Annual Report 2005

for the Shareholders of BB BIOTECH

BBBIOTECH

BB BIOTECH AG

What the pictures tell

Communication with our shareholders is important to us. BB BIOTECH shares feature prominently in portfolios of some 100 000 shareholders, mainly in Switzerland, Germany and Italy. This Annual Report introduces a small selection of these people from all age and professional groups, telling us why they hold or purchased our stocks. Please visit our website www.bbbiotech.com to read many more comments from our shareholders.

Annual Report 2005

Letter to the Shareholders

Dear Shareholders

Thomas Szucs

Results for the biotech industry were mixed in 2005. Industry bellweathers did well. Valuation of the two largest companies, Amgen and Genentech, grew 23% and 70%, respectively so that market capitalization of both companies approached USD 100 bn. Consequently Amgen and Genentech are now playing in the top league of healthcare corporations. Other large cap names of the industry such as Gilead, Celgene and Genzyme also performed well. On the other hand, there were disappointments – most notably Biogen Idec which withdrawed their remarkably effective new drug for multiple sclerosis, Tysabri, from the market. Further, some hitherto promising mid- and small-cap companies stumbled. As a result, the broad biotechnology index of the Nasdaq closed the year flat compared to the beginning of the year.

BB BIOTECH's share price increased by 20% (including a dividend paid of CHF 2.40). The Net Asset Value (NAV) increased by 16% (in CHF). This represents the third year in a row of double-digit performance, and is well on track with the biotech industry's longterm 10% to 15% annualized growth path. The main contributor to the performance in 2005 was the return-to-strength of the USD. Since its inception in 1993, BB BIOTECH's NAV has increased by 13.5% p.a. in USD, and its share price has risen by 11.2% p.a. in CHF. This represents substantial outperformance relative to broad indices such as the Swiss SMI, the German DAX and the Dow Jones Index.

Our core positions in Gilead and Celgene performed well in 2005. Gilead's product for the treatment of human immunodeficiency virus (HIV), Truvada, was adopted by physicians and patients on account of the drug's superior effectiveness and convenience. Truvada is rapidly becoming a cornerstone of HIV therapy. Gilead is now developing a version of Truvada combined with another effective drug, Sustiva, in one tablet. This combination should improve the convenience of HIV therapy further. Gilead's early clinical pipeline, which includes new approaches for the treatment of HIV and hepatitis C, also progressed well during the year. Furthermore, worldwide anticipation of a bird flu epidemic significantly increased demand for Tamiflu, Gilead's influenza treatment marketed by Roche. Celgene won approval for its drug Revlimid, to be marketed for myelodysplastic syndrome – a form of bone marrow pre-cancer. Revlimid offers a treatment with unprecedented efficacy in some patients suffering from MDS and a successful launch is anticipated. In addition, compelling results were reported using Revlimid in clinical Phase III studies for treatment of multiple myeloma – a form of bone marrow cancer different to myelodysplastic syndrome. Revlimid approval in multiple myeloma is expected during 2006.

The stunning withdrawal of Biogen Idec's and Elan's multiple sclerosis product Tysabri from the market – at a time when the launch phase was already exceeding expectations – was a major setback for the industry and for BB BIOTECH. This unexpected development

David Baltimore

Letter to the Shareholders

followed reports of two patients developing a rare viral infection of the brain called "progressive multifocal leucoencephalopathy" (PML) while treated with Tysabri. Biogen Idec withdrew the drug from the market voluntarily and quickly. After careful analysis, including consultation with world experts in PML, we decided to take a larger position in Biogen Idec since we believe that the product will return to the market and still become an important and valuable treatment for multiple sclerosis. One of our most successful investments in 2004, Eyetech Pharmaceuticals, also experienced a major surprise downturn when Genentech released data on Lucentis that appeared to trump the clinical performance of Eyetech's Macugen. Later in the year, Eyetech was acquired by OSI Pharmaceuticals.

During 2005 we invested in several new positions among established companies including Genentech, OSI Pharmaceuticals, Affymetrix and Vertex. We also made investments in several younger, promising companies including Rigel, Keryx and Anadys. We divested holdings in Eyetech, Ligand, ICOS, Virologic, Pozen and Idenix.

During 2005, the average discount – that is the difference between the share price and the Net Asset Value of BB BIOTECH – narrowed further from an average value of 15.2% in 2004 to 12.7%. We will continue our activities aimed at closing this discrepancy. Consistent with the dividend model we introduced in 2004, the Board of Directors will propose to pay a dividend of CHF 1.80 at the Annual Shareholder's Meeting.

Our continued high level of confidence in biotechnology prompted us to raise new funds through the issue of partially mandatory convertible bonds. With this issuance completed succesfully, the potential investment level of BB BIOTECH is raised to 109% of equity. The move also continued the strategy of diversifying our shareholder base.

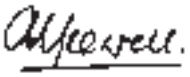
Improvement in healthcare continues to be a major driver of positive change and for the growth of humanity. Within healthcare, biotechnology has now become a dominant source of innovation. We are more confident than ever of the substantial opportunities for value creation in this industry. We are optimistic about the future and look forward to investing in the future and capturing the value created by new developments in 2006 and beyond.

In the meantime, we thank you for your support in 2005.

