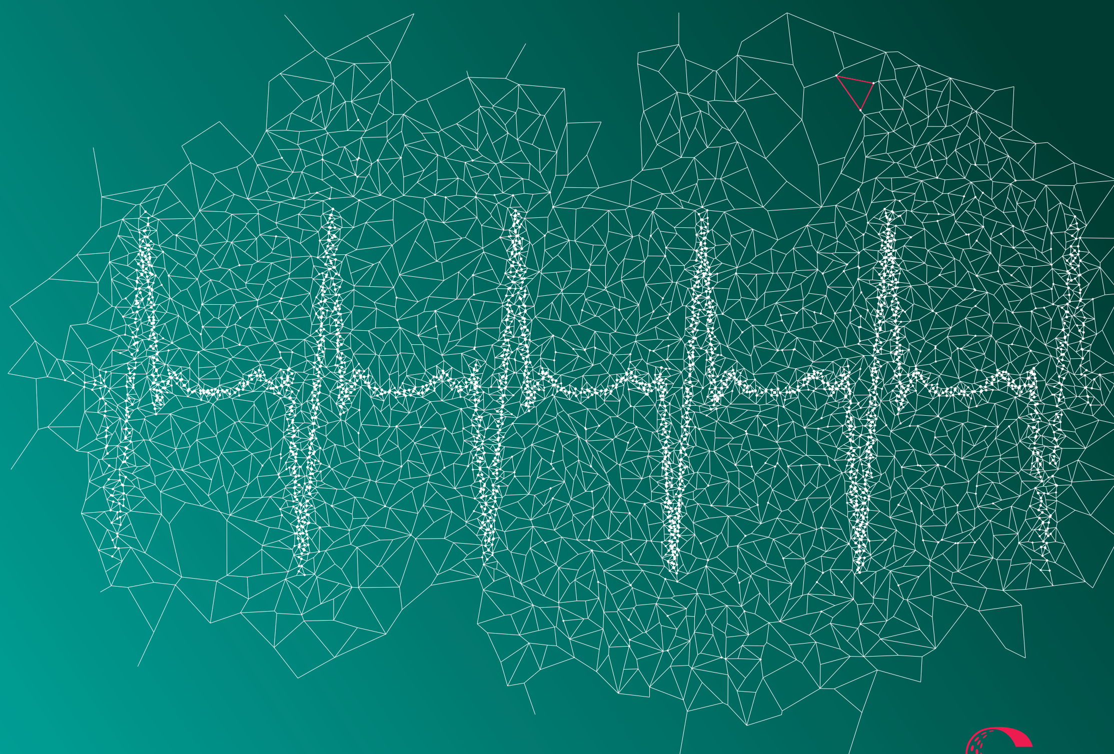
Annual Report 2013

FINANCIAL REPORT.



CONTENTS

Actelion ensures financial integrity by complying with all applicable laws and accounting standards, using the highest internal standards and proper reporting of Actelion's results. For the eighth consecutive year the Company's internal controls over financial reporting were certified as meeting the requirements of SOX 404 (Sarbanes-Oxley Act 2002, section 404) at 31 December 2013.

FINANCIAL REVIEW

HIGHLIGHTS 2013

- Product sales increased by 6% at constant exchange rates (CER)[1] to CHF 1,784 million
- Solid top-line performance, spending discipline and restructuring benefits resulted in core[2] earnings growth of 20% at CER
- Core earnings per share (EPS) (fully diluted) increased by 20% at CER
- Financial flexibility enabled Actelion to acquire Ceptaris and to return significant cash to shareholders, while maintaining a strong cash position
- Board's proposal to increase the dividend by 20% to CHF 1.20 demonstrates its confidence in the current and future strength of the underlying business

CORE PERFORMANCE

Actelion continues to measure, report and issue guidance on its core operating results, which more accurately reflects the underlying business performance.

Core results exclude contract revenues, as well as costs related to employee stock-based compensation programs, depreciation, amortization, impairments, certain income tax effects and other items that management deems exceptional.

A full reconciliation between US GAAP and core results can be found on page 11 of the Financial Report.

			Variance	
in CHF million	**2013**	2012	CHF %	CER[1] %
Product sales	**1,784**	1,722	4	6
Core R&D expenditure	**356**	398	(11)	(9)
Core earnings (Core operating income)	**619**	537	15	20
Core net income	**509**	450	13	17
Core EPS fully diluted (in CHF)	**4.41**	3.81*	16	20

* 2012 Core EPS was recalculated to apply the prevailing tax rate for each adjustment (formerly CHF 3.69 using an average blended rate).

(1) CER percentage changes are calculated by reconsolidating both the 2013 and 2012 results at constant currencies (the average monthly exchange rates for the year 2012).

(2) Actelion continues to measure, report and issue guidance on its core operating performance, which more accurately reflects the underlying business performance. The company believes that these non-GAAP financial measurements provide useful supplementary information to investors. These non-GAAP measures are reported in addition to, not as a substitute for US GAAP financial performance.

SALES

In the US, despite unmitigated competitive pressures, sales increased by 9% driven by price increases and a net impact of CHF 24 million reversals of rebate accruals relating to patients support programs (CHF 35 million in 2013 versus CHF 11 million in 2012). European sales increased by 1% at CER in a negative pricing environment. Germany and the digital ulcer indication drove the European sales growth while Japan continued strongly at plus 14%. Sales in the rest of the world increased by 6% at CER driven by strong growth in PAH-emerging markets like China, Taiwan, Russia and Mexico. The continued strength of the Swiss franc resulted in a negative currency variance of CHF 50 million.

			Variance	
in CHF million	**2013**	2012	CHF %	CER %
Tracleer	**1,532**	1,500	2	5
Opsumit	**5**	-	-	-
Veletri	**37**	24	52	60
Ventavis	**110**	110	-	1
Zavesca	**96**	85	13	14
Others	**4**	3	-	-
Product sales	**1,784**	1,722	4	6

	2013 (CHF m)	2013 %	2012 (CHF m)	2012 %	Variance CER %
United States	**768**	43	710	41	9
Europe	**660**	37	644	37	1
Japan	**188**	11	205	12	14
Rest of the World	**169**	9	164	10	6
Total sales	**1,784**	100	1,722	100	6

PAH Franchise

Opsumit®

Opsumit, launched in November 2013 in the US, has been very well received by US-based prescribers, as evidenced by the strong demand since market introduction. Over the first two months, the average number of Opsumit weekly prescriptions were more than 200% the average weekly Tracleer prescriptions for new patients prior to the Opsumit launch.

Since the Opsumit launch, the number of weekly Tracleer prescriptions for new patients are down by over 50%. As part of its commitment to patients, Actelion has established a patient assistance program for Opsumit. Approval was also granted in both Canada and European Union countries in November and December respectively, with Canadian and the first European launch in Germany occurring in January 2014.

Tracleer®
Amidst a continued challenging competitive environment in the US and continuing pricing pressure in Europe, Tracleer delivered a strong performance in 2013 with sales increasing by 5% at CER to reach CHF 1,532 million.

Underlying global unit growth was solid at +4%, driven by Japan, Germany, PAH emerging markets and the digital ulcer indication in Europe. US rebates accrual reversals and price increases in the US offset widespread price erosion in Europe.

In markets where generic bosentan is available (Canada, Turkey, Brazil), Actelion very successfully defended Tracleer, albeit at a lower unit price (approximately -20% in Canada and -27% in Turkey). Our own generic version of bosentan has been launched in markets like Brazil, and our branded generic Stayveer®, approved in Europe, is set to launch in selected markets.

Veletri®
With sales of CHF 37 million, an increase of 60% at CER, Veletri continued its strong growth trajectory. The uptake was particularly strong in Japan, the world's second largest i.v. epoprostenol market, where the product was launched in June 2013.

Also in 2013, through a decentralized procedure, Actelion received approval for Veletri in some European countries, as a result of this, Veletri is now available in the UK and the Netherlands. Market introductions are forthcoming in France, Spain, Italy and other markets.

Ventavis®
Ventavis sales for 2013 increased by 1% at CER driven entirely by price increases. Underlying demand was 7% lower as competitive pressure continued to affect sales.

Specialty Products

Valchlor™
Our specialty franchise (Zavesca®, Toctino® and Xiaflex®) was strengthened by the acquisition of Ceptaris in September 2013 through which Valchlor™ - an FDA-approved (in August 2013) mechlorethamine gel applied topically once a day and indicated for patients with stage IA or IB mycosis fungoides-type cutaneous T-cell lymphoma (MF-CTCL) who have received prior skin-directed therapy was added to our portfolio.

Valchlor was launched in November 2013 to CTLC Centers of Excellence and will be more widely available to US prescribers by spring 2014, when the build-up of dedicated commercial unit will be completed.

Zavesca®
Zavesca sales increased by 14% at CER to reach CHF 96 million. Growth stems from the continued uptake ex-US in the Niemann-Pick type C indication, with patient numbers up by 20%, especially in Japan where the indication was launched in June 2012.

CORE OPERATING EXPENSES

in CHF million	2013	2012	Variance CHF %	CER %
Core Cost of sales	**208**	196	6	8
Core R&D	**356**	398	(11)	(9)
Core SG&A	**601**	591	2	5
Core operating expenses	**1,165**	1,185	(2)	1

Core Cost of Sales
Cost of sales is composed of royalties (77%) and cost of goods (23%). The gross margin of 88.3% was broadly in line with the previous year.

Core Research & Development Expenditure
Actelion has refocused its product portfolio, carefully balancing investment in the right programs to ensure future growth with delivery of appropriate shareholder returns. This resulted in a decrease of 9% in core R&D expenditure for 2013 compared to the prior year. Main drivers of the decrease are lower fixed costs due to the 2012 cost-savings initiative as well as the completion of several larger clinical trials.

Core R&D expenditure represented 20% of net sales in 2013. This level may increase going forward as earlier stage compounds advance through our pipeline.

In late 2013, Actelion initiated a Phase III program to assess the efficacy and safety of cadazolid in patients with *Clostridium difficile*-associated diarrhea (CDAD). The program – which could report results by early 2016 – is designed to determine whether the clinical response after administration of cadazolid is non-inferior to vancomycin in patients with CDAD, and whether cadazolid is superior to vancomycin in terms of sustained clinical response.

Actelion is also well on track to obtain top-line Phase III results by mid-2014 for the selective IP receptor agonist, selexipag, developed together with our partner Nippon Shinyaku. The pivotal GRIPHON study is seeking to demonstrate a reduction in the risk of morbidity/mortality events in PAH.

Core Selling, General & Administrative Expenses
As the company prepared for the Opsumit launch and various Veletri launches during 2013, selling costs increased, resulting in higher SG&A expenses. However, the G&A portion remained flat, demonstrating the company's continued commitment to cost control. Core SG&A increased by 5% at CER to CHF 601 million in 2013.

CORE EARNINGS

in CHF million	2013	2012	Variance CHF %	CER %
Product sales	**1,784**	1,722	4	6
Core operating expenses	**1,165**	1,185	(2)	1
Core earnings (operating income)	**619**	537	15	20

Core earnings increased by 20% at CER to CHF 619 million, exceeding the raised guidance – provided in mid-2013 – of core earnings growth crossing into double-digit territory.

On a like-for-like basis, excluding the net impact of afore-mentioned US rebate reversals (-4%) and the impact of the Ceptaris acquisition (+2%), core earnings would have increased by 17 % at CER.

CORE NET INCOME

in CHF million	2013	2012	Variance CHF %	CER %
Core operating income	**619**	537	15	20
Core financial expense	**(13)**	(21)	-	-
Core tax expense	**(97)**	(66)	-	-
Core net income	**509**	450	13	17

The core financial expense excludes the interest on the Asahi litigation provision (CHF 39 million). The core tax expense excludes the one-time effect of a release of the valuation allowance on the US deferred tax asset, as the Company could utilize the benefit of Net Operating Losses mainly relating to the Asahi provision against the deferred tax liability relating to the intangible asset acquired in the Ceptaris transaction.

CORE EPS

		2013	2012	Variance CHF %	Variance CER %
Core net income	in CHF million	**509**	450	13	17
Number of shares	Million	**115.377**	118.120	-	-
Core EPS (fully diluted)	CHF	**4.41**	3.81	16	20

Core EPS amounted to CHF 4.41, an increase of 20% at CER, compared to an increase of 17% in core net income, reflecting the company's continued commitment to manage dilution through share buybacks. The decrease in share count is due to the share repurchase programs that are part of the company's ongoing efforts to maximize shareholder value.

US GAAP RESULTS

in CHF million except for per share data	2013	2012	Variance CHF %	Variance CER %
Revenues	**1,786**	1,728	3	6
Operating income	**482**	421	14	20
Net income	**453**	303	49	57
Fully diluted earnings per share	**3.92**	2.57	53	60

A full reconciliation between US GAAP and core results is available on page 11 of this Financial Report.

US GAAP operating income includes the following items excluded from core earnings:

- Amortization of intangible assets of CHF 45 million (CHF 39 million in 2012), which relates mostly to Ventavis, Veletri and Valchlor.
- Other depreciation and amortization of CHF 39 million, in-line with prior year (CHF 42 million)
- Stock-based compensation expenses of CHF 50 million, in-line with prior year (CHF 47 million)
- Reversal of doubtful debt allowance of CHF 12 million (CHF 22 million in 2012) due to continued improved cash collections, notably in Southern European countries
- The company incurred a CHF 13 million charge from a concluded arbitration proceeding during the first quarter of 2013.

US GAAP net income includes the following items excluded from core net income :

- The financial expense also includes the interest on the Asahi litigation provision of CHF 39 million. Early in 2013, the company increased the cash collateral on the bail bond to 150%, in order to benefit from reduced fees. In December 2013, the California Court of Appeal affirmed the amended final judgment that a California trial court entered against Actelion in November 2011. Actelion and its external advisors believe that the decision of the Court of Appeal is not supported by the facts and is incorrect as a matter of law; we have therefore filed a petition in the Supreme Court of California, requesting that the Court review the Court of Appeal's decision.
- The tax income also includes the one-time effect of the release of the valuation allowance on the US deferred tax asset, as the Company could utilize the benefit of Net Operating Losses mainly relating to the Asahi accrual against the deferred tax liability relating to the intangible asset acquired in the Ceptaris transaction. The unaffected tax rate is 14.7%.
- Resulting basic earnings per share for the full year 2013 are CHF 4.06, compared to 2.61 in the prior year. Fully diluted earnings per share were CHF 3.92, up 60% at CER over 2012.

