

## Strengthening the base



**Andrew J. Oakley**  
Chief Financial Officer

### **Dear Shareholders,**

The year 2006 has been very successful. Our financial performance can only be described as outstanding. At the same time, we have made the necessary investments into marketed products, development pipeline, research projects, infrastructure and Human Resources to strengthen the base necessary to facilitate long-term, above-industry average growth.

The 2006 operating income of CHF 268.2 million and a net income of CHF 241.1 million compares to an operating income for 2005 of CHF 152.3 million and a net income of CHF 125.5 million. In 2006, Actelion achieved a (non-US GAAP) cash EBIT of CHF 320.4 million, which compares to CHF 178.6 million in 2005.

### **Tracleer® continues its growth trajectory**

Net revenues for 2006 totaled CHF 945.7 million, compared to total net revenues in 2005 of CHF 663.6 million, an increase of CHF 282.1 million or 43%. Tracleer® continues to provide the foundation for growth as we build on our position as market leader and continue to strengthen Tracleer® as the cornerstone therapy in pulmonary arterial hypertension (PAH). With no material net price impact in 2006, growth came from a fundamental improvement in the paying patient base. At the end of 2006, Tracleer® was commercially available in more than 30 countries and territories, including all major pharmaceutical markets worldwide.

Zavesca® sales in 2006 – in a market which continues to be dominated by a competitor product providing a different mode of action, i.e. enzyme replacement therapy – continued steadily, with sales increasing to CHF 25.4 million from CHF 14.4 million in 2005. Zavesca® is commercially available in the US and in several markets in the European Union.

Contract revenues were CHF 21.5 million, compared to CHF 16.0 million in 2005. Previously, most of this revenue stemmed from the global collaboration in the field of renin inhibition with Merck & Co, Inc.. During 2006, Actelion received a further milestone payment of USD 7 million from this partner, bringing the total 2006 contract revenue recognition from this effort to CHF 9.1 million. In July 2006, Actelion entered into a global collaboration with Roche in the field of S1P<sub>1</sub> agonism. The first milestone under this agreement was received upon signing and resulted in the cash receipt of USD 75 million and contract revenue recognition in 2006 of CHF 5.6 million.

Overall, we continued to see revenue growth in all markets in which we market our products. In 2006, 46% of our revenues were generated in the United States of America, unchanged from the previous year. As in previous years, we again benefited from a net positive price movement in the US relative to a net negative price movement in Europe. In 2006, we also benefited from an improvement in the US reimbursement environment.

Despite pronounced currency movements throughout 2006, especially as far as the US dollar was concerned, the overall company performance in Swiss francs (+43%) was similar to that in local currencies (+41%).

### **Operating expenses – fully funding future growth**

We announced early in 2006 that we have set ourselves five key priorities to deliver continuous long-term growth. These growth initiatives – strengthening marketed products, expanding and prioritizing our research and development, pursuing external growth, expanding our geographical base and nurturing our corporate culture – determine the priorities with which we invest.

This translated into an increase in operating expenses from CHF 511.3 in 2005 to CHF 677.5 million in 2006, an increase of 33%. We have thereby set the base from which we can continue to grow profitability in absolute terms while investing in our pipeline to deliver innovative products that meet high unmet medical needs.

Overall, this increase in expenses of 33% compares to a growth in revenues of 43%. In local currency terms, operating expenses grew by 32% compared to total revenue growth of 41%.

Cost of sales in 2006 was CHF 90.6 million or approximately 10% of sales revenues. The absolute increase in cost of sales is attributable to the growth in sales revenues from both Tracleer® and Zavesca®. Additionally, the second generation manufacturing process for Tracleer® came on line in 2006, which positively but marginally impacted our gross margin.

Research and Development expenses in 2006 increased to CHF 211.8 million, from CHF 171.5 million, an increase of CHF 40.3 million or 23%.

In the year under review, the company continued to expand the number of clinical projects. Compared to 2005, Actelion's clinical trials recruited 25% more patients. With the opening of Actelion's new Research Center, we expanded our innovation base that discovers first-in-class compounds at a rate rarely observed anywhere else. The R&D spend of 22.4% of total net revenues was below the 25 to 28% the company believes it should currently invest into new product opportunities. This relative underspending was the result of timing issues, with several projects starting to accelerate in 2007.

Marketing and advertising expenses in 2006 increased to CHF 185.5 million from CHF 140.0 million in 2005, an increase of CHF 45.5 million. This increase is the result of Actelion continuing to invest in disease education, the key prerequisite to increase diagnosis and, consequently, product sales.

Selling, general and administrative expenses in 2006 increased to CHF 185.1 million from CHF 132.1 million in 2005, an increase of 40%. Approximately two thirds of this increase was the result of a larger sales force, and the success of this expansion, in turn, resulted in both increased product sales and an increase in sales-related payments.

To support long-term growth, Actelion also continues its investments into support infrastructure, including human resources.

As of 1 July 2005, Actelion adopted – as required under US GAAP – the accounting standard FAS 123R, which resulted in a non-cash charge in 2006 of CHF 32.7 million compared to CHF 13.6 million in 2005. These non-cash expenses will continue to increase, not only as the number of employee's increase but also as a result of the 147% share price increase in 2006.