The Board of Directors of BB BIOTECH AG

Prof. Dr. med. Thomas Szucs
Chairman

Prof. Dr. David Baltimore



Dr. Clive Meanwell

Clive Meanwell

"Even though I generally only buy individual stocks ..., in the biotech industry I prefer to rely on the competence of the industry experts"

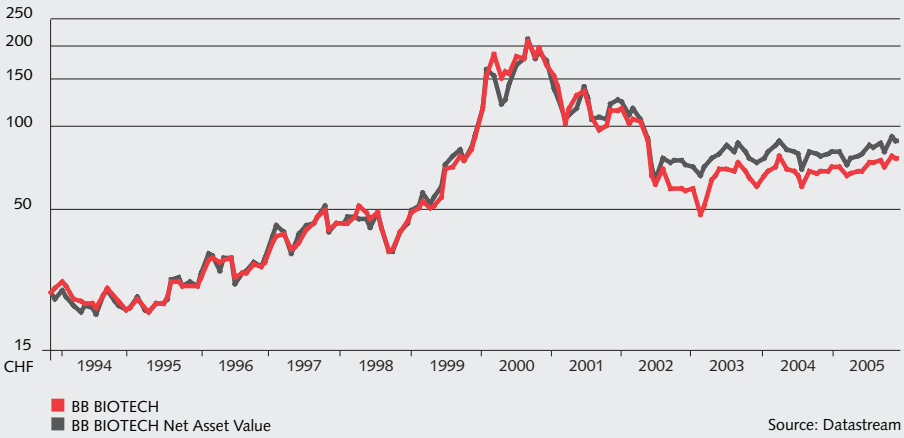
Stock market trader M.G. (30) can watch the prices of his BB BIOTECH stocks blinking on his screen every single day.

Key figures

Performance

Bearer shares (Switzerland):	
12/31/2004–12/31/2005	**+20%**
Bearer shares (Germany):	
12/31/2004–12/31/2005	**+20%**
Bearer shares (Italy):	
12/31/2004–12/31/2005	**+19%**
Net Asset Value (in CHF):	
12/31/2004–12/31/2005	**+16%**
Performance since launch p.a.:	
11/15/1993–12/31/2005	**+11%**
Outperformance (Net Asset Value) vs. Nasdaq Biotech Index (NBI) since launch:	**+71%**
Market capitalization as at 12/31/2005: CHF 2 069 mn/EUR 1 331 mn	

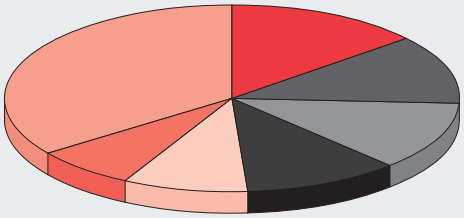
Performance dividend-adjusted



Source: Datastream

Portfolio as at 12/31/2005

Securities:			**CHF 2 191 mn**
Biogen Idec	14%	Sepracor	12%
Celgene	12%	Gilead	11%
Actelion	9%	Genzyme	7%
Small participations	35%		



Multi-year comparison BB BIOTECH

	2005	2004	2003	2002	2001
Market capitalization at end of period (in CHF mn)	2 068.9	1 796.4	1 750.0	1 579.0	3 495.9
Net Asset Value at end of period (in CHF mn)	2 279.9	1 914.4	1 939.2	1 765.3	3 434.2
Number of shares (in mn)	25.7	25.7	27.8	27.8	27.8
Trading volume (in CHF mn p.a.)	1 919.6	1 853.0	1 796.0	1 766.0	3 287.0
Profit/(loss) (in CHF mn)	318.0	202.8	179.3	(1 591.3)	(791.0)
Closing price at the end of the period in CHF	80.50	69.90	62.95	56.80	125.75
Closing price (D) at the end of the period in EUR	51.64	44.51	40.15	38.96	83.50
Closing price (I) at the end of the period in EUR	51.58	45.05	40.65	38.10	83.28
Stock performance (incl. dividend)	19.5%	14.6%	10.8%	(54.8%)	(28.6%)
High/low share price in CHF	82.35/64.70	79.80/58.70	74.75/47.00	125.75/49.80	176.00/81.50
High/low share price in EUR	53.00/41.51	51.20/37.90	48.40/31.66	83.50/33.60	116.50/55.15
Premium/(discount) (annual average)	(12.7%)	(15.2%)	(18.8%)	(10.7%)	1.2%
Dividend (in CHF) (proposed*)	1.80*	2.40	2.50	–	–
Degree of investment (quarterly figures)	98.8%	97.8%	94.0%	90.3%	96.8%
Total Expense Ratio (TER) p.a.	0.64%	0.63%	0.64%	1.67%	3.75%
– of which performance-related remuneration	0.00%	0.00%	0.00%	1.10%	3.16%

Industry outlook

The year 2005 once again impressively documented the innovative power and dynamic growth of the biotech industry. The new biotech medications are now quite common at all clinical conferences. In most cases, they even dominate events and attract the greatest interest. Increasingly evident is what began as recently as 1953 with the discovery of the structure of the genetic make-up by Watson and Crick and continued with the full decoding of the human genome in 2003: the diagnosis and treatment of illnesses at the molecular level. As in the past, however, we are only at the beginning of a trend that translates fresh knowledge into therapeutic concepts promising relief and hope for many diseases that have been incurable in the past.