CASH FLOW RECONCILED WITH UNRESTRICTED NET CASH POSITION

in CHF million

CASH FLOW ANALYSIS	2013	2012
Operating cash flow	**592**	**572**
Acquisition of tangible, intangible and other assets	(27)	(44)
Acquisition of a business	(231)	(27)
Operating free cash flow	**334**	**501**
Restricted cash for litigation	(250)	(371)
Cash returned to shareholders	(588)	(358)
Proceeds from exercises of Stock Options	269	22
Other items	(10)	(7)
Free cash flow	**(244)**	**(213)**

UNRESTRICTED CASH POSITION	2013	2012
Unrestricted net cash position - Opening balance	888	1,101
Free cash flow	(244)	(213)
Unrestricted net cash position* - Closing balance	643	888

Rounding differences may occur

* Unrestricted net cash includes: Cash and cash equivalents plus short-term deposits minus long-term financial debt.

Actelion was highly cash generative in 2013 with operating cash flow of CHF 592 million. This strong cash flow highlights the strong core earnings growth, as the 2012 operating cash flow was positively impacted by large cash collections from Southern Europe (CHF 110 million). Actelion managed to keep its trade receivables at 77 days of sales outstanding.

The main driver of the decrease in operating free cash flow was the acquisition of Ceptaris during the third quarter of 2013 for a cash consideration of CHF 226 million (USD 250 million).

The financial flexibility due to high cash generation and strong balance sheet enabled the company to return CHF 588 million to shareholders through share buybacks and dividend payments whilst increasing by CHF 250 million the restricted cash for the ongoing Asahi litigation in the California court.

Actelion's unrestricted net cash position at year-end remains strong at CHF 643 million.

BALANCE SHEET

BALANCE SHEET (in CHF million)	2013	2012	Variance
Gross cash position - Unrestricted	878	1,123	(245)
Gross cash position - Restricted	613	369	244
Trade and other receivables, net	406	413	(7)
Other current assets	123	95	28
Tangible assets	381	403	(21)
Intangible assets	465	170	295
Goodwill	126	74	52
Other non-current assets	38	48	(10)
Total assets	**3,030**	**2,694**	**336**
Litigation provision	456	432	25
Other current liabilities	516	460	56
Financial debt	235	235	-
Other non-current liabilities	114	49	65
Total liabilities	**1,321**	**1,176**	**145**
Share capital and accumulated reserves	2,252	2,238	14
Treasury shares	(543)	(719)	176
Total shareholders' equity	**1,709**	**1,519**	**190**
Total liabilities and shareholders' equity	**3,030**	**2,694**	**336**

Rounding differences may occur

The significant changes in the balance sheet are driven by the following:

- Acquisition of Ceptaris impacts intangible assets by CHF 330 million and goodwill by CHF 53 million.
- Increase of restricted cash to reduce cost of bail bond related to Asahi litigation.
- Decrease of treasury shares by CHF 176 million: First-line treasury shares decreased by 5.8 million shares (CHF 306 million at cost) mainly due to high levels of exercises of stock-options and the sale of a block of treasury shares to a long-term investor. Second-line treasury shares increased by 1.1 million shares (CHF 130 million at cost) due to the buy-back program net of share cancelation.

DIVIDEND

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 by 20% to CHF 1.20 per share and will ask for shareholder approval at the upcoming Annual General Meeting on 8 May 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

For the 8th 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 2013.

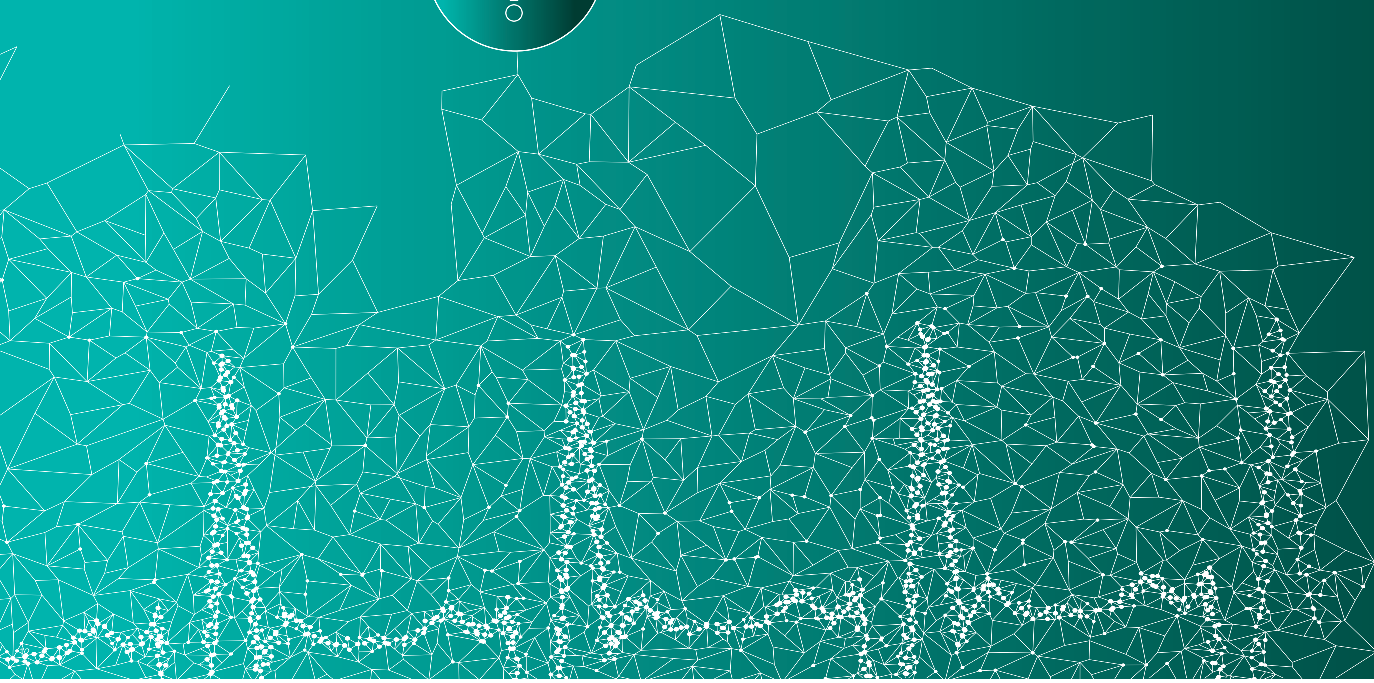
RECONCILIATIONS US GAAP TO CORE RESULTS

in CHF million

2013	US GAAP results	Depreciation, amortization and impairment	Stock-based compensation	Doubtful debt movements	Milestones or contract	Litigation or arbitration	Restructuring costs	Business combination	CORE results
Product sales	1,784	-	-	-	-	-	-	-	1,784
Contract revenue	2	-	-	-	(2)	-	-	-	-
Total net revenue	**1,786**	**-**	**-**	**-**	**(2)**	**-**	**-**	**-**	**1,784**
Cost of sales	(209)	-	-	-	2	-	-	-	(208)
Research and development	(405)	27	21	-	-	-	1	-	(356)
Selling, general and administration	(631)	12	28	(12)	-	-	0	-	(601)
Amortization of intangible assets	(45)	45	-	-	-	-	-	-	-
Arbitration settlement	(13)	-	-	-	-	13	-	-	-
Total operating expenses	**(1,303)**	**84**	**50**	**(12)**	**2**	**13**	**1**	**-**	**(1,165)**
Operating income	**482**	**84**	**50**	**(12)**	**0**	**13**	**1**	**-**	**619**
Financial Results	**(53)**	**-**	**-**	**-**	**-**	**39**	**-**	**-**	**(13)**
Income before income tax	**430**	**84**	**50**	**(12)**	**0**	**52**	**1**	**-**	**606**
Income tax	**23**	**(12)**	**(4)**	**1**	**(0)**	**(18)**	**(0)**	**(86)**	**(97)**
Net income	**453**	**73**	**45**	**(11)**	**0**	**34**	**1**	**(86)**	**509**
Number of shares in calculation (million)	115.377	-	-	-	-	-	-	-	115.377
Diluted EPS [CHF]	**3.92**	**+0.63**	**+0.39**	**(0.09)**	**+0.00**	**+0.30**	**+0.01**	**(0.75)**	**4.41**

Rounding differences may occur

CONSOLIDATED FINANCIAL STATEMENTS



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENTS

(in CHF thousands, except per share amounts)	Notes	Twelve months ended December 31, 2013	2012
Net revenue			
Product sales	23	1,784,198	1,722,089
Contract revenue	4/23	1,542	6,307
Total net revenue		**1,785,740**	**1,728,396**
Operating expenses[1]			
Cost of sales[2]		(209,444)	(196,336)
Research and development		(405,286)	(460,471)
Selling, general and administration		(630,521)	(610,856)
Amortization of acquired intangible assets	12	(45,135)	(39,266)
Arbitration settlement	17	(12,881)	-
Total operating expenses		**(1,303,267)**	**(1,306,929)**
Operating income		**482,473**	**421,467**
Interest on litigation	17	(39,235)	(41,576)
Interest income (expense), net	8/15	(9,514)	(10,485)
Other financial income (expense), net	1/8	(3,983)	(10,933)
Total financial income (expense)		**(52,732)**	**(62,994)**
Income before income tax benefit (expense)		**429,741**	**358,473**
Income tax benefit (expense)	5	22,801	(55,247)
Net income (loss)		**452,542**	**303,226**
Basic net income (loss) per share	6	**4.06**	**2.61**
Weighted-average number of common shares (in thousands)		111,537	116,129
Diluted net income (loss) per share	6	**3.92**	**2.57**
Weighted-average number of common shares (in thousands)		115,377	118,120
[1]Includes stock-based compensation as follows:			
Research and development		(21,290)	(20,964)
Selling, general and administration		(28,331)	(25,652)
Total stock-based compensation		**(49,621)**	**(46,616)**

[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

(in CHF thousands)	Twelve months ended December 31, 2013	2012
Net income (loss)	**452,542**	**303,226**
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	(4,223)	1,693
Change of unrecognized components of net periodic benefit costs	10,970	(6,323)
Amortization of components of net periodic benefit costs	971	455
Other comprehensive income (loss), net of tax	**7,718**	**(4,175)**
Comprehensive income (loss)	**460,260**	**299,051**

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, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents	7/8	627,640	1,022,272
Cash and investments restricted for litigation	8/17	612,537	-
Short-term deposits		250,747	100,747
Derivative instruments	8	10,546	7,682
Trade and other receivables, net	9	405,915	412,929
Inventories	10	53,241	56,389
Other current assets	5/11	58,937	30,819
Total current assets		**2,019,563**	**1,630,838**
Non-current assets			
Restricted cash for litigation	8/17	-	368,740
Property, plant and equipment, net	13	381,092	402,535
Intangible assets, net	12	465,224	169,822
Goodwill	12	126,392	74,331
Deferred tax assets	5	16,931	20,832
Other non-current assets		20,599	27,188
Total non-current assets		**1,010,238**	**1,063,448**
Total assets		**3,029,801**	**2,694,286**
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		103,614	90,932
Accrued expenses	14	401,399	351,920
Litigation provision	17	456,118	-
Other current liabilities	2/5/8	10,874	17,234
Total current liabilities		**972,005**	**460,086**
Non-current liabilities			
Litigation provision	17	-	431,534
Long-term financial debt	15	235,284	235,431
Pension liability	18	28,685	38,473
Contingent consideration	2	76,776	1,233
Other non-current liabilities	5	8,048	8,885
Total non-current liabilities		**348,793**	**715,556**
Total liabilities		**1,320,798**	**1,175,642**
Shareholders' equity	19		
Common shares (par value CHF 0.50 per share, authorized 173,901,764 and 180,850,214 shares; issued 120,275,927 and 126,773,027 shares in 2013 and 2012, respectively)		60,138	63,387
Additional paid-in capital		500,502	943,580
Accumulated profit		1,882,266	1,429,724
Treasury shares, at cost		(542,558)	(718,984)
Accumulated other comprehensive income (loss)	21	(191,345)	(199,063)
Total shareholders' equity		**1,709,003**	**1,518,644**
Total liabilities and shareholders' equity		**3,029,801**	**2,694,286**

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)	**2013**	**2012**
Cash flow from operating activities		
Net income (loss)	452,542	303,226
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	84,460	81,888
Stock-based compensation, incl. treasury shares to members of Board of Directors	50,589	47,464
Excess tax benefits from share-based payment arrangements	(3,353)	(2,769)
Deferred revenue	(1,879)	(6,110)
Deferred taxes	(89,592)	19,246
(Gains) Losses on derivative instruments and marketable securities	(3,225)	(27,208)
Interest expense on bonds and litigation	38,397	38,938
Changes in operating assets and liabilities:		
Trade and other receivables	(9,374)	110,152
Inventories	3,375	7,431
Trade and other payables	11,155	(9,314)
Changes in other operating cash flow items	58,886	9,407
Net cash flow provided by (used in) operating activities	**591,981**	**572,351**
Cash flow from investing activities		
Restricted cash for litigation	(250,000)	(370,588)
Purchase of short-term and long-term deposits	(250,000)	(500,747)
Proceeds from short-term and long-term deposits	100,000	450,000
Purchase of property, plant and equipment	(21,396)	(33,708)
Proceeds from marketable securities	-	4,179
Purchase of intangible assets	(6,025)	(5,570)
Purchase of other non-current assets	-	(4,536)
Acquisition of a business, incl. deferred and contingent consideration payments	(230,779)	(27,442)
Net cash flow provided by (used in) investing activities	**(658,200)**	**(488,412)**
Cash flow from financing activities		
Dividend payment	(113,297)	(93,686)
Payments on capital leases	(61)	(61)
Proceeds from exercise of stock options, net of expense	269,169	22,488
Purchase of treasury shares	(570,943)	(264,173)
Proceeds from sale of treasury shares	96,734	-
Excess tax benefits from share-based payment arrangements	3,353	2,769
Net cash flow provided by (used in) financing activities	**(315,045)**	**(332,663)**
Net effect of exchange rates on cash and cash equivalents	(13,368)	(10,041)
Net change in cash and cash equivalents	**(394,632)**	**(258,765)**
Cash and cash equivalents at beginning of period	1,022,272	1,281,037
Cash and cash equivalents at end of period	**627,640**	**1,022,272**

Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	13,004	14,753
Taxes	48,717	60,245

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common shares					Accum.	
(in CHF thousands, except number of shares)	**Shares**	**Amount**	**Additional paid-in capital**	**Accum. profit**	**Treasury shares**	**other comprehensive income (loss)**	**Share-holders' equity**
At January 1, 2012	**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**
Comprehensive income (loss), net of tax:							
Net income (loss)	-	-	-	452,542	-	-	452,542
Other comprehensive income (loss)	-	-	-	-	-	7,718	7,718
Comprehensive income (loss), net of tax	**-**	**-**	**-**	**452,542**	**-**	**7,718**	**460,260**
Excess tax benefits and underrealization from share-based payment arrangements	-	-	(2,498)	-	-	-	(2,498)
Transactions in treasury shares	(1,802,295)	-	(93,732)	-	(110,340)	-	(204,072)
Stock-based compensation expense	-	-	49,966	-	-	-	49,966
Cancelation treasury shares (share repurchase program)	-	(3,249)	(283,517)	-	286,766	-	-
Dividend payment	-	-	(113,297)	-	-	-	(113,297)
At December 31, 2013	**111,128,427**	**60,138**	**500,502**	**1,882,266**	**(542,558)**	**(191,345)**	**1,709,003**

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"). All US GAAP references relate to the Accounting Standards Codification ("ASC" or "Codification") established by the Financial Accounting Standards Board ("FASB") as 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. In addition, certain prior period amounts within the consolidated financial statements and related notes have been reclassified to conform to the current presentation.

