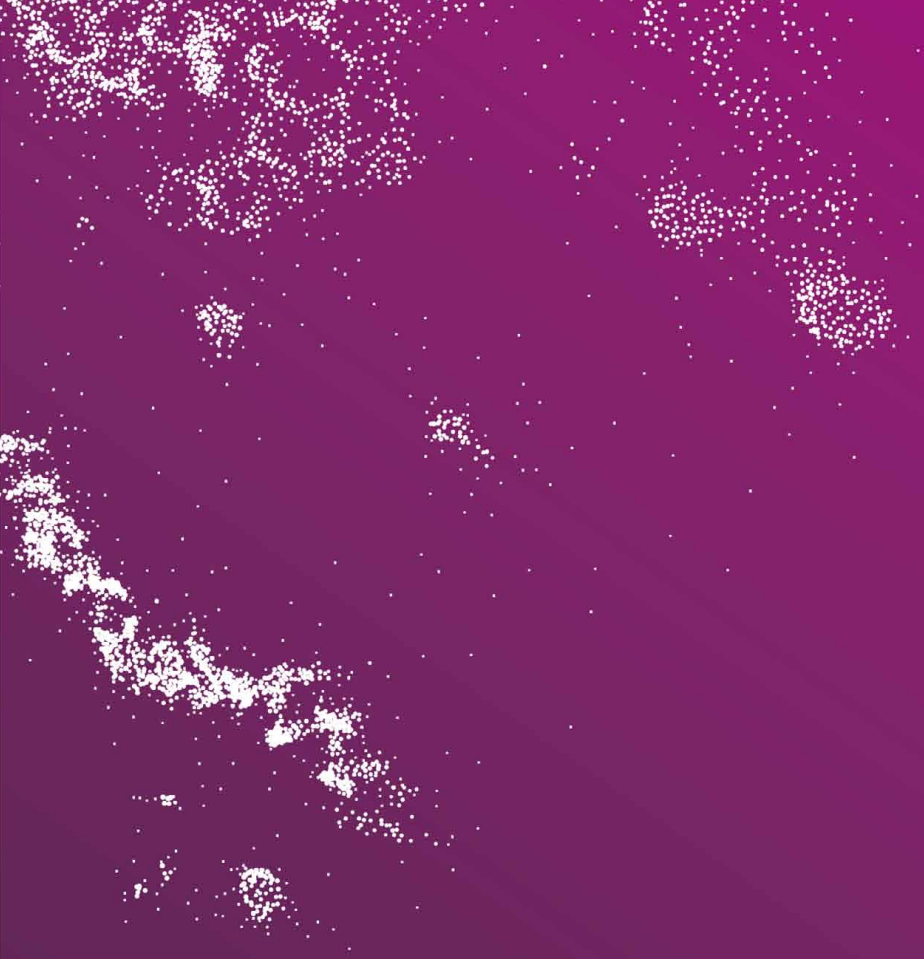

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