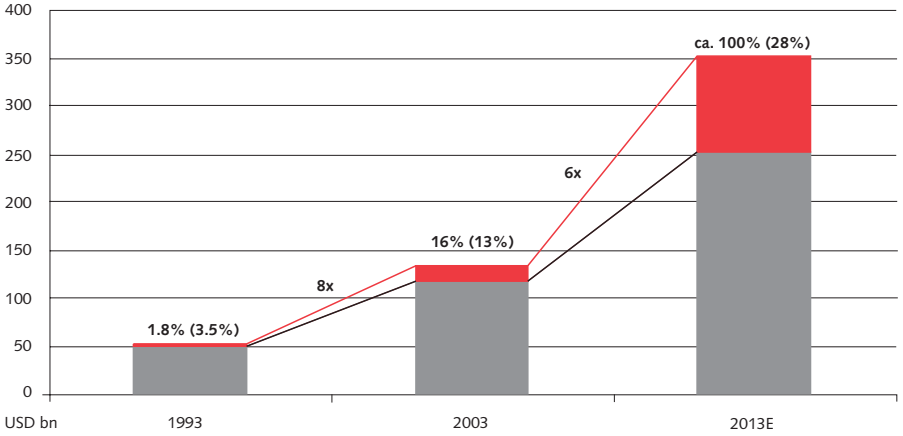
The year 2005 began with the promising introduction of the new multiple sclerosis medication Tysabri from Biogen Idec. Its surprising withdrawal, after cases of PML (Progressive Multifocal Leucoencephalopathy) had occurred, came as a blow to investors. The outstanding results of cancer drugs Avastin and Herceptin could not change this either. Not even the effectiveness of the new blood cancer medication Revlimid from Celgene (which is equivalent to a medical mile-stone) managed to restore investor confidence. It was only after excellent quarterly results were recorded in succession, impressively documenting the dynamic growth in the industry, that interest returned. The danger of an influenza pandemic triggered by avian flu in Asia once again brought biotechnology into the limelight. In consequence, vaccine and treatment producers in particular made the highest stock price gains. After an analysis of Tysabri data had produced no evidence of a direct link between Tysabria and PML – that's not true, there is definitely a link – Biogen Idec filed another application for approval of this drug. The US FDA once again awarded priority status to Tysabri and finalized the year by approving Revlimid for MDS (Myelodysplastic Syndrome), a form of blood cancer.

The future outlook for this attractive growth industry also remains excellent. Twelve years after BB BIOTECH was founded, biotechnology has established itself firmly as an independent discipline. Today, approx. 200 000 persons are employed in the US biotech industry. The share of medication sales accounted for by biotech companies in the US rose from 4% in 1993 to just over 15% in 2005. The annual level of income earned by US biotech companies is growing at double-digit rates.

This strong growth rate reflects the key breakthroughs achieved in the medical field thanks to biotechnology. Many things considered unthinkable or a medical miracle just a few years ago can be accomplished today, both in the field of diagnostics and in therapy. The demand for better drugs remains immense, however. Only about a third of the 35 000 known diseases can be treated; unfortunately, the likelihood of finding a cure is even more remote. A decrease in R&D activities is therefore not anticipated.

New knowledge creates new possibilities. Never before has the increase in new knowl-

The importance of biotech drugs will further increase



Assumptions for the US-market outlook
Pharma drug revenue growth 2003 until 2013E: 8% p.a., biotech drug revenue growth 2003 until 2013E: 20% p.a.
Proportion of drug cost of total of healthcare cost in 2013E: 15%. Healthcare cost in % of GDP in 2013E: 16%.

Biotech
Pharma

Source: SWAM Research

Industry outlook

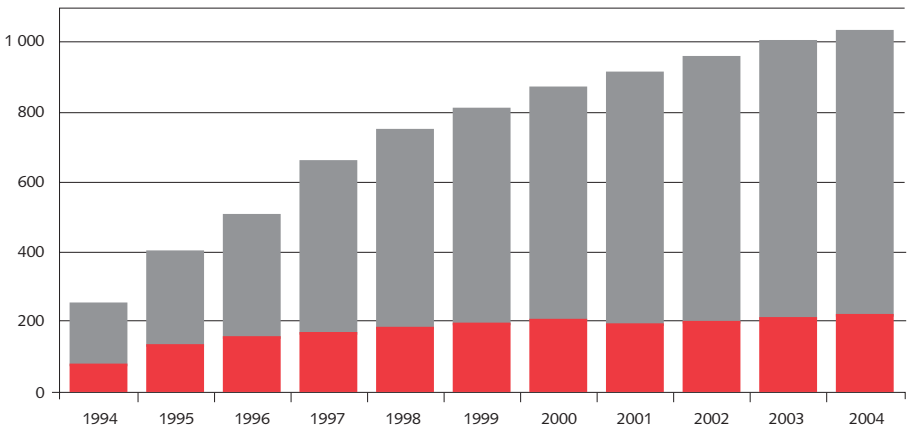
edge been so high and the convergence of various disciplines so evident. The progress made in terms of diagnostic possibilities and the multitude of innovative approaches to clinical trials are impressive. The "see-through patient" with genetic fingerprints is becoming a reality, increasingly advancing a highly individualized form of medical practice. This brings medical practitioners a step closer to the objective of treating the root cause of an illness rather than its symptoms, and – if this is not possible – of achieving improved treatment with fewer side effects. Major efforts are being concentrated in areas of sharply rising demand due to the steadily increasing life expectancy of the population.

Various cancers rank first and foremost among the diseases. Their number is set to double by 2050. The success achieved so far with monoclonal antibodies has fuelled fresh hopes. The effectiveness of the antibodies Erbitux and Avastin approved in 2004 bears impressive testimony to the medical advances being made. Other highly promising approaches are being tested in humans. Recently, vaccinations against cancer have attracted particular attention. The pipeline is absolutely full and will remain that way in the foreseeable future. No other field of therapy has recorded as many patent applications as cancer. Other focal points of research activities are infectious diseases such as AIDS, hepatitis, prion diseases and resistances to antibiotics. Effective therapies are also urgently needed in the field of neurodegenerative diseases such as Alzheimer's, Parkinson's and multiple sclerosis. This is where the new approaches are becoming increasingly visible and promising completely new possibilities. As in the case of depression treatment or schizophrenia, solutions are being developed here that are based on a better understanding of the underlying causes and will displace the empirical approach of merely combating symptoms. A total of more than 1 000 biotech products for more than 200 diseases are currently undergoing clinical trials.