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. Payments related to settlements of contingent considerations are classified as cash used in investing activities in the consolidated statements of cash flows. 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 and rebate accruals, impairment of indefinite lived intangibles including goodwill, provisions, contingent considerations arising from acquisitions, 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 138.5 million in 2013 (2012: CHF 128.6 million).

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 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 options granted between December 2004 and December 2012 were estimated by use of a Binomial Lattice option pricing model. The model input assumptions were determined based on available internal and external data sources. The risk free rate used in the model was based on the 10 year Swiss zero coupon rate. The probability of death was derived from data of the Swiss Federal Statistical Office. The expected volatility was based on equal weighting of historic and forward looking data which included 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. The dividend yield was based on the expected dividend yield over the expected term of the awards granted. Resignation, redundancy, retirement and early exercise behavior assumptions were based on the Group's historical headcount data and analyses of historical early exercises of the Group's employees, respectively.

The fair value of performance stock units ("PSUs") granted under the Performance Share Plan ("PSP") is estimated using the Monte Carlo simulation methodology. The Monte Carlo simulation approach is preferable to the Binominal Lattice model for stock-based awards with market conditions that are measured against a peer group because it allows for the modeling of the correlation between stock prices of multiple companies. The Monte Carlo simulation input assumptions are determined based on available internal and external data sources. The risk-free rate is interpolated from country-specific government sovereign debt yields derived from Bloomberg as of the valuation date for each of the companies of the peer group for a maturity matching the measurement period. The expected volatility of the share price returns is based on the historic volatility of daily share price returns of the Group and the peer companies, derived from Bloomberg and measured over a historical period matching the performance period of the awards. The covariance between Actelion and the peer group companies is measured in a similar way, using daily share price data over the same period and derived from the same data source. The dividend yield is based on the expected dividend yield over the expected term of the awards granted.

The Group recognizes stock-based 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 PSP, for the Standard Share Option Plans ("SSOP"), for the Restricted Stock Plan ("RSP") 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 are not capitalized as part of inventory due to the immateriality of such cost 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 sheets.

Marketable securities
The Group classifies marketable securities in accordance with the 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 other comprehensive income. 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'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 records all derivatives on the balance sheet at fair value with changes in fair value reported in other financial income (expense), net. 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 derived from Reuters or

Bloomberg, which include foreign currency spot rates, forwards points and stated maturities. 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.

As of January 1, 2013, the Group adopted retrospectively the requirements of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, ("ASU 2011-11"), and of ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, ("ASU 2013-01"), an update to the *Balance Sheet* Topic of FASB ASC ("ASC 210"). Collectively, ASU 2011-11 and ASU 2013-01 require enhanced disclosures about derivatives accounted for under ASC 815, repurchase agreements, and securities lending transactions to the extent that they are a) offset in the financial statements in accordance with ASC 210-20-45 or ASC 815-10-45; or b) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. ASU 2011-11 and ASU 2013-01 became effective for annual and interim reporting periods beginning on or after January 1, 2013. As the amended guidance only clarified the presentation of such items but did not change their nature, recognition, measurement or reclassification requirements, the adoption did not have an impact on the Group's financial position, results of operations and cash flows.

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. Fair value of own equity instruments is determined from the perspective of a market participant that holds such instruments as assets. 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).

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. 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 recorded at their estimated fair value and depreciated using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. 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 quantitative 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 fifteen 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.

Loss contingencies

The Group records accruals for loss contingencies, asserted or unasserted, 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 is accrued on a prospective basis and includes premium on the surety bonds issued in conjunction with the Asahi litigation. 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 loss 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.

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 income (expense), net 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) ("AOCI")).

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"), an update to the *Comprehensive Income* Topic of FASB ASC ("ASC220"). ASU 2013-02 requires companies to report, in one place, information about reclassifications out of AOCI and to present such reclassifications by component. For significant items reclassified out of AOCI to net income in their entirety in the reporting period, companies must report the effect of the reclassifications on the respective line items in the statement where net income is presented. For items not reclassified to net income in their entirety in the reporting period, companies must cross-reference in a note to other required disclosures. In addition, the amended guidance requires detailed reporting about current-period changes in AOCI (i.e., reclassifications and other amounts of current-period OCI) for each component of OCI on the face of the financial statements or in the notes. The amendments became effective for public companies in fiscal years, and interim periods within those years, beginning after December 15, 2012. As the amended guidance only clarified the presentation of such items but did not change their nature, recognition, measurement or reclassification requirements, the adoption did not have an 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 remeasurement 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 2013 amounts to CHF 21.9 million (2012: aggregate transaction loss of CHF 20.5 million).

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 discovery, 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, 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 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 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, ("ASU 2013-11"), an update to ASC 740. ASU 2013-11 requires an entity to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. ASU 2013-11 is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2013. The amended guidance should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption is permitted. The Group does not expect an impact on its financial position, results of operations and cash flows upon adoption.

ASU 2013-05, , Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued ASU 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity ("ASU 2013-05"), an update to ASC 830. ASU 2013-05 specifies that a CTA should be released into earnings when an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer results in the complete or substantially complete liquidation of the foreign entity. For sales of an equity method investment that is a foreign entity, a pro rata portion of CTA attributable to the investment would be recognized in earnings when the investment is sold. When an entity sells either a part or all of its investment in a consolidated foreign entity, CTA would be recognized in earnings only if the sale results in the parent no longer having a controlling financial interest in the foreign entity. In addition, CTA should be recognized in earnings in a business combination achieved in stages. The amended guidance is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2013. It should be applied prospectively to derecognition events occurring after the effective date. Early adoption is permitted. The Group can adopt the revised guidance and evaluate the impact on its financial position, results of operations and cash flows only upon occurrence of such events.

ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

In February 2013, the FASB issued ASU 2013-04, , Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date, an update to FASB ASC *Liabilities* Topic ("ASC 405"). ASU 2013-04 requires an entity that is joint and severally liable to measure the obligation as the sum of the amount the entity has agreed with co-obligors to pay and any additional amount it expects to pay on behalf of one or more co-obligors. The amended guidance also provides for expanded disclosures on such arrangements. ASU 2013-04 is effective for public companies for fiscal years, and interim periods within those years, beginning after December 15, 2013. The revised requirements should be applied retrospectively to all prior periods presented for obligations that exist at the beginning of an entity's fiscal year of adoption. Early adoption is permitted. The Group does not expect a material impact on its financial position, results of operations and cash flows upon adoption.

NOTE 2. ACQUISITIONS

Ceptaris

On September 18, 2013, the Group acquired 100 percent of the issued and outstanding shares of the common stock of Ceptaris Therapeutics, Inc. ("Ceptaris"), a privately-held company based in Malvern, Pennsylvania, US. Ceptaris was a specialty pharmaceutical company which developed Valchlor™ - the first and only FDA-approved topical formulation of mechlorethamine for the treatment of early stage mycosis fungoides, the most common type of Cutaneous T-Cell Lymphoma ("CTCL"). With the acquisition, the Group further leverages its expertise in orphan and ultra-orphan indications thus providing synergies.

The aggregate purchase price was USD 336.7 million (CHF 306.6 million) and consisted of cash paid to Ceptaris' former shareholders of USD 250 million (CHF 227.6 million) and the fair value of a contingent consideration of USD 86.7 million (CHF 78.9 million). Acquisition-related costs of USD 2 million (CHF 1.9 million) were expensed as incurred and included in selling, general and administration expenses.

The acquisition was recorded as a business combination in compliance with the requirements of the guidance codified in ASC 805. Accordingly, the fair value of the total consideration of USD 336.7 million (CHF 306.6 million) was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of the acquisition. Since the fair value of the assets acquired and considerations assumed was below the fair value of the consideration paid, the Group recorded goodwill of USD 59.1 million (CHF 53.9 million) upon acquisition. This amount reflects expected synergies from combining operations of the Group and Ceptaris, specifically in the sales force, manufacturing and distribution chain fields.

The following table summarizes the purchase price allocation:

	USD[1]	CHF
Cash	1,541	1,403
Inventory	507	462
Other short-term assets	130	118
Tangible fixed assets	36	33
Deferred tax assets	41,565	37,846
Identifiable intangible asset	377,000	343,266
Total identifiable assets acquired	**420,779**	**383,128**
Goodwill	59,145	53,853
Total assets acquired	**479,924**	**436,981**
Current liabilities assumed	(2,641)	(2,405)
Deferred tax liability	(140,583)	(128,004)
Total net assets acquired	**336,700**	**306,572**
Considerations		
Contingent consideration	86,700	78,942
Cash paid	250,000	227,630
Total fair value of consideration transferred	**336,700**	**306,572**

[1] The USD/CHF foreign exchange rate used for translation of the acquisition's opening balance is 0.91052, which was the foreign exchange rate as of the acquisition date, September 18, 2013.

In determining the fair value of the assets acquired and liabilities assumed, the Group considered present value calculations of income, an analysis of project accomplishments, an assessment of overall contributions, as well as technological and regulatory risks. In addition, management relied on the expertise and used the assistance of an independent valuation firm for the calculation of the estimated fair values.

The marketable product Valchlor™ was valued using a variation of the Income Approach known as the Excess Earnings Approach. This method determines an indicated value as the net present value of excess earnings associated with the asset after deductions for return on contributory assets. It utilizes a forecast of expected cash inflows, cash outflows, and pro-forma charges for economic returns of and on tangible and intangible assets employed. The cash outflows include direct and indirect expenses for costs to complete manufacturing, sales, marketing, routine technical maintenance, general and administrative activities, and taxes. The net cash inflows are ascribed to the intangible asset and discounted to present value. Tax benefits resulting from the amortization of the intangible asset are then added to the present value of the excess cash flows to derive fair value. The rate utilized to discount the net cash flows to their present value is based on estimated cost of capital calculations and the internal rate of return which equates the projected cash flows for the Group to the overall purchase consideration. Due to the risks associated with the projected cash flow forecast, a discount rate of 9% was considered appropriate for the fair value estimation of the acquired intangible asset. The selected rate reflects the inherent uncertainties surrounding the sales expectations of Valchlor™, the useful life of the acquired technology, and the uncertainty of technological advances that are unknown at this time. As a result of these analyses, the Group allocated USD 377 million (CHF 343.3 million) to the intangible asset, which will be amortized over the expected useful life of Valchlor™ of 15 years.

The acquisition date fair value of the total consideration transferred includes the fair value of contingent payments related to achievement of future performance and commercialization milestones and royalty streams. These payments have been deferred, probability-weighted and adjusted for the time value of money in order to derive at their acquisition date fair value. For the contingent consideration arising from the royalty streams, the Group applied a discount rate of 9%, which corresponds to the weighted-average costs of capital ("WACC") and is calculated by weighting the required returns for interest-bearing debt and common equity capital in proportion to their estimated percentages in an expected capital structure. Management believes that the WACC appropriately captures a market participant's view of the risk associated with the expected contingent consideration payments because such payments are impacted by broader, non-diversifiable industry and business risks which are not completely captured in developing the probability weighted-payment estimates. Based on these analyses, the acquisition date fair value of the contingent consideration amounted to USD 86.7 million (CHF 78.9 million) and was determined using Level 3 inputs.

As of December 31, 2013, the fair value of the contingent consideration amounts to USD 88.7 million (CHF 78.9 million). Thereof, USD 2.4 million (CHF 2.1 million) are included in other current liabilities and USD 86.3 million (CHF 76.8 million) disclosed as contingent consideration, less current portion in the consolidated balance sheet as of December 31, 2013. The table below states the changes in the contingent consideration since acquisition date:

September 18, 2013		**Contingent consideration expense**		**Foreign currency translation**	**December 31, 2013**	
USD	CHF	USD	CHF	CHF	USD	CHF
86,700	78,942	1,951	1,776	(1,806)	88,651	78,912

The following table provides the significant unobservable inputs applied in the determination of the fair values of the assets acquired and the liabilities assumed at acquisition date and for the update of the contingent consideration as of December 31, 2013:

Level 3 fair value measurement	**Valuation technique**	**Unobservable input**	**Assumptions December 31, 2013**
Contingent consideration arising from acquisitions	Discounted cash flows	Probability of performance milestone payments	0%
		Probability of royalty payments	100%
		Expected period of payments	2014-2028
		Discount rate	9%
Intangible asset acquired	Excess Earnings Approach	Period of cash flow projections	2013-2028
		Discount rate	9%
		Amortization period	15 years

Due to the nature of the unobservable inputs as well as due to the short period between the acquisition date and December 31, 2013, management believes that the sales projections developed as of September 18, 2013, and the discount rate applied at acquisition date correspond to market participant's assumptions as of the end of the reporting period presented. If projections are not successfully developed, the sales and profitability of the Group may be adversely affected in future periods. In addition, the value of the acquired intangible asset may become impaired. Furthermore, an increase of the probability of performance milestone payments or a significant decrease in the discount rate could lead to a significantly higher fair value measurement of the contingent consideration in the period of revaluation.

The results of Ceptaris' operations have been included in the consolidated financial statements of the Group since the acquisition date. These results as well as the supplemental pro forma unaudited information are included in the table below.

	Ceptaris since acquisition date September 18, 2013[1]	Combined entity for the twelve months ended December 31, 2013[2]	2012[2]
Total revenues	243	1,785,740	1,728,396
Net income (loss)	(13,426)	328,568	350,696
Basic earnings per share	-	2.95	3.02
Diluted earnings per share	-	2.85	2.97

[1] The exchange rate CHF/ USD of 0.903363 corresponds to the average rate used for translation of the financial statements of the Group's consolidated subsidiaries for the same period.

[2] The exchange rates CHF/ USD of 0.927306 and of 0.938329 correspond to the average annual rates for translation of the financial statements of the Group's subsidiaries for the years ended December 31, 2013 and 2012, respectively.