**Operating income and cash EBIT**

With net revenues growing at a faster rate than operating expenses, operating income for the year was CHF 268.2 million compared to CHF 152.3 million in 2005. This performance is especially satisfying as the company has strengthened the base from which further growth can be generated.

In the future, Actelion expects that the company's results expressed in US-GAAP will be more and more distorted from economic realities by the size of non-cash items mandated by accounting standards. Accordingly, the company has chosen to also express its performance in a non-US GAAP metric, cash EBIT.

This metric is calculated by adding back to operating income non-cash expenses such as depreciation and amortization, IPRD charges and the cost of stock based compensation. In 2006, cash EBIT was CHF 320.4 million compared to CHF 178.6 million in 2005.

**Non-operating income**

Interest income in 2006 amounted to CHF 8.4 million compared to CHF 3.0 million in 2005 and interest expense was CHF 0.2 million, unchanged from 2005. The increase in income is attributable to both enhanced returns and higher amounts of invested cash.

A full year's amortization of debt discount and bond issuance costs in 2006 resulted in a non-cash expense of CHF 8.4 million, compared to CHF 7.8 million in 2005.

Other financial income in 2006 was CHF 10.7 million, compared to a loss of CHF 11.3 million in 2005. This income is mostly due to foreign exchange gains from hedging operations that the company has in place to protect operational cash flows.

Income tax expense in 2006 was CHF 37.7 million, compared to CHF 10.5 million in 2005 mostly due to increased profitability across our operations. In 2005, our tax expense was lower due to the capitalization of tax losses in certain of our affiliate operations.

**Net income and earnings per share**

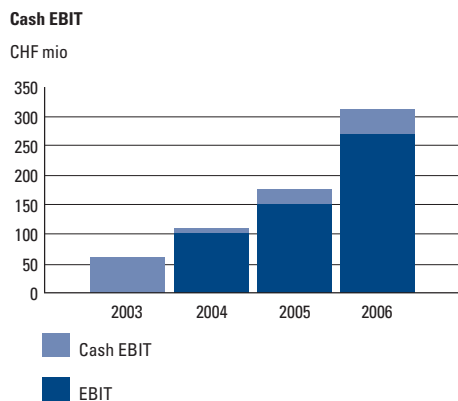
Net income for 2006 was CHF 241.1 million, compared to CHF 125.5 million in 2005. Basic earnings per share increased in 2006 to CHF 10.64 per share compared to CHF 5.62 in 2005. On a fully diluted basis, earnings per share in 2006 were CHF 10.25, despite a significant increase in the number of shares used in the calculation.

**Balance sheet – improved working capital management**

With a strong operational performance in terms of net income and careful management of working capital, the major impact on the balance sheet was an improvement in net equity and a general strengthening of the financial position of the company.

In addition, in November 2006 we raised CHF 460 million through a convertible bond issue. The very favorable terms achieved – zero coupon, zero yield to maturity – reflect both the favorable capital market environment as well as the growing maturity of the company.

The proceeds of the convertible bond issue provided the funds necessary for the acquisition of CoTherix Inc., which was consummated on January 9, 2007. In addition, a part of the proceeds have been used to manage the dilution from the 2008 convertible bond the company issued in 2003 and which was called on January 18, 2007.



Overall in 2006, liquid funds increased markedly, as the company reported better operating results. Actelion also received additional milestone payments from Merck (USD 7 million) and Roche (USD 75 million).

Trade and other receivables increased to CHF 217.4 million at the end of December 2006 from CHF 157.2 million at the end of December 2005. This increase is directly related to higher sales. Importantly, these higher sales did not result in any material increase in day's sales outstanding.

Investment in property, plant and equipment was substantially higher in 2006, CHF 42.5 million compared to 24.8 million in 2005. This increase can be attributed to new infrastructure projects. In February 2006, the company was able to start operation in its new Research Center. By the end of the year, another new facility providing office space had almost reached completion.

#### **Continued cash generation at the operational level**

In 2006, the company generated cash from operations of CHF 352.8 million compared to CHF 138.4 million during 2005, an increase of CHF 214.4 million. This increase in cash generation is driven by both an increase in operational income and receipt of milestone payments.

#### **Effective internal controls over financial reporting**

As at December 31, 2006, Actelion and its auditors were able to certify as to the effectiveness of our internal controls over financial reporting.

While Actelion is a Swiss company listed at the Swiss Stock Exchange SWX, we chose to certify ourselves according to the standards stipulated in the US known as the Sarbanes-Oxley Act, Section 404.


Actelion underwent this certification process voluntarily so as to document our commitment to develop an infrastructure capable of adapting to the demands of rapid growth.

I am particularly proud that we were able to achieve certification based on internal resources, and without the need for costly external facilitation.

#### **Concluding remarks and outlook**

As a Chief Financial Officer in a rapidly growing company, I am indeed extremely fortunate to be able to count on a very dedicated and highly professional finance and internal audit team. All Actelion employees share a commitment to stakeholder value creation. Innovative medicine for patients will create shareholder value if we carefully manage the resources deployed. The same commitment is shared by the Board of Actelion. Through their Finance and Audit Committee, they have provided substantial assistance and efforts. The same is true for our auditors, Ernst & Young.

To all of you: Thank you. I am grateful that I can work together with you so that I can report again in one year from now about another successful year for Actelion.



Andrew J. Oakley  
Chief Financial Officer