Innovative products that succeed in reaching the market are not only beneficial to the individual patients but also to the entire health system. Care, in particular the intensive level of care required during the advanced stages of illness, is far more expensive than early treatment with effective drugs. Studies have shown that each US dollar more spent on drugs results in an average reduction of treatment costs of one US dollar and fifty cents. An additional factor is that in many industrial countries there will be an insufficient number of personnel required for the care of patients in the future. Better drugs are needed for the prevention of such bottlenecks.

The biotech industry clearly is the innovator in medicine. Not only is it in the lead in terms of innovative drug development for rare diseases. It has also outpaced the pharmaceuticals industry as regards its share of new approvals in recent years. We expect the bulk of newly approved medications to come from small, innovative growth companies in the future. Even if the differentiation between classical biotech and pharmaceuticals companies is becoming increasingly difficult, the depend-

Biotechnology pipeline continues to grow



A total of more than 1 000 biotech products are currently undergoing clinical trials. Over 200 are in the last phase of clinical development. More than 200 biotech drugs are already on the market.

Products in clinical development
Products in Phase II or Phase II/III (late stage)

Source: Goldmann Sachs, 2005

Industry outlook

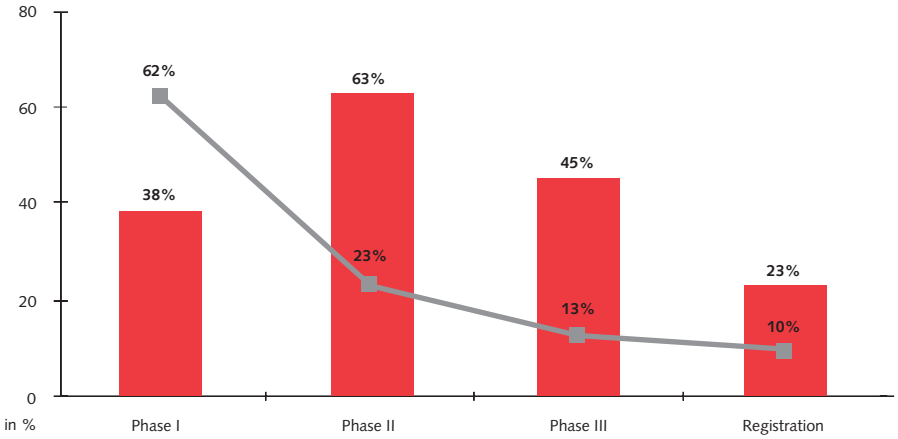
ence of major pharmaceuticals companies on innovative, smaller biotech firms remains evident and is even increasing. Expiring patents and too few new products leave no other option. This is reflected in the increasing number of cooperative ventures between biotech companies, which saw an annual rise by 27% from 1992 to 2002. The network approach promotes what established pharmaceuticals companies failed to achieve on their own. Research productivity is on the rise and so is economic efficiency.

Thus the foundations for the biotechnology success story have been laid. The share of US drug revenues accounted for by biotech drugs is set to rise from currently 15% to around 30% in the next ten years and will reach approx. USD 100 bn. Given such growth momentum, the sector has been attractively valued both in historical terms and in comparison with pharmaceuticals companies.

Since success and failure in the development of drugs are very close together, cooperation and consolidation continue to remain a big issue in the sector. Companies with insufficient capital and delays in clinical trials must sell their assets below market value where necessary. Undervalued companies featuring products with promising growth prospects will also remain takeover candidates in the future. In addition, companies that have been fairly unknown so far, typical for a growth industry, will surprise us with good news.

The performance of biotech stocks mainly depends on the success of biotech products in the market or in clinical development. In 2005, 19 of the medications newly approved in the US came from the laboratories of biotech firms, five of which are potential blockbusters. Their market rollout, additional approvals as well as substantial volumes of data anticipated from clinical trials should ensure a constant flow of good news emerging from this industry in 2006, too.

Diversification is a must



Drug development takes a long time and is expensive as well as risky.

Failure rate
Cumulative success rate

Source: European Federation of Pharmaceutical Industries and Associations, 2005

"I'm fascinated as to how the burgeoning knowledge about our organism is leading to new, trail-blazing therapy solutions"

J.S. (24), a medical student, likes BB BIOTECH's website in particular, because she can keep track directly of the current trends taking shape in the industry.

"The things I really appreciate are the independence, extensive information and transparency of BB BIOTECH"

N.I. (42) from Sicily is a self-employed asset manager based in Zurich. His clients know BB BIOTECH because of its stock market listing in Italy.

Investment focus and selection

Thanks to the findings of modern biotechnology, in recent years a substantial series of successful new medications and therapeutic solutions have been developed. BB BIOTECH offers its shareholders the opportunity to participate in this growth, with above-average returns anticipated. As a rule, the securities portfolio consists of four to eight core holdings as well as 10 to 20 minor ones. The maximum share of companies without a stock-market listing is 10%.

The complexity of the subject matter and the risks involved in developing active agents call for expertise and a prudent risk management strategy. The Management Board of BB BIOTECH, one of the members of which is a Nobel prize winner, has had many years' experience in biotechnology and in the pharmaceutical industry. In performing fundamental analyses and for BB BIOTECH's portfolio management purposes, the services of molecular biologists, physicians and finance specialists of Swissfirst Asset Management Group (formerly Bellevue Asset Management) are engaged. Swissfirst Asset Management, in turn, has established a global network of specialists such as clinicians and patent lawyers to which it has access at all times.

The selection of holdings is prepared by means of a comprehensive process of analysis and selection. This begins with a broad screening of key fields of therapy by the teams of analysts in Küsnacht/Switzerland and in Boston/US. For various fields of activity such as infectious diseases, cancer or cardiac and circulation related illnesses, highly promising technologies and therapy solutions are discussed and their market potential is determined.