The unaudited pro forma results of the combined entity have been prepared as if the acquisition of Ceptaris occured on January 1, 2012. These amounts have been calculated after applying the Group's accounting policies and adjusting the results to reflect additional amortization that would have been charged assuming the fair value adjustments to amortizable intangible assets had been applied and accretion of contingent consideration expense has been incurred. Net income in 2012 includes non-recurring pro-forma adjustments directly attributable to the Ceptaris acquisition of USD 5.4 million and recurring adjustments of USD 32.1 million related to the pro-forma amortization of the intangible asset acquired and to the pro-forma accretion of contingent consideration expense. Except acquisition related costs of USD 2 million, net income in 2013 does not include any non-recurring adjustments and USD 33.3 million of recurring pro-forma amortization of the intangible asset and accretion of contingent consideration expense. In addition, income taxes for 2012 and 2013, have been adjusted for the effect of a US valuation allowance reversal of USD 99 million as discussed in Note 5. Income taxes. These pro forma results of operations have been prepared for comparative purposes only, and they do not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred on the date indicated or that may result in the future.

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 contingent consideration for a maximum undiscounted amount, net of prior period settlements, of USD 10 million. 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 consideration are included in selling, general and administration expenses. Since denominated in USD, the contingent consideration is revalued at each reporting date.

In 2013 and 2012, the Group paid USD 5 million (CHF 4.6 million) and USD 10 million (CHF 9.2 million) related to patent issuances in some of these markets.

As of December 31, 2013, the fair value of the contingent consideration amounts to CHF 4.2 million (USD 4.7 million) and is included in other current liabilities. The table below states the changes in the contingent consideration during the twelve months ended December 31, 2013:

December 31, 2012		Contingent consideration expense		Settlements		Foreign currency translation	December 31, 2013	
USD	CHF	USD	CHF	USD	CHF	CHF	USD	CHF
9,385	8,587	316	289	(5,000)	(4,555)	(137)	4,701	4,184

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, 2013, the Group applied a discount rate of 6.89% (December 31, 2012: 6.29%). 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 for the periods presented:

Level 3 fair value measurement	Valuation technique	Unobservable input	Assumptions December 31, 2013	December 31, 2012
		Probability of patent issuance	100%	100%
Contingent consideration	Discounted cash flows	Period of patent issuance	2014	2013–2014
arising from acquisitions		Discount rate	6.89%	6.29%

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 5 million.

NOTE 3.
LICENSING AGREEMENTS

On April 18, 2008, the Group entered into a worldwide (excluding Japan) exclusive license agreement with Nippon Shinyaku Co., Ltd. ("Shinyaku") on selexipag, a novel orally available selective IP receptor agonist originally discovered and synthesized by Shinyaku for the treatment of PAH. Under the terms of the agreement between February 2008 and January 2010, the Group made upfront and milestone payments, which were expensed as R&D costs. The Group will make further milestone payments for the first and second indications totaling up to USD 100 million depending on achievement of certain development and regulatory approval milestones. Furthermore, Shinyaku will be entitled to receive additional payments of up to USD 50 million upon achievement of predetermined sales targets by the Group. If the Group is successful in obtaining regulatory approval, the Group will pay a low double-digit royalties to Shinyaku on a percentage of net sales of products with selexipag as the active ingredient. In addition, the Group entered into co-promotion and co-development agreements with Shinyaku for selexipag and macitentan, the active ingredient of Opsumit® for the territory of Japan (See Note. 4 Collaborative agreements).

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®.

Since 2002 the Group holds 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. The Group also assumes full responsibility for manufacturing and supply chain, patent-related activities, clinical and pre-clinical activities of Zavesca® (miglustat). In conjunction with the rights received for miglustat, the active ingredient of Zavesca®, the Group pays a high single-digit royalty on product sales in glycosphingolipid ("GSL") storage disorders to UCB SA. In addition, payments of EUR 7.5 million (CHF 11.7 million) made to UCB in exchange for the license rights were capitalized as an intangible asset and amortized over the remaining patent life of eight years (See Note 12. Goodwill and intangible assets).

In conjunction with the launch of Opsumit® (macitentan) the Group will pay a low single-digit royalty on product net sales to Johnson & Johnson Pharmaceutical Research & Development L.L.C. ("PRD"). The payments are based on contractual terms surviving expiration and termination of an amended and restated collaboration agreement between the Group and PRD which was originally signed in 1999.

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 high single-digit 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

In February 2012, the Group entered into a long-term collaborative agreement with Auxilium Pharmaceuticals, Inc. ("Auxilium") to develop, supply and commercialize Xiaflex® for the potential treatment of Dupuytren's contracture and Peyronie's disease in Canada, Australia, Brazil and Mexico upon receipt of the respective regulatory approvals. To the extent economically feasible, the Group is primarily responsible for the applicable regulatory and commercialization activities for Xiaflex® in these countries including any costs associated with additional trials that might be required for the specific territories. Auxilium remains primarily responsible for the global development of Xiaflex® in Peyronie's disease as well as for all clinical and commercial drug manufacturing and supply. In accordance with the agreement, in 2013, the Group notified Auxilium that it would no longer pursue commercialization in Mexico and Auxilium agreed to waive any further milestone payments related to this territory. The Group and Auxilium will collaborate in formulating a transition arrangement for Mexico. Consequently, upon achievement of specific regulatory, pricing and sales milestones Auxilium will be eligible to receive payments totaling up to USD 54 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. 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 for the twelve months ended December 31, 2012. In addition, in 2012, the Group reimbursed Auxilium for regulatory filing costs of USD 0.5 million which have been recorded as R&D expense. Furthermore, for each of the years ended December 31, 2013 and 2012, the Group paid regulatory approval milestones of USD 0.5 million, which in accordance with its policy were capitalized and initially amortized on a straight-line basis over the expected use of the intangible asset.

In conjunction with the license agreement for selexipag (See Note 3. Licensing agreements), the Group entered into a long-term collaborative agreement with Shinyaku to develop, supply and commercialize selexipag and any product containing selexipag as an active ingredient for the territory of Japan. Under the terms of the agreement both parties will co-develop and co-promote any such product, whereby Shinyaku will remain primarily responsible for the applicable regulatory approval, manufacturing, supply and commercialization activities. After deduction of a substantial royalty payable to Shinyaku, development costs and net profit will be shared. In turn, the Group granted to Shinyaku semi-exclusive co-development and co-promotion rights for macitentan for the territory of Japan. After deduction of a substantial royalty payable to the Group, development costs and net profit will be shared. The Group will remain primarily responsible for the applicable regulatory approval, manufacturing, supply and commercialization activities for macicentan in Japan. For each of the years ended December 31, 2013 and 2012, amounts exchanged between the collaborators were not material to the Group.

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 signature of the contract the Group received an upfront payment of USD 35 million (CHF 56.4 million), which was deferred and amortized over twelve years. Consequently, as of December 31, 2012, the Group recognized the last contractual revenue of CHF 4.7 million, related to this agreement. In addition, since receipt of FDA approval for bosentan for the treatment of PAH in 2001 the Group pays a low single-digit royalty on net sales to Genentech.

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, 2013 and 2012, the Group recognized revenue of CHF 1.5 million under this agreement.

NOTE 5.
INCOME TAXES

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

	For the twelve months ended December 31,	
	2013	**2012**
Current tax (expense)	(66,791)	(36,001)
Deferred tax benefit (expense)	89,592	(19,246)
Total income tax benefit (expense)	**22,801**	**(55,247)**

Income taxes payable and accrued as of December 31, 2013, amounted to CHF 47.9 million (December 31, 2012: CHF 31.7 million).

The significant components of the Group's deferred tax assets and deferred tax liabilities as of December 31, 2013 and 2012, are provided in the tables below:

	December 31,	
Deferred tax assets	**2013**	**2012**
Net benefit from operating loss carry forwards	112,770	67,270
Deferred revenue	234	434
Stock compensation expense	23,966	12,910
Accrued expenses	16,435	15,218
Intangible assets	-	4,131
Tax credits	15,274	2,015
Litigation provision	155,181	145,976
Other temporary differences	8,190	9,752
Deferred tax assets	**332,050**	**257,706**
Valuation allowance for deferred tax assets	(180,998)	(214,586)
Total deferred tax assets	**151,052**	**43,120**

	December 31,	
Deferred tax liabilities	**2013**	**2012**
Intangible assets	127,822	16,321
Other temporary differences	385	510
Total deferred tax liabilities	**128,207**	**16,831**

As of December 31, 2013, a valuation allowance of CHF 181 million (December 31, 2012: CHF 214.6 million) has been recognized for certain Group companies primarily based on their historical cumulative operating losses. The reduction in valuation allowance from the prior year results from the deferred tax liability recognized in the US for intangible assets acquired in the Ceptaris transaction (See Note 2. Acquisitions), offset by increases in valuation allowances in other countries. The Ceptaris deferred tax liability constitutes a source of taxable income under ASC 740, resulting in the future realizability of deferred tax assets in Actelion US that were previously subject to a valuation allowance. These deferred tax assets principally resulted from the litigation with Asahi. The release of the US valuation allowance and the corresponding deferred tax benefit as of December 31, 2013, amounted to CHF 86.3 million. This amount was offset by increases in valuation allowance in other tax jurisdictions of CHF 52.7 million to derive at the total decrease in valuation allowance of CHF 33.6 million as of December 31, 2013, compared to December 31, 2012.

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

	December 31,	
	2013	**2012**
Deferred tax assets, current[1]	6,227	5,784
Deferred tax assets, non-current[2]	16,931	20,832
Total deferred tax assets	**23,158**	**26,616**
Deferred tax liabilities, current[3]	6	-
Deferred tax liabilities, non-current[4]	307	327
Total deferred tax liabilities	**313**	**327**

[1] Included in other current assets – See Note 11. Other current assets.
[2] Disclosed as a separate line in the consolidated balance sheets as of December 31, 2013 and 2012.
[3] Included in other current liabilities.
[4] Included in other non-current liabilities.

As of December 31, 2013, the gross value of unused tax loss carry forwards with their expiry dates is as follows:

	Tax losses
One year	-
Two years	-
Three years	-
Four years	-
Five years	3,194
Six years	2,197
Seven years	2,307
More than seven years	345,769
Total tax losses	**353,467**

The following table provides a reconciliation between the effective income tax benefit (expense) and the tax expense computed using the Swiss statutory tax rate of 20.6%:

	2013	**2012**
Tax at Swiss statutory tax rate	(88,527)	(73,846)
Non deductible expenses	(5,637)	(9,164)
Non taxable income	61,971	57,741
Tax rates different from the Swiss statutory rate	(6,781)	(11,771)
Tax credit benefit (expense)	2,076	(11,131)
Tax reserve (build) release	(2,125)	9,262
Change in valuation allowance	33,588	(24,284)
Other items	28,236	7,946
Effective income tax benefit (expense)	**22,801**	**(55,247)**

The effective income tax benefit in 2013 resulted primarily from the release of CHF 86.3 million in the Group's valuation allowance driven by the revaluation of the realizability of the Group's pre-existing deferred tax assets in the US upon the acquisition of Ceptaris.

The tax benefit of tax loss carry forwards used in 2013 amounted to CHF 8.2 million (2012: CHF 38.5 million).

The movements of the uncertain tax positions for 2013 and 2012 are as follows:

	2013	**2012**
Uncertain tax positions, beginning of year	**47,984**	**57,246**
Additions based on tax positions related to the current period	2,125	5,519
Additions based on tax positions of prior years	-	-
Reductions based on tax positions of prior years	-	(12,314)
Foreign exchange	(1,018)	(2,467)
Uncertain tax positions, end of year	**49,091**	**47,984**

Uncertain tax positions of CHF 47.7 million in 2013 (2012: CHF 37.5 million) would result in the future recognition of tax benefits. In 2013, the Group recognized tax expense of CHF 0.9 million (2012: CHF 0.6 million) related to interest and penalties on tax positions. The statute of limitations for assessment in the major jurisdictions in which the Group operates is open for the years 2006-2013. It is expected that within the next twelve months certain statutes of limitations will lapse, which could result in a reduction in uncertain tax positions based on positions of prior years, along with related interest and penalties, of CHF 3.7 million.

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, 2013, 4,395,592 anti-dilutive shares were excluded from the EPS calculation (December 31, 2012: 14,127,211).

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

	December 31, 2013		December 31, 2012	
	Basic	**Diluted**	**Basic**	**Diluted**
Numerator				
Net income (loss)	452,542	452,542	303,226	303,226
Net income (loss) available for earnings per share calculation	**452,542**	**452,542**	**303,226**	**303,226**
Denominator				
Weighted-average number of common shares	111,536,780	111,536,780	116,128,849	116,128,849
Incremental shares for assumed conversion:				
Stock-based awards	-	3,839,931	-	1,990,695
Total average equivalent shares	**111,536,780**	**115,376,711**	**116,128,849**	**118,119,544**
Earnings (loss) per share	**4.06**	**3.92**	**2.61**	**2.57**

NOTE 7.
CASH AND CASH EQUIVALENTS

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

	December 31, 2013	December 31, 2012
Cash [1]	622,478	1,017,422
Short-term bank deposits	5,162	4,850
Total	**627,640**	**1,022,272**

[1] Includes CHF 0.7 million pledged for a unused credit line of CHF 5 million as of December 31, 2012, and no restrictions in 2013.

In 2013, the Group increased the collateral securing the awards granted to Asahi by the State Court in California, US (See Note 17. Commitments, contingencies and guarantees) by CHF 250 million. Consequently, the restricted amounts have been re-classified from cash to restricted cash for litigation - See Note 8. Financial assets and liabilities.

In addition, during 2013, the Group utilized CHF 570.9 million of cash to complete its first share repurchase program on the second trading line and to acquire new treasury shares on the first trading line – See Note 19. Shareholders' equity.

NOTE 8.
FINANCIAL ASSETS AND LIABILITIES

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

	December 31, 2013			December 31, 2012		
	Total	**Level 1**	**Level 2**	**Total**	**Level 1**	**Level 2**
Financial assets carried at fair value[1]						
Cash and cash equivalents	627,640	627,640	-	1,022,272	1,022,272	-
Cash and investments restricted for litigation:						
Restricted cash[2]	390,000	390,000	-	368,740	368,740	-
Restricted debt securities[2]	222,537	222,537	-	-	-	-
Derivative financial instruments	10,546	-	10,546	7,682	-	7,682
Total	**1,250,723**	**1,240,177**	**10,546**	**1,398,694**	**1,391,012**	**7,682**
Financial liabilities carried at fair value[1]						
Derivative financial instruments[3]	33	-	33	394	-	394
Contingent considerations	See Note 2. Acquisitions for Level 3 disclosures					
Total	**33**	**-**	**33**	**394**	**-**	**394**

[1] For the twelve months ended December 31, 2013 and 2012, no transfers to or from Level 1 and Level 2 took place.
[2] Included in cash and investments restricted for litigation.
[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, 2013 and 2012. 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, 2013				
Forward rate contracts	283,189	Other financial income (expense), net	21,446	(3,155)
Total	**283,189**		**21,446**	**(3,155)**
December 31, 2012				
Forward rate contracts	198,678	Other financial income (expense), net	30,844	(19,587)
Total	**198,678**		**30,844**	**(19,587)**

	Asset derivatives		Liability derivatives	
Derivative financial instruments not designated as hedging instruments	**Balance Sheet location**	**Fair value**	**Balance Sheet location**	**Fair value**
December 31, 2013				
Forward rate contracts	Derivative instruments	10,546	Other current liabilities	33
Total		**10,546**		**33**
December 31, 2012				
Forward rate contracts	Derivative instruments	7,682	Other current liabilities	394
Total		**7,682**		**394**

As of December 31, 2013, all foreign currency forwards are privately negotiated OTC contracts with maturities of twelve months or less and entered into with counterparties with a Standard & Poor's ("S&P") credit rating ranging from A to AA (December 31, 2012: S&P rating ranging from A+ to AA+).