Subsequently, the companies engaged in these fields of activity are short-listed. The companies considered eligible and particularly their product pipeline are analyzed in detail. In doing so, BB BIOTECH focuses on the ways and means of performing the clinical studies as well as their results. Preference is generally given to those companies whose products are at a late phase of their clinical development or whose medications have already been approved for sale on the market. In these cases, comprehensive clinical development data are already available, and this only makes professional risk management possible in the first place. In addition, plans for future marketing of these potential medications as well as the relevant cooperative ventures in place for distribution purposes need to be reviewed. Medications holding the promise of treatment for illnesses with no known cure in the past, or illnesses which do not readily respond to therapy, have the best chances of success.

An assessment of the management and the company's financial structure also plays an important part in this selection process. Only companies with an attractive risk-to-earnings profile are considered for a closer selection process.

Before the Management Board agrees to building up a particular holding, finally the potential candidates are subjected to a comprehensive review. Apart from visiting companies and talking to their managers, such activities also extend to include interviews with leading physicians and specialists in each field of activity. Finally, an in-depth financial analysis is made to assess the company's present and potential valuation.

After being incorporated in BB BIOTECH's portfolio, the companies are continually monitored. Moreover, the members of the Management are invited to BB BIOTECH's strategy meetings on a regular basis. This close-knit monitoring of portfolio companies enables BB BIOTECH to utilize all strategic options in a timely manner; for instance, holdings can be sold whenever a significant deterioration of fundamentals takes place. In addition, within the scope of active portfolio management, positions are reduced or increased as soon as certain valuations have been exceeded or undercut.

Interview

"Product pipeline of biotech companies bursting at the seams"

Interview with Prof. Dr. med. Thomas Szucs, Prof. Dr. David Baltimore and Dr. Clive Meanwell, members of BB BIOTECH's Board of Directors

With its stock price up by just under 20%, BB BIOTECH can look back on an above-average performance last year. Are you satisfied with the general trend in 2005?

Prof. Szucs: Despite the good performance on the whole, 2005 was a year of good and bad news for BB BIOTECH. Substantial price gains of our holdings in Celgene, Gilead, Genzyme, Genentech and Amgen were offset by disappointing losses by Eyetech Pharmaceuticals and Biogen Idec/Elan. Particularly in terms of drug safety, the withdrawal of Tysabri as well as of Merck's pain killer Vioxx had a havy adverse impact on the entire biotech and pharmaceuticals industry. Last year once again showed that the development of new medications essentially represents scientific experiments with an uncertain outcome. Even today, the probability of the final phase of clinical development yielding positive results amounts to as little as 65%. And even approval of a medication is no guarantee that it will be successful. This compels investors to diversify their holdings.

Yet you retained and even extended your holding in Biogen Idec. Why?

Prof. Baltimore: We have substantial faith in this drug. Many multiple sclerosis patients for whom the therapies available simply were inadequate have been effectively treated with Tysabri. We take it for granted that this medication, for which the development partners Biotec Idec and Elan have filed another application, will return to the market. It is not acceptable in ethical terms to deny patients treatment with this medication. Accordingly, following an in-depth analysis we have almost doubled the extent of our holding in the company since its stock price plunged.

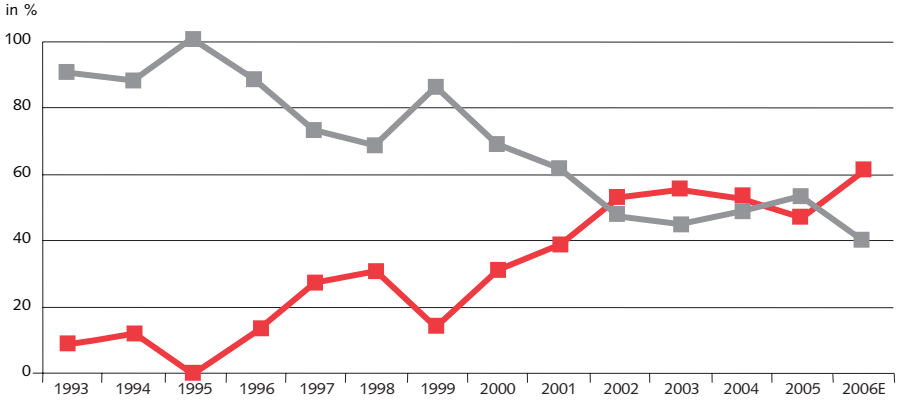
At the end of the year, BB BIOTECH was still trading at a discount of 11% in relation to its NAV. What is the reason behind this persistent discount?

Dr. Meanwell: Even though biotech companies saw a number of sensational price gains in 2005, which applies in particular to Amgen, Gilead, Celgene or, recently, the German company Epigenomics, many investors still do not trust the industry. At least, our talks with major institutional investors indicate that there still is substantial reluctance to take a stake. Yet last year we came a good deal closer to our declared aim of bringing the discount below 10%.

Another factor supporting this assumption is that the convertible bond issue you placed was oversubscribed several times. What do you need this fresh funding for?

Prof. Szucs: There are two reasons for this measure. First of all, this convertible bond issue will enable us to boost our investment ratio to 109%. We consider the current market phase so attractive that we would like to use this new money to establish additional holdings and further extend our existing investments. Secondly, by means of this convertible bond issue we are continuing our strategy of appealing to new investor groups, as we already did in 2004 when we introduced our discount-based dividend policy.

Biotechnology is the innovation driver



Proportion of US drug approvals in %

Biotech
Pharma

Source: FDA, SWAM Research

Interview

You say that market conditions are particularly attractive. Please explain.

Prof. Baltimore: Sales revenues of biotech products have grown annually by an average of 20% since the beginning of the 1990s. Since the margins for drugs already rolled out on the market are high, share prices of successful product developers tend to follow revenue growth as a rule. A look at the trend of the Nasdaq Biotech Index in relation to sales revenues generated in this industry, however, reveals that a gap has formed since 2001. The reduced share prices simply no longer reflect the higher sales revenues. Accordingly, we assume that this enormous valuation gap will close in the near future.

Dr. Meanwell: We perceive considerable potential in this respect, particularly for mid-caps, whose innovations are marketed by major pharmaceuticals companies, for which biotechs are earning increasingly higher royalties. The successful negotiations on the part of Gilead for a higher license fee from Roche for the flu treatment Tamiflu are an example. On the other, the companies are being taken over in view of their relatively favorable valuations, generally at high premiums. Both of these trends will contribute to the positive price development in this sector.

Where do you perceive the biggest opportunities for 2006?

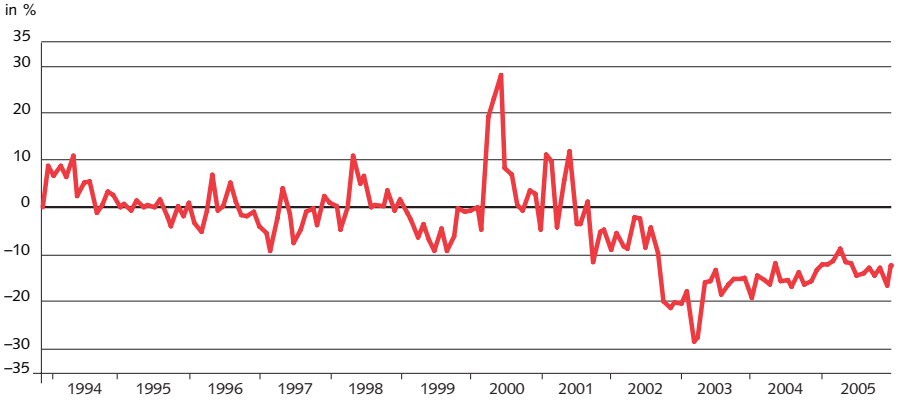
Prof. Baltimore: The product pipeline of biotech companies is bursting at the seams. Some 1 000 product candidates are currently passing through the various phases of clinical development, about twice as many as was the case only five years ago. We anticipate 15 to 20 new approvals for 2006. Unfortunately, the gap in terms of development and maturity of the biotech industry between the US and the rest of the world has remained constant or even widened. Accordingly, our focus clearly remains on the US biotech industry.

Prof. Szucs: Celgene is highly active in the field of blood cancer and currently extending its research to other tumors. As already indicated, Gilead is profiting from the flu treatment Tamiflu, but its main earnings are being derived from HIV medications, where the company is making a very strong showing, particularly with Truvada. And Genzyme already has five medications on the market for very rare hereditary disorders such as Gaucher's disease. 2006 could see Myozyme being approved for treatment of Pompe disease. Among European stocks, Actelion is interesting despite the disappointing data on Tracleer and the sharp decline in its share price. We also have great expectations for our Italian private equity holding BioXell, which specializes in chronic inflammatory disorders. Accordingly, 2006 should become yet another good year for our shareholders.

As part of your BB Stock Plan, you offer to maintain securities portfolios free of charge for BB BIOTECH stockholders. Moreover, no transaction costs are incurred when buying and selling. Why?

Dr. Meanwell: We always endeavor to boost the attractiveness of our stocks and to create added value, especially for our numerous small-scale investors. The Stock Plan enables investors with a long-term strategy to hold BB BIOTECH shares free of charge and to buy them at favorable prices. This plan arose in response to an initiative of our stockholders and is already being briskly utilized.

The discount to NAV is a cyclical phenomenon



Derivation of share price from Net Asset Value

>0% = Premium
0% = Net Asset Value
<0% = Discount

ø Premium/(Discount)
12/31/2004–12/31/2005: (12.7%),
2004 (15.2%)

Source: Datastream

Portfolio

The portfolio of BB BIOTECH remained focused in fiscal 2005 and consisted predominantly of medium-cap corporations with substantial momentum at the end of the year. Six companies are presented as core holdings (Biogen Idec, Sepracor, Celgene, Gilead, Actelion, Genzyme). They have a weighting that ranges from 7% to 14% of the portfolio and represent a total of 65% of our securities portfolio.

These six core holdings generated USD 9 bn in sales revenues in 2005. We expect the companies to record an average growth rate in sales revenues of 25% in 2006. Five of these are already in positive earnings territory, and Sepracor should reach profitability in the course of fiscal 2006.

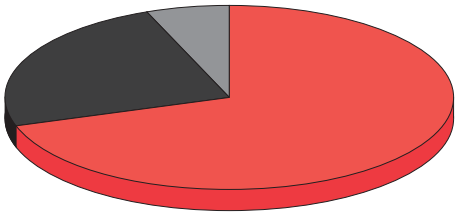
Of the 15 minor holdings, eight (31% of the portfolio) have products on the market, with three generating profits. Seven companies (4% of the portfolio) are still at the development stage or a later phase of clinical development of innovative drugs and technologies. One company, BioXell, Italy (0.7% of the portfolio), a spin-off of Roche, is not listed on the stock markets as yet.

Our 21 holdings have a total of 67 medications on the market, 46 are in the final phase of clinical development and 130 pipeline projects are in Phase I/II.

Most of our holdings remain based in the US (17 companies, representing 86% of the portfolio). Four companies are European; of these, one hails from Switzerland, one from Ireland, one from Germany and one from Italy. Our strong orientation to US stocks reflects the higher degree of maturity reached by the biotech industry in that market. We do not hedge foreign-currency risks; in the event of a policy change, this would be announced.