Derivative financial instruments include gross unrealized gains of CHF 3.2 million (December 31, 2012: gross unrealized gains of CHF 28.5 million), all related to foreign currency transactions, which have been recorded in other financial income (expense), net. For each of the years ended December 31, 2013 and 2012, the Group did not have any derivatives which were offset in accordance with ASC 210-20-45 or ASC 815-10-45; or subject to an enforceable master netting arrangement or similar agreement.

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, 2013, 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.

Cash and investments restricted for litigation
In January 2012, in conjunction with the Asahi litigation, certain insurance companies issued USD 623.6 million in surety bonds on behalf of the Group 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 cash or investments in order to secure the surety bonds. As of December 31, 2012, the Group had pledged USD 250 million and CHF 140 million in cash as collateral. During 2013, the collateral was increased by CHF 250 million. Consequently, the Group reclassified the restricted amounts from cash to restricted cash for litigation. Because a resolution of the case is expected within the next twelve months, all restricted amounts which have been previously disclosed as non-current restricted cash for litigation have been recorded within current assets in the consolidated balance sheet at December 31, 2013.

In addition, during 2013, USD 250 million, previously blocked on deposit accounts, were invested in US federal debt securities (Level 1) with maturities greater than three months at inception, which were classified as AFS. Due to their short-term nature and the interest rate of 0% for their maturity on January 9, 2014, the fair value of these securities corresponds to their amortized cost value at December 31, 2013. As the interest accruing on the restricted cash and debt security accounts (if any) is at market rates, not restricted and can be used by the Group at any time, the fair value of the cash and investments restricted for litigation is determined using Level 1 inputs.

The amount of collateral required could change depending on the progress of the litigation 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 non-invasive and non-imaging signal processing technologies to extract parametric information regarding both the coronary arteries and the pulmonary system, including pulmonary blood pressure measurements. The technology could enable diagnose and evaluation, in real time, of the state of different cardiac and pulmonary diseases and thus improved treatment.

The Group can at its option increase its investment in the common stock of EchoSense depending on the success of 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, 2013, the Group has recognized its share of loss of USD 0.5 million (CHF 0.5 million), which has been classified as other financial income (expense), net. In 2012, the Group's share of loss amounted to USD 0.4 million (CHF 0.4 million). The basis difference between the carrying value of the investment and the Company's underlying net assets amounts to USD 3.1 million (CHF 2.9 million) at December 31, 2013, and is mainly related to not recognized IPR&D assets by the investee. The basis difference between the carrying value of the investment and the Company's underlying net assets amounted to USD 3.6 million (CHF 3.2 million) at December 31, 2012. 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. No such impairment indicators were noted for the periods presented.

Financial liabilities carried at amortized cost
The Group's financial liabilities carried at amortized cost relate to the issuance of a bond on December 7, 2011 (See Note 15. Borrowings) and are stated in the following table:

	December 31, 2013	December 31, 2012
Long-term financial debt	235,284	235,431
Total	**235,284**	**235,431**

Interest income (expense), net in the consolidated financial statements for the twelve months ended December 31, 2013, include interest expense of CHF 11.5 million (December 31, 2012: CHF 11.5 million) related to the interest paid to the bond holders, interest expense of CHF 0.6 million (December 31, 2012: CHF 0.6 million) related to the amortization of the bond premium and debt issuance costs, interest expense of CHF 0.1 million (December 31, 2012: CHF 0.5 million) and interest income of CHF 2.7 million (December 31, 2012: CHF 2.1 million) mainly related to interest paid or received on the various cash accounts of the Group and its subsidiaries.

NOTE 9.
TRADE AND OTHER RECEIVABLES

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

	2013	2012
Trade receivables	390,465	398,179
Other receivables	24,606	35,921
Trade and other receivables, gross	**415,071**	**434,100**
Allowance for doubtful accounts	(9,156)	(21,171)
Total trade and other receivables, net	**405,915**	**412,929**

For each of the years ended December 31, 2013 and 2012, approximately 40% of trade accounts receivables are due from public institutions funded by governmental agencies in certain Southern European countries.

In 2013, the Group transferred EUR 11.8 million (CHF 14.4 million) of its trade accounts receivable owned by foreign subsidiaries to third-party financial institutions without recourse. In 2012, the Group sold EUR 8.7 million (CHF 10.5 million) of its trade accounts receivable to third-party financial institutions without recourse. None of these financial institutions meets the criteria of a VIE subject to consolidation. The consideration received in both years 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:

	2013	2012
Semi-finished products	28,447	33,282
Finished products	24,794	23,107
Total	**53,241**	**56,389**

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:

	2013	2012
Unearned income	533	760
Deferred tax assets	6,227	5,784
Prepaid expenses	52,177	24,275
Total	**58,937**	**30,819**

NOTE 12. GOODWILL AND INTANGIBLE ASSETS

In conjunction with the Ceptaris acquisition (See Note 2. Acquisitions), the net carrying amount of goodwill has been adjusted in the current reporting period. The following table summarizes the changes in 2013:

Balance at January 1	Additions	Translation effects	Balance at December 31
74,331	53,853	(1,792)	126,392

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

	2013			2012		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired licenses	610,077	(190,435)	419,642	254,984	(154,679)	100,305
Acquired IPR&D intangibles	35,226	-	35,226	58,305	-	58,305
Acquired software and other	36,179	(25,823)	10,356	33,064	(21,852)	11,212
Total	**681,482**	**(216,258)**	**465,224**	**346,353**	**(176,531)**	**169,822**

In 2013, the Group abandoned fully amortized intangible assets related to acquired software in the total amount of CHF 0.4 million (2012: 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 45.1 million in 2013 (2012: CHF 39.3 million). The weighted-average amortization period for acquired licenses amounts to twelve years and for acquired software to three years (See Note 1. Description of business and summary of significant accounting policies).

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
2014	60,684
2015	40,921
2016	37,018
2017	35,187
2018	35,184
Thereafter	221,004
Total expected future amortization	**429,998**

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

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

	2013	2012
At cost:		
Land	29,635	29,956
Buildings	318,820	218,754
Furniture and fixtures and lab equipment	176,379	168,813
Computers	30,246	28,578
Other tangible assets	29,656	28,635
Construction in progress	7,998	107,070
Less: Accumulated depreciation	(211,642)	(179,271)
Property, plant and equipment, net	**381,092**	**402,535**

In 2013, 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 4.4 million (2012: CHF 4.5 million). 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, 2013, the Group invested CHF 19 million (December 31, 2012: CHF 21.6 million) in tangible assets. As of December 31, 2013, CHF 7.2 million (December 31, 2012: CHF 9.6 million) of those were unpaid and appropriately excluded from presentation in the consolidated statements of cash flows. In conjunction with the restructuring, in 2012, the Group recognized an impairment of tangible assets of CHF 1.1 million, which was included in depreciation and amortization in the consolidated statement of cash flows in 2012. Depreciation expense of property, plant and equipment including capital leases was CHF 39.3 million in 2013 (2012: CHF 41.5 million). In conjunction with the completion of the second Research Center, the Group transferred CHF 96 million from construction in progress to buildings in 2013.

NOTE 14.
ACCRUED EXPENSES

Accrued expenses
Accrued expenses consisted of the following at December 31:

	2013	2012
Personnel and compensation costs	111,435	97,969
Accrued taxes	50,936	33,829
Rebates and allowances	146,938	128,558
Research and development	25,639	25,819
Marketing and royalties	30,815	14,448
Fixed assets	5,925	10,189
Inventory	1,823	3,591
Professional services	13,886	14,675
Other accrued expenses	14,002	22,842
Total	**401,399**	**351,920**

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 total restructuring costs in connection with employee termination benefits was expected to be CHF 6.9 million, all of which was incurred in fiscal year 2012. CHF 6.3 million of the one-time termination benefits was paid out in the fourth quarter of 2012 and CHF 0.6 million during the twelve months ended December 31, 2013. In 2012, the Group also 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 led to a relocation of employees and abandonment of leased property in 2013. In accordance with its policy (See Note 1. Description of business and summary of significant accounting policies) the Group established in 2013 CHF 1.4 million related accruals at the cease-use date of the leased property. This amount corresponds to the total restructuring costs expected to be incurred in connection with the lease termination (December 31, 2012: total lease termination costs expected to be CHF 1.6 million). For the twelve months ended December 31, 2013, the Group amortized CHF 0.5 million of the accruals related to the lease termination.

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

The total restructuring costs incurred in 2013 of CHF 0.9 million (2012: CHF 6.7 million) have been allocated to the operating functions impacted. CHF 0.7 million thereof have been included in R&D expense and CHF 0.2 million in selling, general and administration expense in the consolidated income statement for the twelve months ended December 31, 2013. CHF 5.4 million have been included in R&D expense and CHF 1.3 million in selling, general and administration expense in the consolidated income statement for the twelve months ended December 31, 2012. As of December 31, 2013, the restructuring accruals amounted to CHF 0.9 million (December 31, 2012: 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, 2013 are as follows:

	2011 bond	
Payable on December 7,	**Type of payment**	**Amount**
2014	Annual interest	11,456
2015	Repayment of debt incl. annual interest	246,457
Thereafter		-
Total		**257,913**

As of December 31, 2013, the total book value of all debt obligations was CHF 235.3 million and consisted of CHF 235 million related to the principal amount of the bond issued in 2011 and CHF 0.3 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, 2013, its fair value amounts to 105.25% (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 income (expense), net in the consolidated income statements. At December 31, 2013, other non-current assets include debt issuance costs of CHF 1.4 million (December 31, 2012: CHF 2.1 million).

For each of the years ended December 31, 2013 and 2012, the Group recognized interest expense of CHF 11.5 million related to the interest paid to the bondholders on December 7 of the respective year and of CHF 0.6 million related to the amortization of the premium and the debt issuance cost, net.

Credit facilities
At December 31, 2013, the Group had unused credit lines of: a) CHF 10 million as margin cover for over-the-counter trades; b) CHF 4.5 million deployable for issuance of letters of credit; c) JPY 500 million (CHF 4.2 million) established as an overdraft facility and d) CHF 15.9 million as senior mortgage certificates.

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 2014 and 2077, most of them with options to extend for five 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 over the lease term.

Future minimum payments under non-cancelable operating and capital leases at December 31, 2013, are as follows:

For the year ending December 31,	Operating leases	Capital leases
2014	24,217	60
2015	19,891	2
2016	16,015	-
2017	13,275	-
2018	13,017	-
Thereafter	38,489	-
Total minimum payments	**124,904**	**62**
Less amounts representing interest	-	(1)
Present value of future lease payments	**-**	**61**
Less current portion of lease payments	-	(59)
Non-current portion of lease payments	**-**	**2**

Rent expense under operating leases was CHF 30.1 million for the year ended December 31, 2013 (2012: CHF 35.1 million).

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 4.5 million, which are expected to be paid in 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 17.9 million for 2014, CHF 6.9 million for 2015, CHF 6 million for 2016, CHF 6.6 million for 2017 and CHF 5.8 million for 2018.

Contingencies

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. Furthermore, as of December 31, 2013, the Group provided for the cumulative estimated amount of interest of USD 104.8 million (December 31, 2012: USD 64 million). Since denominated in USD, the contingencies are revalued at each reporting date. Because a resolution of the case is expected within the next twelve months the litigation provision including interest related thereto has been reclassified within current liabilities in the consolidated balance sheet as of December 31, 2013.

The Group appealed the entire judgment in December 2011. The hearing at the California Court of Appeal took place on November 21, 2013. On December 19, 2013, the California Court of Appeal affirmed the amended final judgment that the State Court entered against Actelion in November 2011. On January 27, 2014, the Group filed a petition at the California Supreme Court requesting a review of the decision of the California Court of Appeal. The Group is expecting a Supreme Court's decision on whether to accept or reject the filed petition within the next few months. This decision might further change the currently estimated duration of the expected litigation procedures. The amount of cash to be paid, if any, and the timing of such payment will depend on the outcome of these litigation procedures and the timing of enforceability of the verdict issued.

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 cash or investments in order to secure the surety bonds. The amount of collateral required could change depending on the progress of the litigation procedures and significant currency exchange fluctuations. As of December 31, 2013, the Group had pledged USD 250 million and CHF 390 million in cash and investments as collateral (See Note 8. Financial assets and liabilities). 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.

US Department of Justice investigation

In September 2010, a subsidiary of the Group 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-operated in additional requests by the US Authorities. On January 10, 2014, the Group has been informed that the US Attorney's Office, twenty seven States and the District of Columbia have declined to intervene in the case. Consequently, the plaintiffs voluntarily dismissed the case. The Group has not made any payments to secure this dismissal.

Other contingencies

The Group is involved in commercial disputes in certain jurisdictions. During the twelve months ended December 31, 2013, one of these disputes was settled for CHF 12.9 million, which has been disclosed as arbitration settlement in the consolidated income statement. The possible losses which might arise as a result of the remaining disputes range from CHF 0 million to CHF 1.5 million. As of February 7, 2014, the date these consolidated financial statements were available to be issued, the Group cannot reasonably estimate the final outcome and the timing of resolution of these disputes.

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 4.8 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 2013, the guaranteed interest rate for withdrawal benefits amounted to 1.5% for the mandatory portion of the contributions paid and 1.25% for the non-mandatory portion of the contributions paid (2012: 1.5% and 1.25%). 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 as well as a means to reduce the uncertainty and volatility of the Basic Plan's assets for the Group. Investment strategy and policies of the foundation 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 unappropriated foundation reserves as determined by Swiss pension law. The targeted allocation for these funds (if any) is as follows:

Asset category	Targeted allocation 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 842,400. It is funded through contributions by the Group and its employees.