Portfolio composition overview

Products on the market – companies with profit	68%
Products on the market – companies close to break-even	26%
Products in Phase II/III – companies cash-negative	6%



Participations as at December 31, 2005

Company	Number of securities	Change since 12/31/2004	Local currency	Share price	Market value in CHF mn	In % of portfolio	In % of company
Biogen Idec	5 000 000	2 819 087	USD	45.28	298.5	13.1%	1.5%
Sepracor	4 000 000	1 000 000	USD	51.60	272.1	11.9%	3.8%
Celgene	3 000 000	(2 093 400)	USD	64.80	256.3	11.2%	1.8%
Gilead	3 526 109	(2 473 891)	USD	52.57	244.4	10.7%	0.8%
Actelion	1 800 000	(50 000)	CHF	108.70	195.7	8.6%	8.1%
Genzyme	1 600 000	(629 000)	USD	70.78	149.3	6.5%	0.6%
OSI Pharmaceuticals	4 000 000	4 000 000	USD	28.04	147.9	6.5%	7.8%
Amgen	1 250 000	250 000	USD	78.86	130.0	5.7%	0.1%
Genentech	940 000	940 000	USD	92.50	114.6	5.0%	0.1%
Affymetrix	1 765 600	1 765 600	USD	47.75	111.2	4.9%	2.7%
The Medicines Company	3 925 000	(211 419)	USD	17.45	90.3	4.0%	7.9%
Elan	2 400 000	400 000	USD	13.93	44.1	1.9%	0.6%
Vertex Pharmaceuticals	1 100 000	1 100 000	USD	27.67	40.1	1.8%	1.1%
Anadys Pharmaceuticals	2 000 000	2 000 000	USD	8.80	23.2	1.0%	7.1%
Incyte	3 000 000	200 000	USD	5.34	21.1	0.9%	3.6%
Epigenomics	1 000 000	–	EUR	6.45	10.0	0.4%	6.1%
Rigel Pharmaceuticals	850 000	850 000	USD	8.36	9.4	0.4%	3.5%
Keryx Biopharmaceuticals	410 499	410 499	USD	14.64	7.9	0.3%	1.1%
Theravance	180 000	(1 827 168)	USD	22.52	5.3	0.2%	0.4%
Auxilium Pharmaceuticals	555 150	(444 850)	USD	5.50	4.0	0.2%	1.9%
BioXell[1)]	1 887 505	–	EUR	5.30	15.5	0.7%	9.5%
Total					**2 190.9**	**96.1%**	
Derivates							
Auxilium Pharmaceuticals warrants (long)	300 300	–	USD	2.67	1.1	<0.1%	
Actelion put options (short)	(100 000)	(100 000)	CHF	14.01	(1.4)	(0.1%)	
Total					**(0.3)**	**0.0%**	
Liquid funds (net)					213.6	9.4%	
Other payables					(124.3)	(5.5%)	
Total					**2 279.9**	**100.0%**	
BB BIOTECH bearer shares[2)]	450 627				36.2		
Total					**2 316.1**		

[1)] Unlisted company

[2)] Correspond to the total of all own shares held in Switzerland, Germany and Italy. Closing price see page 7.

Exchange rates as at 12/31/2005:
USD/CHF: 1.3184
EUR/CHF: 1.5547

Company profiles

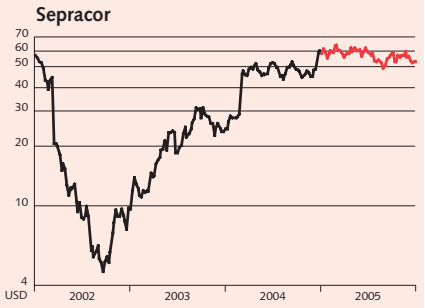
Biogen Idec

Market capitalization as at 12/31/2005: USD 15.4 bn

Biogen Idec was formed by the merger of Biogen and Idec Pharmaceuticals in November 2003. Biogen Idec's lead drugs include Avonex, Rituxan, Zevalin, Amevive and Tysabri. Market share leader Avonex is a beta →*interferon* used to treat →*multiple sclerosis (MS)*. Rituxan, partnered with Genentech, is an antibody used for treating →*non-Hodgkin's lymphomas (NHL)*. Key to the company's future revenue growth prospects is Tysabri (natalizumab), a humanized alpha-4 integrin antibody, developed in an equal partnership with Elan Corp. Tysabri was approved on November 24, 2004 with a strong label indicating use as monotherapy and combination therapy with Avonex, for the treatment of relapsing and remitting multiple sclerosis. The approval was based on stellar clinical data from the Affirm (mono) and the Sentinel (combo) trials whose efficacy looked to be at least twice than what had been seen from the interferons in past clinical trials. The drug had a very strong launch, however was withdrawn from the market on February 28, 2005, after two MS patients in the combination treatment developed progressive multifocal →*leukoencephalopathy (PML)*, a rare fatal disease of the nervous system caused by the JC virus. After the withdrawal, Biogen Idec and Elan conducted an extensive data safety review on all the patients who were treated with Tysabri. The findings yielded a total of three PML cases that were treated with Tysabri in combination with other immunosuppressive agents: Two patients were from the Sentinel trial in combination with Avonex and one patient who was treated in a clinical study for Crohn's disease. The findings from the safety review were submitted to the →*FDA* on September 26, 2005 as a sBLA (supplemental biologics license application) and the application received a priority review designation by the FDA. If the FDA approves the sBLA, a re-launch of Tysabri should be possible in the second quarter of 2006.

At the American College of Rheumatology meeting in November 2005, positive study results were presented from Rituxan treatment in rheumatology patients who were not adequately treated with →*anti-TNF (tumor necrosis factor) therapies*. The data package has been submitted to the FDA as a sBLA, and is anticipated to be included in the Rituxan label in 2006.