The targeted allocation for plan assets is as follows:

Asset category	Targeted allocation 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%
Alternative investments	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,	
	2013	2012
Service cost	18,336	19,643
Interest cost	5,626	6,500
Expected return on plan assets	(6,446)	(7,030)
Amortization of net actuarial (gain) loss [1]	971	455
Net periodic benefit cost	**18,487**	**19,568**

[1] For each of the twelve months ended December 31, 2013 and 2012, the income tax effect on the amortization is immaterial to the Group - See Note 21. Accumulated other comprehensive income (loss).

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	2013	2012
Mortality and disability assumptions	BVG2010	BVG2010
Discount rate for all defined benefit plans of the Group	2.31%	2.02%
Salary increase	2.01%	2.01%
Long-term rate of return on assets	2.69%	2.70%

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.

The weighted-average discount rate applied for the calculation of the PBO as at December 31, 2013, is 2.31%. A decrease of the discount rate by 0.25% would increase the PBO by CHF 12.1 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.

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:

	2013	2012
Projected benefit obligation, beginning of year	**270,882**	**250,767**
Service cost	18,336	19,643
Interest cost	5,626	6,500
Plan participants' contribution	10,634	12,194
Benefits paid	(327)	(639)
Premiums paid	(4,394)	(4,763)
Net transfer in/out	(6,355)	(24,143)
Actuarial loss (gain)	(9,658)	11,503
Foreign currency exchange rate changes	(171)	(180)
Projected benefit obligation, end of year	**284,573**	**270,882**

	2013	2012
Fair value of plan assets, beginning of year	**232,409**	**219,496**
Actual return on plan assets	8,525	12,713
Employer contributions	15,367	17,560
Plan participants' contributions	10,634	12,194
Benefits paid	(327)	(639)
Premiums paid	(4,394)	(4,763)
Net transfer in/out	(6,355)	(24,143)
Foreign currency exchange rate changes	29	(9)
Fair value of plan assets, end of year	**255,888**	**232,409**
Accumulated benefit obligation	**273,249**	**258,809**

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

	2013			2012		
Asset category	**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)	228,169	89.17%	228,169	209,962	90.35%	209,962
Equity security funds	8,102	3.17%	8,102	6,221	2.68%	6,221
Debt security funds	16,427	6.42%	16,427	14,470	6.23%	14,470
Real estate funds	1,703	0.66%	1,703	1,317	0.57%	1,317
Other	1,487	0.58%	1,487	439	0.19%	439
Total plan assets	**255,888**	**100%**	**255,888**	**232,409**	**100%**	**232,409**

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 11 million (2012: CHF 8.4 million) and premiums paid in excess to premiums owed by the Group of CHF 5.2 million (2012: CHF 5.1 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, 2013 and 2012, 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+ (except debts securities in foreign currencies with a minimum rating of A). The limitation for individual investments is between 10% and 20% per investment fund category (with exceptions on limitations for obligations of the Swiss Federation). The equity security funds primarily invest in Swiss and foreign large caps with respective limitations of 10% per individual investment within the portfolio. The strategy of the various real estate funds is to primarily invest in commercial use property between ranges of 60% - 90% and residential use property predominantly located in Switzerland between ranges from 50% to 75%.

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

	2013	2012
Present value of obligations	(284,573)	(270,882)
Fair value of plan assets	255,888	232,409
Funded status	**(28,685)**	**(38,473)**

As of December 31, 2013, an amount of CHF 21.1 million net of tax related to the pension plans has been recognized in other comprehensive income (loss), (December 31, 2012: CHF 33 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, in 2012, the Group recognized CHF 0.2 million of actuarial gains in net income.

	2013	2012
Components of net periodic benefit costs, beginning of year	**(33,032)**	**(27,164)**
Net gain (loss) arising during the period	11,209	(6,878)
Amortization of net gain (loss)[1]	971	455
Foreign currency exchange rate changes	728	130
Taxes	(967)	425
Total included in other comprehensive income (loss), end of year	**(21,091)**	**(33,032)**

[1] In financial year 2014, the Group does not expect an amortization of not recognized components of net periodic benefit costs.

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	
2014 (estimated)	15,833
Expected future benefit payments	
2014	2,236
2015	2,723
2016	2,342
2017	2,863
2018	3,716
Thereafter	34,019

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 7.9 million in 2013 (2012: CHF 7 million).

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 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, 2013, the Group had conditional capital of CHF 26.8 million of which CHF 10.6 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, 2012	**27,636**
Forfeited Challenge Award options	(227)
Exercise of options	(370)
December 31, 2012	**27,039**
Forfeited Challenge Award options	(226)
Exercise of options	-
December 31, 2013	**26,813**

Treasury shares

At December 31, 2013, the Group held 9,147,500 treasury shares including those acquired via the share repurchase programs (2012: 13,842,305). The average purchase price of all treasury shares held amounts to CHF 59.31 (2012: CHF 51.94).

Treasury shares are deducted from equity at their cost value and presented as a separate component in the consolidated statements of shareholders' equity. The Group provides treasury shares in exchange for restricted stock units ("RSUs") or option rights which vest or are exercised in accordance with the conditions of the Group's share-based payment plans (See Note 20. Stock-based compensation). The Group intends to further use treasury shares, except for the shares acquired through the first Share Repurchase Program ("SRP I"), in order to satisfy its commitments arising out of its stock-based compensation programs or in order to offset dilution caused by the issuance of shares related to the Group's share-based payment plans, whichever is applicable.

Treasury shares acquired via the SRP I

In October 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 was carried out via a second trading line on the SIX Swiss Exchange, was completed in August 2013. As at December 31, 2013, the Group held total 6,147,500 treasury shares acquired at an average price of CHF 56.78 through the SRP I (December 31, 2012: total 5,072,100 treasury shares held, acquired at an average price of CHF 43.21). For the twelve months ended December 31, 2013, the Group acquired 7,572,500 treasury shares through the SRP I at an average price of CHF 55.02. 1,425,000 thereof as well as 5,072,100 shares held as of December 31, 2012, were canceled as per AGM approval from April 18, 2013. The Group will request AGM approval to cancel the remaining shares acquired through the SRP I at the AGM on May 8, 2014.

Treasury shares acquired via the SRP II

On December 5, 2013, the Group announced the repurchase of up to 10 million shares of Actelion's common stock over the period of three years. The buyback is carried out via the first trading line on the SIX Swiss Exchange. The repurchased shares will be used to service Group's commitments arising out of its various stock-based compensation programs thus compensating for a potential dilution as a result of the share ownership schemes. Since inception of the second share buyback and up to December 31, 2013, the Group acquired 549,202 treasury shares through the SRP II at an average price of CHF 70.70.

Common shares

At the AGM on April 18, 2013, the shareholders approved the cancelation of 6,497,100 issued shares, which were acquired via the SRP I at an average purchase price of CHF 44.14. The Group canceled the shares and reduced the issued share capital accordingly in 2013. At the AGM on May 4, 2012, the shareholders approved the cancelation of 4,431,075 issued shares, which were acquired via the SRP I at an average purchase price of CHF 37.06. The Group canceled the shares and reduced the issued share capital accordingly in 2012.

Treasury shares bought on the first trading line

At December 31, 2013, the Group held total 3,000,000 treasury shares mainly acquired on the first trading line on the SIX Swiss Exchange (December 31, 2012: 8,770,205) at an average price of CHF 64.50 (December 31, 2012: CHF 56.99). For the twelve months ended December 31, 2013, the Group acquired 1,575,382 treasury shares via the first trading line at an average price of CHF 73.30. These purchases were carried out independently of the SRP II. During 2013, the Group also sold 1,909,088 treasury shares to a major US-based healthcare investor for a consideration of CHF 96.7 million. Further, members of the Board of Directors received 16,361 treasury shares acquired at an average price of CHF 57.21 as compensation. In addition, during 2013, the Group used 5,969,340 treasury shares acquired at an average price of CHF 58.57 to offset the effect of option exercises and RSU vestings by its employees.

Dividends

The AGM on April 18, 2013, approved a cash dividend for 2012 of CHF 1 per share. Based on this approval, the Group distributed gross dividends of CHF 113.3 million to its shareholders (2012: 93.7 million).

The Board of Directors will propose a cash dividend for 2014 of CHF 1.20 per share to the shareholders at the AGM on May 8, 2014. The distribution is subject to shareholders' approval at the AGM.

NOTE 20. STOCK-BASED COMPENSATION

Share-based payment arrangements ("SBPA")

The Group has several share-based payment plans for employees and members of the Board of Directors. The Board regularly reviews the allocation and conditions of the various SPBA of the Group. As a result of these reviews, in 2013, the standard share options plans have been discontinued, a new performance share plan has been introduced and the deferred profit sharing plan of senior management has been replaced by a new share-based award.

Total compensation costs recognized in the consolidated financial statements with respect to Group's SPBA were CHF 49.6 million in 2013 (2012: CHF 46.6 million). Total related tax benefits of CHF 7.5 million were recognized in 2013, of which CHF 4.3 million were provided for (See Note 5. Income taxes). Total related tax benefits of CHF 9.2 million were recognized in 2012, of which CHF 5.9 million were provided for.

Ongoing share-based payment arrangements

Performance Share Plan ("PSP")

In 2013, the Group initiated a new stock-based compensation award – the Performance Share Plan ("the PSP"). Under the PSP, the Group allocates annually performance stock units ("PSUs") of its publicly traded shares to selected employees, who are employed with the Group at the grant date. The PSUs are subject to a relative Total Shareholder Return ("TSR") market condition which compares the Group's TSR with the performance of forty large and mid cap, national and international, pharmaceutical and biotechnology companies. PSUs granted under the PSP will vest prorated and be converted into the Group's shares in a range of 25%-100% on the third anniversary of the grant date if the Group outperforms the TSR peer group median.

The following assumptions have been applied in the valuation model:

	For the twelve months ended December 31, 2013
Expected term	3 years
Interest rate	0.69%
Expected volatility	30.45%
Expected dividend yield	1.94%

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

	2013	
	PSUs	**Grant date fair value**
Outstanding, beginning of year		
Granted	771,876	28.56
Forfeited	(20,346)	28.56
Outstanding, end of year	**751,530**	**28.56**
Exercisable, end of year	-	-

The Group recorded stock-based compensation expense for the PSP of CHF 4.9 million for the year ended December 31, 2013. As of December 31, 2013, total unrecognized compensation costs related to non-vested PSUs amount to CHF 14.7 million. These costs are expected to be recognized over a weighted-average period of 1.25 years, which corresponds to a not weighted remaining vesting period of 2.25 years. The weighted-average exercise price of PSUs granted, outstanding and forfeited is zero. The aggregate intrinsic value of non-vested PSUs amounts to CHF 56.6 million as of December 31, 2013.

Employee Share Plan ("ESP") and Restricted Stock Plan ("RSP")

In 2009, the Group introduced a stock-based compensation award – the Employee Share Plan ("the ESP"). Following a review of the Board of Directors, in 2013, the conditions of the ESP were revised to include a clawback provision and the plan was renamed to Restricted Stock Plan ("the RSP"). Under both the ESP and the RSP, the Group allocates restricted stock units ("RSUs") of its publicly traded shares to permanent employees in addition to other stock-based awards distributed under the various SBPA of the Group. An RSU corresponds to a right of one Group share. RSUs granted under the ESP and under the RSP vest on the third anniversary of the grant date.

The following assumptions have been applied in the valuation of the RSUs:

	For the twelve months ended December 31, 2013	2012
Expected term	3 years	3 years
Interest rate	0.01%-0.09%	0.02%-0.31%
Expected dividend yield	1.73%	2.01%

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

	2013		2012	
	RSU	**Weighted-average grant date fair values**	**RSU**	**Weighted-average grant date fair values**
Outstanding, beginning of year	**2,626,631**	**41.88**	**2,082,809**	**49.57**
Granted	556,283	48.98	1,144,055	32.08
Forfeited	(202,581)	41.91	(181,190)	44.77
Vested	(530,966)	47.94	(419,043)	52.14
Outstanding, end of year	**2,449,367**	**42.17**	**2,626,631**	**41.88**
Exercisable, end of year	-	-	-	-

For the twelve months ended December 31, 2013, 530,966 RSUs vested under the ESP (2012: 419,043 RSUs) and the corresponding number of treasury shares has been transferred to the eligible employees (See Note 19. Shareholders' equity). The weighted-average exercise price of RSUs granted, outstanding and forfeited is zero. Total fair value of RSUs vested and converted into shares amounted to CHF 25.5 million for twelve months ended December 31, 2013 (December 31, 2012: CHF 21.9 million). Total intrinsic value of RSUs vested and converted into shares amounted to CHF 27.2 million during the years ended December 31, 2013 (December 31, 2012: CHF 13.7 million). The aggregate intrinsic value of non-vested RSUs amounts to CHF 184.6 million as of December 31, 2013.

The Group recorded stock-based compensation expense for the ESP and for the RSP of CHF 33.5 million for the year ended December 31, 2013 (December 31, 2012: CHF 29.4 million). 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, 2013, total unrecognized compensation costs related to non-vested RSUs amount to CHF 33.7 million. These costs are expected to be recognized over a weighted-average period of 0.98 years.

The Deferred Equity Bonus ("the DEB")

In 2013, the Group introduced a new stock-based compensation award for senior management – the Deferred Equity Bonus ("the DEB"), which replaced a previously existing deferred cash profit sharing bonus paid out to senior executives of the Group. The DEB represents a performance driven incentive plan based on two performance criteria which strictly relate to the Group's performance in the area of revenues and earnings for the year of measurement. If both performance conditions are met in the year of measurement, the Group will allocate RSUs to selected key employees as of April 1, following the year of measurement. 50% of the allocated RSUs will vest and be converted into shares 1 year after the grant date. The remaining 50% of the allocated RSUs will vest and be converted into shares 2 years after the grant date. For the twelve months ended December 31, 2013, the performance conditions were met and the Group will distribute the corresponding number of RSUs to the eligible key employees on April 1, 2014. Total compensation costs recognized in the consolidated financial statements as of December 31, 2013, amount to CHF 7.8 million. Total unrecognized compensation expense amounts to CHF 13 million as of December 31, 2013. These costs are expected to be recognized over a weighted-average period of 0.94 years, which corresponds to a not weighted remaining vesting period of 1.75 years.

In addition, the Group has a cash compensation plan which provides cash benefits to certain employees in a foreign subsidiary of the Group. The cash plan is immaterial to the Group. Its payout scheme corresponds to the vesting conditions of the ESP and the RSP except for the settlement provisions. Due to forfeitures total compensation costs recognized in conjunction with this liability plan resulted in a net release of stock-based expense of CHF 0.4 million for the year ended December 31, 2013. Total compensation costs, net of releases recognized in conjunction with this plan amounted to CHF 0.3 million for the twelve months ended December 31, 2012. During 2013 the Group paid CHF 0.4 million (2012: CHF 0.1 million) to the eligible employees in relation to this plan.

At December 31, 2013, 8,678,375 conditional shares were available for grant of future share based awards under the Group's SBPA. In 2013 and 2012, no additional conditional capital has been approved to be used in connection with SBPA and similar stock-based compensation awards.

Discontinued share-based payment arrangements

Standard Share Option Plans ("SSOP")

Until 2013, the Group operated an employee share option plan ("ESOP") and a directors' share option plan ("DSOP"). Following a review by the Board of Directors, in 2013, both plans have been discontinued. Options granted until March 31, 2009, generally vested over a four-year period with 25% of the options becoming exercisable each year. Options granted since April 1, 2009, generally vested and become exercisable three years after the grant date. Standard share options granted to members of the Board of Directors out of the DSOP vested 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 assumptions have been applied in the valuation model:

	For the twelve months ended December 31, 2012
Expected term	4 years
Interest rate	0.68%
Expected volatility	39.10%
Expected dividend yield	2.35%

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

	2013		2012	
	Share options	Weighted-average exercise price	Share options	Weighted-average exercise price
Outstanding, beginning of year	**11,001,657**	**47.48**	**12,591,801**	**45.86**
Granted	-	-	152,246	36.66
Forfeited	(548,607)	53.63	(716,785)	52.88
Exercised	(3,756,530)	46.05	(1,025,605)	22.12
Outstanding, end of year	**6,696,520**	**47.78**	**11,001,657**	**47.48**
Exercisable, end of year	6,327,164	-	8,839,558	-

During 2013, the Group provided 5,438,071 treasury shares (during 2012: 285,854 treasury shares) in exchange for option exercises (See Note 19. Shareholders' equity).

The following is a summary of options outstanding and exercisable under the SSOP at December 31, 2013:

	Share options outstanding			Share options exercisable		
Range of exercise prices	Share options outstanding	Weighted-av. remaining contractual life in years	Weighted-av. exercise price	Share options exercisable	Weighted-av. remaining contractual life in years	Weighted-av. exercise price
11.80 – 25.00	65,711	0.52	21.50	65,711	0.52	21.50
25.01 – 40.00	1,216,751	2.83	27.76	1,121,036	2.34	27.23
40.01 – 55.00	3,971,626	5.81	51.05	3,697,985	5.66	51.21
55.01 – 65.00	1,442,432	3.91	56.88	1,442,432	3.91	56.88
Total	**6,696,520**	**-**	**-**	**6,327,164**	**-**	**-**

The Group recorded stock-based compensation expense for the SSOP of CHF 3.8 million for the year ended December 31, 2013 (December 31, 2012: CHF 17 million). 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 year ended December 31, 2013, was CHF 65.2 million (December 31, 2012: CHF 17.2 million). The aggregate intrinsic value of options outstanding at December 31, 2013, was CHF 184.6 million. The aggregate intrinsic value of options exercisable at December 31, 2013, was CHF 173.4 million. The fair value of options vested was CHF 29.7 million in 2013 (2012: CHF 41.7 million). There were no expirations during the twelve months ended December 31, 2013. 2,420 options with a weighted-average exercise price of CHF 10.61 expired during the twelve months ended December 31, 2012. The weighted-average grant date fair value of options granted during the year ended December 31, 2012, was CHF 11.27.

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

	2013	
	Share options	Weighted-average grant date fair values
Outstanding non-vested, beginning of year	**2,162,099**	**16.93**
Forfeited	(100,717)	16.91
Vested	(1,692,026)	17.54
Outstanding non-vested, end of year	**369,356**	**14.13**

As of December 31, 2013, there was CHF 0.8 million of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a weighted-average period of 0.65 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:

	2013	2012
	Share options	Share options
Outstanding, beginning of year	**4,768,276**	**5,222,277**
Forfeited	(451,350)	(454,001)
Exercised	(1,681,541)	-
Outstanding, end of year	**2,635,385**	**4,768,276**
Exercisable, end of year	2,635,385	4,768,276

Weighted-average remaining contractual life for options outstanding and exercisable at December 31, 2013, is 1.76 years. The total intrinsic value of options exercised during the year ended December 31, 2013, was CHF 18.3 million (December 31, 2012: 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, 2013 was CHF 47.8 million.

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, 2013 and 2012, respectively:

	Accumulated OCI (loss), net of tax				
	January 1, 2013	**Changes arising during period**	**Reclassification or amortization through net income**	**Translation effects**	**December 31, 2013**
Foreign currency translation adjustments[1]	(166,031)	(3,495)	-	(728)	(170,254)
Not recognized components of net periodic benefit costs[2]	(33,032)	10,242	971	728	(21,091)
Total accumulated OCI (loss)	**(199,063)**	**6,747**	**971**	**-**	**(191,345)**

	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[3]	(27,164)	(6,453)	455	130	(33,032)
Total accumulated OCI (loss)	**(194,888)**	**(4,630)**	**455**	**-**	**(199,063)**

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

[2] Relates to the amortization of actuarial (gains) losses on the Group's defined benefit plans – See Note 18. Pension Plans. The amounts disclosed exclude income taxes amounting to CHF 2.5 million and CHF 1.5 million on January 1, and December 31, 2013, respectively.

[3] Relates to the amortization of actuarial (gains) losses on the Group's defined benefit plans – See Note 18. Pension Plans. The amounts disclosed exclude income taxes amounting to CHF 2.1 million and CHF 2.5 million on January 1, and December 31, 2012, respectively.

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, 2013, in a range from A to AAA. Some of these are also 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, 2013, two financial institutions with a rating A accounted for 99% of the short-term deposits of the Group. In addition, cash and investments pledged as collateral in conjunction with the Asahi litigation has been restricted with financial institutions with S&P ratings in a range of A to AA-. 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, 2013.

For each of the years ended December 31, 2013 and 2012, one distributor accounted for approximately 23% of total sales. At December 31, 2013, CHF 20.4 million (USD 22.9 million) of trade accounts receivable related to this distributor. At December 31, 2012, CHF 23.8 million (USD 26 million) 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, 2013, EUR 129 million (CHF 158.4 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 33.8 million are overdue for more than 365 days.

Taking into consideration the economic downturn 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 steady cash collection activities during the current reporting period, the Group adjusted its allowance for doubtful accounts and as of December 31, 2013, provided for EUR 4.3 million (CHF 5.3 million) related to the outstanding public sector receivables in Southern European countries (December 31, 2012: EUR 13.1 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, 2013, one supplier accounted for approximately 35% of total purchases (December 31, 2012:approximately 23% 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 Financial Statements").

NOTE 23.
SEGMENT AND GEOGRAPHIC INFORMATION

The Group operates in one segment of discovering, developing and commercializing drugs for unmet medical needs. The Group currently derives product revenue from sales of Tracleer® (bosentan), Zavesca® (miglustat), Ventavis® (iloprost), Veletri® (epoprostenol for injection), Valchlor™ and Opsumit® (macitentan). 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, 2013					
Product revenue from external customers	27,514	767,960	632,062	356,662	**1,784,198**
Contract revenue from external customers	1,542	-	-	-	**1,542**
Property, plant and equipment	346,500	30,597	1,292	2,703	**381,092**
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**

NOTE 24.
RELATED PARTY TRANSACTIONS

During 2013, the Group did not enter into any material related party transactions with companies where Actelion's Board members held a Board seat. 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. As of December 31, 2013 and 2012, outstanding receivables from or payables to related parties were not material. In addition, the Group leases certain assets from related parties. The total lease payments in 2013 and 2012 were not material to the Group.

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

NOTE 25.
SUBSEQUENT EVENTS

The Group has evaluated subsequent events through February 7, 2014. 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, 2013. 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, 2013, 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 Financial Report on pages 62 to 63.

Dr. Jean-Paul Clozel
CEO

André C. Muller
CFO

Allschwil, February 7, 2014

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 31 December 2013, 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 31 December 2013, based on the COSO criteria.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards, and with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Actelion Ltd and our report dated 7 February 2014, expressed an unqualified opinion thereon.

Ernst & Young AG

Pramit Mehta
Licensed Audit Expert
(Auditor in charge)

Siro Bonetti
Licensed Audit Expert

Basel, 7 February 2014

REPORT OF THE STATUTORY AUDITOR 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, 2013 and December 31, 2012, and the related consolidated income statements, statements of comprehensive income, statements of cash flows, statements of changes in shareholders' equity, and notes thereto (pages 14 to 60), 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, 2013 and December 31, 2012, 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 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, 2013, 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 7, 2014 expressed an unqualified opinion on the effectiveness of Actelion Ltd's internal control over financial reporting.

Ernst & Young AG

Pramit Mehta	Siro Bonetti
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Basel, February 7, 2014

HOLDING COMPANY STATEMENTS

HOLDING COMPANY FINANCIAL STATEMENTS

BALANCE SHEETS

(in CHF thousands, except number of shares)	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		40,025	304,844
Restricted cash for litigation	6	390,000	-
Prepayments and accrued income		299	814
Other receivables		2,201	2,232
Other receivables with Group companies		746,287	775,523
Total current assets		**1,178,812**	**1,083,413**
Non-current assets			
Restricted cash for litigation	6	-	368,740
Investments in subsidiaries		634,011	606,594
Treasury shares	7	543,285	257,560
Long-term loans to subsidiaries		448,660	717,880
Long-term financial assets		4,536	4,536
Total non-current assets		**1,630,492**	**1,955,310**
Total assets		**2,809,304**	**3,038,723**
Liabilities and shareholders' equity			
Current liabilities			
Trade and other payables		-	16,851
Trade and other payables with Group companies		242	112,490
Accrued expenses		3,336	2,903
Other current liabilities	8	33,040	-
Total current liabilities		**36,618**	**132,244**
Non-current liabilities			
Long-term financial debt	9	235,000	235,000
Other non-current liabilities	8	2,704	31,216
Total non-current liabilities		**237,704**	**266,216**
Total liabilities		**274,322**	**398,460**
Shareholders' equity			
Common shares (par value CHF 0.50 per share, authorized 173,901,764 and 180,850,214 shares; issued 120,275,927 and 126,773,027 shares in 2013 and 2012, respectively)	5	60,138	63,387
General legal reserve:			
Capital contribution reserve	4	731,379	844,676
Other legal reserve		40,110	40,110
Treasury shares reserve	7	542,558	718,984
Accumulated profit		1,160,797	973,106
Total shareholders' equity		**2,534,982**	**2,640,263**
Total liabilities and shareholders' equity		**2,809,304**	**3,038,723**

INCOME STATEMENTS

	Twelve months ended December 31,	
(in CHF thousands)	2013	2012
Financial income	585,879	517,096
Total income	**585,879**	**517,096**
Administrative expense	(7,607)	(6,750)
Valuation adjustment investments	(247,546)	(98,752)
Financial expense	(35,942)	(61,790)
Total expense	**(291,095)**	**(167,292)**
Income before taxes	**294,784**	**349,804**
Income taxes	-	(438)
Income after taxes (net income)	**294,784**	**349,366**

NOTES TO THE HOLDING COMPANY FINANCIAL STATEMENTS

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 2013, the Company changed the presentation of the compensation and shareholdings of the members of the Board of Directors ("BoD"), Actelion Executive Committee ("AEC") and of the highest total compensation. To ensure comparability, 2012 numbers have been correspondingly adjusted in the relevant tables in Note 12. Compensation and shareholdings of the members of the Board of Directors and AEC.

3. MATERIAL INVESTMENTS

Company	Country	Location	Ownership interest	Consolida-tion 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	Cherry Hill, NJ	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
Actelion US Holding Co.	United States	Wilmington, DE	100%	Full	US Holding	USD 1
CoTherix Inc.	United States	San Francisco	100%	Full	Sales	USD 1
Ceptaris Therapeutics, Inc.	United States	Wilmington, DE	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, 2013, the issued share capital amounts to CHF 60,137,964 (2012: CHF 63,386,514) consisting of 120'275'927 (2012: 126'773'027) common shares with a nominal value of CHF 0.5 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. The amount of the capital contribution reserve is subject to ongoing re-assessment and discussions with the Swiss tax authorities. As of December 31, 2013, CHF 699.6 million of the total amount disclosed are recognized by the Swiss federal tax authorities (2012: CHF 815.7 million). Consequently, any dividend distribution made out of the recognized portion 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 in after December 31, 1996 and recognized by the Swiss federal tax authorities qualify for the tax exemption.

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, 2013, the Group had conditional capital of CHF 26.8 million of which CHF 10.6 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, 2012	**27,636**
Forfeited Challenge Award options	(227)
Exercise of options	(370)
December 31, 2012	**27,039**
Forfeited Challenge Award options	(226)
Exercise of options	-
December 31, 2013	**26,813**

6. RESTRICTED CASH FOR LITIGATION

In January 2012, in conjunction with the Asahi litigation, certain insurance companies issued USD 623.6 million in surety bonds on behalf of the Company and its subsidiaries 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 the audited consolidated financial statements for the twelve months ended December 31, 2013. In return, the Company and its subsidiaries were required to pledge cash or investments to secure the surety bonds. As of December 31, 2013, the Company had pledged CHF 390 million in cash as collateral (2012: USD 250 million and CHF 140 million). Because a resolution of the case is expected within the next twelve months, all restricted amounts which have been previously disclosed as non-current restricted cash for litigation have been recorded within current assets in the balance sheet at December 31, 2013. The amount of collateral required could change depending on the progress of the litigation 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.

7. TREASURY SHARES

At December 31, 2013, the Company held 9,147,500 treasury shares including those acquired via the share repurchase programs (2012: 13,842,305). The average purchase price of all treasury shares held amounts to CHF 59.31 (2012: CHF 51.94).

The Company provides treasury shares in exchange for restricted stock units ("RSUs") or option rights which vest or are exercised in accordance with the conditions of the Company's share-based payment plans (See Note 20. Stock-based compensation in the audited consolidated financial statements for the twelve months ended December 31, 2013). Except for the shares acquired through the first Share Repurchase Program ("SRP I"), the Company intends to further use the repurchased stock to satisfy its commitments arising out of its stock-based compensation programs or to offset dilution caused by the issuance of shares related to the Company's share-based payment plans, whichever is applicable.

Treasury shares acquired via the SRP I

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 was carried out via a second trading line on the SIX Swiss Exchange, was completed in August 2013. As at December 31, 2013, the Company held total 6,147,500 treasury shares acquired at an average price of CHF 56.78 through the SRP I (2012: 5,072,100 treasury shares at an average price of CHF 43.21).

At the AGM on April 18, 2013, the shareholders approved the cancellation of 6,497,100 issued shares, which were acquired via the SRP I at an average purchase price of CHF 44.14. The Company canceled the shares and reduced the issued share capital accordingly in 2013. At the AGM on May 4, 2012, the shareholders approved the cancelation of 4,431,075 issued shares, which were acquired via the SRP I at an average purchase price of CHF 37.06. The Company canceled the shares and reduced the issued share capital accordingly in 2012.

Treasury shares acquired via the SRP II

On December 5, 2013, the Company announced the repurchase of up to 10 million shares of its common stock over the period of three years. The buyback is carried out via the first trading line on the SIX Swiss Exchange. The repurchased shares will be used to service the Company's commitments arising out of its various stock-based compensation programs thus compensating for a potential dilution as a result of the share ownership schemes. Since inception of the second share buyback and up to December 31, 2013, the Company acquired 549,202 treasury shares through the SRP II at an average price of CHF 70.70.

Treasury shares bought on the first trading line

At December 31, 2013, the Company held 3,000,000 treasury shares acquired on the first trading line on the SIX Swiss Exchange (2012: 8,770,205) at an average price of CHF 64.50 (2012: CHF 56.99). For the twelve months ended December 31, 2013, the Company acquired 1,575,382 treasury shares via the first trading line at an average price of CHF 73.30. These purchases were carried out independently of the SRPII. During 2013, a subsidiary of the Company also sold 1,909,088 treasury shares to a major US-based healthcare investor for a consideration of CHF 96.7 million. Further, members of the Board of Directors received 16,361 treasury shares acquired at an average price of CHF 57.21 as compensation (2012: 20,429 treasury shares acquired at an average price of CHF 54.26). In addition, during 2013, the Company used 5,969,340 treasury shares acquired at an average price of CHF 58.57 to offset the effect of option exercises and RSU vestings by its employees. The treasury shares are considered as long-term investment and therefore valued at the lower of cost or market.

8. OTHER CURRENT AND NON-CURRENT LIABILITIES

The other current liabilities balance of CHF 33 million as of December 31, 2013, relates to punitive damages awarded to Asahi by the State Court in California, US, and accrued interest thereon. Because a resolution of the case is expected within the next twelve months, CHF 31.2 million previously disclosed as non-current liabilities have been reclassified within current liabilities in the Company's balance sheet as of December 31, 2013. Note 17. Commitments, contingencies and guarantees in the audited consolidated financial statements for the twelve months ended December 31, 2013, provides further information on the current status of the litigation procedures.

9. 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, 2013, provides further details on the terms and conditions of the 2011 bond.

10. GUARANTEES AND COMMITMENTS

In 2013, the Company has decreased the first demand guarantee to Deutsche Bank Mortgage Capital, USA, for securing the rent obligations of Actelion Clinical Research, USA, from USD 3,527,749 to USD 2,347,369.

In order to secure its obligations from derivative trading, cash pooling, overdraft facilities and forward transactions in foreign currencies, in 2013 the Company has issued or renewed guarantees and a letter of indemnity to various financial institutions in the total amount of CHF 75.6 million. In addition, the Company carries a joint obligation with a subsidiary to financial institutions to secure lines of credit amounting to CHF 15 million in total. As of December 31, 2013, these credit facilities have been utilized for the issuance of letters of credit in the total amount of CHF 0.5 million.

Furthermore, the Company guarantees financial support to operating entities to meet their financial obligations in the total amount of CHF 4.9 million (2012: CHF 8.6 million).

In addition, as of December 31, 2013, other guarantees in the amount of CHF 458,776 (2012: CHF 559,559) 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.

11. SIGNIFICANT SHAREHOLDERS

According to the information available to the Board of Directors the following shareholders held above three percent of the Company's issued shares:

	2013		2013		2012		2012	
	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	>3%	>3%	<3%	-	>5%	>5%	<3%	-
Actelion Ltd [2]	>5%	>5%	-	>10%	>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]	>3%	>3%	-	-	>5%	>5%	-	-
BlackRock, Inc.[1]	>5%	>5%	-	-	>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 first and second trading lines and outstanding employee stock-based compensation awards.

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

Presentation and measurement principles for compensation disclosure

Base salary, pension and social security contributions and allowances are disclosed as paid out in the year of reference. Cash bonus as disclosed is based on pre-defined targets, accrued in the respective reporting period, re-measured and paid out in the following year based on actual achievement. 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. Deferred equity bonus as disclosed is based on pre-defined targets, accrued in the respective period, measured and granted in the form of restricted stock units in the following year based on actual achievement. Stock-based awards are disclosed at the grant date fair value.

Compensation Board of Directors

In 2013 and 2012, the non-executive members of the Board of Directors were awarded the following compensation (in CHF):

Name	Year	Functions	Cash compensation	Stock-based awards[1]	Total annual compensation/ benefits earned[2]
Jean-Pierre Garnier	2013	Chairman Member of the Compensation Committee Member of the Nominating & Governance Committee	168,000	152,099	320,099
	2012	Chairman Member of the Compensation Committee Member of the Nominating & Governance Committee	84,000	168,082	252,082
Robert E. Cawthorn	2012	Member (until May 4, 2012)	11,000	-	11,000
Juhani Anttila	2013	Member Member of the Finance & Audit Committee	212,000	-	212,000
	2012	Member Member of the Finance & Audit Committee	168,000	-	168,000
Robert J. Bertolini	2013	Member Member of the Finance & Audit Committee	106,000	106,154	212,154
	2012	Member Member of the Finance & Audit Committee	88,500	79,547	168,047
Carl Feldbaum	2013	Member Chairman of the Nominating & Governance Committee	135,788	77,382	213,170
	2012	Member Chairman of the Nominating & Governance Committee	56,925	111,901	168,826
John J. Greisch	2013	Member (since April 18, 2013) Member of the Compensation Committee Member of the Nominating & Governance Committee	60,750	141,804	202,554
Peter Gruss	2013	Member Member of the Nominating & Governance Committee	78,975	140,842	219,817
	2012	Member Member of the Nominating & Governance Committee	104,875	126,071	230,946
Werner Henrich	2013	Member Member of the Compensation Committee	182,875	26,140	209,015
	2012	Member Member of the Compensation Committee	86,375	78,457	164,832
Michael Jacobi	2013	Member Chairman of the Finance & Audit Committee	203,500	18,534	222,034
	2012	Member Chairman of the Finance & Audit Committee	120,000	55,548	175,548
Armin Kessler	2013	Member Chairman of the Compensation Committee Member of the Nominating & Governance Committee	66,900	156,214	223,114
	2012	Member Chairman of the Compensation Committee Member of the Nominating & Governance Committee	61,175	117,145	178,320
Jean Malo	2013	Member Member of the Finance & Audit Committee	63,600	148,441	212,041
	2012	Member Member of the Finance & Audit Committee	56,700	111,393	168,093
Jean-Paul Clozel		CEO and Delegate of the Board	See Section "Highest total compensation"		
2013 Total (excl. Jean-Paul Clozel)			**1,278,388**	**967,610**	**2,245,998**
2012 Total (excl. Jean-Paul Clozel)			**837,550**	**848,144**	**1,685,694**

[1] 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 has been determined based on the share price at grant date.

[2] Excludes social security contributions of CHF 85,865 and CHF 35,287 in 2013 and 2012, respectively, due to the fact that the Group has been exempted from the obligation to provide such contributions for the majority of the Group's non-executive directors. To ensure comparability, the numbers disclosed in the audited Holding Company Financial Statements for the twelve months ended December 31, 2012, have been correspondingly adjusted to exclude CHF 35,287 in total of social security contributions related to the compensation of the Board of Directors.

Highest total compensation and AEC compensation

Only members of the 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.

Highest total compensation

In 2013 and 2012, Jean-Paul Clozel, Chief Executive Officer and member of the Board of Directors, was the highest paid executive. The compensation outlined below relates to both functions.

Compensation elements	2013	2012
Base salary	1,130,721	1,108,550
Allowances[1]	3,047	320
Bonus	1,469,937	1,408,968
Deferred equity bonus (2013) / Deferred profit sharing (2012)	1,910,918	1,108,550
Total cash compensation	**4,514,623**	**3,626,388**
Options (ESOP)[2]	-	652,796
Restricted stock units (ESP/ RSP)[3]	692,675	539,597
Performance stock units (PSP)[4]	813,103	-
Total direct compensation	**6,020,401**	**4,818,781**
Pension contributions	198,733	190,991
Social security contributions	136,714	171,151
Total highest compensation	**6,355,848**	**5,180,923**

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

[2] The Company had an employee share option plan ("ESOP"), which has been discontinued in 2013. The fair value of the options allocated under the ESOP was estimated by the use of a Binomial Lattice option pricing model. Note 20. Stock-based compensation in the audited consolidated financial statements provides details on the ESOP conditions and valuation.

[3] The Company has an employee share plan ("ESP"), which has been renamed in restricted stock plan ("RSP") in 2013. Under the ESP/ RSP the Company allocates restricted stock units ("RSUs") which correspond to a right of one Company share. Note 20. Stock-based compensation in the audited consolidated financial statements provides details on the ESP/ RSP conditions and valuation.

[4] The Company has a performance share plan ("PSP"), which allocates performance share units ("PSUs") to its employees. The fair value of the PSUs allocated under the PSP was estimated by the use of a Monte-Carlo pricing model. Note 20. Stock-based compensation in the audited consolidated financial statements provides details on the PSP conditions and valuation.

AEC compensation

In 2013 and 2012, the AEC members (including the highest paid executive) were awarded the following compensation:

Compensation elements	2013	2012
Base salary	3,333,691	3,139,350
Allowances	92,996	64,671
Bonus	3,877,583	3,803,341
Deferred equity bonus (2013) / Deferred profit sharing (2012)	3,969,898	2,925,665
Total cash compensation	**11,274,168**	**9,933,027**
Options (ESOP)	-	652,796
Restricted stock units (ESP/ RSP)	1,991,213	2,401,354
Performance stock units (PSP)	2,057,691	-
Total direct compensation	**15,323,072**	**12,987,177**
Pension contributions	476,273	492,855
Social security contributions	557,487	590,848
Total AEC compensation[1]	**16,356,832**	**14,070,880**

[1] In 2013, Compensation of former and leaving members of the AEC is fully disclosed for the last year of service of the respective member.

Long-term incentives summary AEC

The following table sets out the stock-based awards provided to the members of the AEC (including the highest paid executive) under the various schemes operated by the Company. The amounts disclosed below are also included in the summary tables above.

	2013		2012	
Type of award[1]	**Quantity**	**Grant date fair value**	**Quantity**	**Grant date fair value**
Options (ESOP)	-	-	53,333	12.24
Restricted stock units (ESP/ RSP)	39,915	49.89	72,529	33.11
Performance stock units (PSP)	72,048	28.56	-	-

[1] In 2013, long-term incentives provided to former and leaving members of the AEC are fully disclosed for the last year of service of the respective member.

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 2013 and 2012. No such loans were outstanding as of December 31, 2013 and 2012.

Other payments

During 2013 and 2012, 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 2013 and 2012, no payments (or waivers of claims) other than those set out above were made to former members of the Board of Directors, of the AEC 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 held by the members of the Board of Directors

The members of the BoD held the following equity instruments as of December 31, 2013 and 2012:

		Number of shares		Number of options	
Name	**Functions**	**2013**	**2012**	**2013**	**2012**
Jean -Pierre Garnier	Chairman Member of the Compensation Committee Member of the Nominating & Governance Committee	15,113	12,470	-	-
Robert E. Cawthorn[1]	Member (until May 4, 2012)	-	507,552	-	75,795
Juhani Anttila	Member Member of the Finance & Audit Committee	3,000	-	-	10,000
Robert E. Bertolini	Member Member of the Finance & Audit Committee	3,673	1,896	12,696	12,696
Carl Feldbaum	Member Chairman of the Nominating & Governance Committee	4,059	4,767	34,498	44,888
John J. Greisch	Member (since April 18, 2013) Member of the Compensation Committee Member of the Nominating & Governance Committee	2,177	-	-	-
Peter Gruss	Member (since May 4, 2012) Member of the Nominating & Governance Committee	5,563	3,219	2,654	2,654
Werner Henrich	Member Member of the Compensation Committee	22,654	22,111	15,016	15,016
Michael Jacobi	Member Chairman of the Finance & Audit Committee	5,570	5,185	-	24,888

		Number of shares		Number of options	
Name	**Functions**	**2013**	**2012**	**2013**	**2012**
Armin Kessler	Member Chairman of the Compensation Committee Member of the Nominating & Governance Committee	42,793	40,178	15,000	15,000
Jean Malo	Member Member of the Finance & Audit Committee	12,258	9,773	52,410	52,410
Jean-Paul Clozel	CEO and Delegate of the Board	See table "Investments held by the members of the AEC"			
Total		**116,860**	**607,151**	**132,274**	**253,347**

[1] Including related parties. Investments held by former members of the BoD are only disclosed for the last year of service of the respective member.

Since 2012 the Company has share ownership guidelines in place for the non-executive members of the BoD. 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 other 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 directors' share option plan ("DSOP"), which was discontinued in 2012, 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 held by the members of the AEC

The members of the AEC held the following equity instruments as of December 31, 2013 and 2012:

		Number of shares		Number of options		Number of RSUs		Number of PSUs
Name	**Functions**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**
Jean-Paul Clozel[1]	Chief Executive Officer	5,281,544	5,262,883	1,088,670	1,088,670	55,104	41,353	40,402
Guy Braunstein	Head of Clinical Development	8,120	1,670	59,350	59,350	39,972	40,456	11,932
Nicholas Franco	Chief Business Development Officer	-	-	21,600	21,600	20,180	16,289	7,782
André C. Muller	Chief Financial Officer (since September 1, 2013)	-	-	-	-	3,891	-	-
Otto Schwarz	Chief Operating Officer	2,175	2,500	61,475	96,475	33,328	37,037	11,932
Andrew J. Oakley	Chief Financial Officer (until August 31, 2013)	-	52,461	-	152,950	40,364	40,848	11,932
Total		**5,291,839**	**5,319,514**	**1,231,095**	**1,419,045**	**192,839**	**175,983**	**83,980**

[1] Including related parties. Investments held by former members of the AEC are only disclosed for the last year of service of the respective member.

13. 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

	2013	**2012**
Retained earnings at beginning of the year	**973,106**	**786,364**
Transfer from capital contribution reserve to accumulated profit	113,297	93,686
Dividend payment	(113,297)	(93,686)
Transfer to treasury shares reserve	(107,093)	(162,624)
Net income for the year	294,784	349,366
Total accumulated profit	**1,160,797**	**973,106**
Transfer from capital contribution reserve to accumulated profit	136,126	112,931
Total available earnings	**1,296,923**	**1,086,037**
Dividend to be paid based on shares outstanding (for 2013: CHF 1.20 per share; for 2012: CHF 1 per share)	(133,354)	(112,931)
Balance to be carried forward	**1,163,569**	**973,106**

The gross dividend of CHF 133.4 million is to be distributed out of the capital contribution reserve recognized by the Swiss federal tax authorities.