Sepracor



Market capitalization as at 12/31/2005: USD 5.5 bn

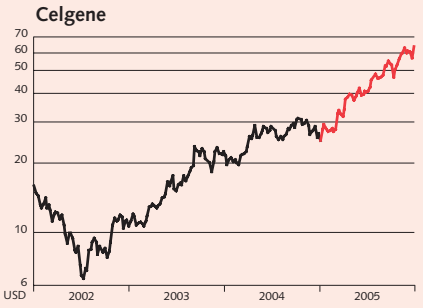
Sepracor Inc. is a research-based pharmaceutical company that has developed an extensive portfolio of pharmaceutical compound candidates, with a focus on respiratory and central nervous system disorders. The immediate focus of the company is Lunesta, a single isomer version of the leading sleep medication in Europe (Imovane). Lunesta was launched in April 2005 and is expected to achieve sales in excess of USD 300 mn already in 2005. Lunesta is wholly owned by the company.

In addition to the Lunesta-insomnia franchise, the company is developing a second franchise in respiratory disorders. Based on the successful product Xopenex, which is already marketed as a nebulizer and which is predominantly prescribed to children who suffer asthma, the company developed an additional formulation of Xopenex as a metered dose inhaler (MDI). With the availability of the MDI formulation, increasing use of Xopenex in adult patients is expected. Xopenex MDI was launched in December 2005. Both the Xopenex franchise and the Lunesta franchise are expected to achieve annual peak sales in the area of USD 1 bn.

Sepracor also possesses a diversified portfolio of several major out-licensing products including: Schering-Plough for Clarinex (desloratadine); Aventis for Allegra (fexofenadine HCl); and UCB SA for Xyzal/Xusaltm (levocetirizine).

The company is expected to achieve sustainable profitability in 2006.

Celgene

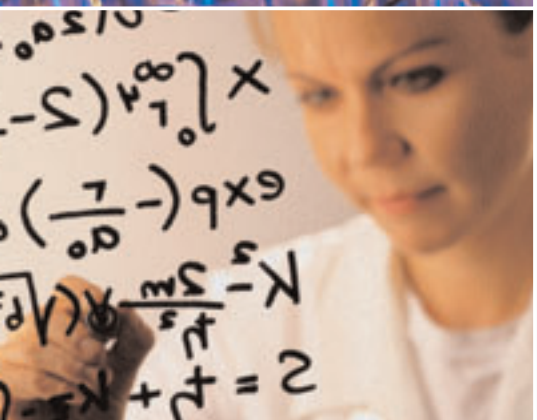


Market capitalization as at 12/31/2005: USD 10.9 bn

Celgene specializes in the development and marketing of new drugs for →*cancer* and inflammatory diseases. Its first marketed product, Thalomid, was approved in 1998 for the treatment of an inflammatory complication of leprosy. However, its primary use is off-label for →*multiple myeloma*. We anticipate that FDA approval for this indication could come early in 2006. Additional off-label uses include →*MDS (myelodysplastic syndromes)* and various solid tumors. The company received FDA approval of Revlimid, an analog of Thalomid with improved efficacy and safety, in December 2005 for the subgroup of patients with MDS characterized by an abnormality in the 5q- chromosome. Results in this subgroup were unprecedented, with 67% of patients achieving transfusion independence for a median duration of over one year. Data from an-

"I think the portfolio composition makes good sense since it exclusively considers companies that produce innovative, readily marketable medications with dominant market share"

Pharmacist Dr. Th.G. (52) from Frankfurt/Main has been a BB BIOTECH stockholder from the very beginning.



"To us, BB BIOTECH is what pharmaceutical companies used to be in the past – an attractive growth stock in the long run"

Two medical practitioners, J.S. (42) and D.G. (41), are partners in a practice specializing in travel medicine in Zurich.

Company profiles

other trial showed that Revlimid is active in the broader group of low- and intermediate-risk MDS patients and off-label use in this population is expected. Based on results from ➔*Phase III* studies that showed a statistically significant improvement in time to progression and survival in patients with ➔*relapsed/refractory* multiple myeloma, Celgene filed a sNDA for this additional indication in December 2005 and approval is expected in the second quarter of 2006. Together, MDS and multiple myeloma represent a USD +1 bn market opportunity for Revlimid. Celgene is developing other Thalomid analogs that could target different malignancies and inflammatory disorders. The 2003 acquisition of Melphalan, for multiple myeloma, from GlaxoSmithKline added another marketed product and strengthened the company's hematology franchise. Celgene also receives royalties on sales of Ritalin and Focalin (ADHD) from Novartis.

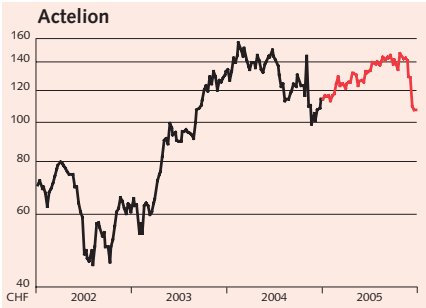
Gilead

Market capitalization as at 12/31/2005: USD 24.1 bn

Gilead develops drugs for infectious diseases such as ➔*AIDS*, ➔*hepatitis B*, ➔*hepatitis C*, and influenza. The company's first key product, Viread, is a ➔*nucleotide reverse transcriptase inhibitor* that was launched in 2001 and is now firmly established as a mainstay of treatment for ➔*HIV* infection due to its high potency, favorable safety profile, and convenient once-daily administration. Through the acquisition of the biotechnology company Triangle in December 2002, Gilead secured Emtriva, another important drug used to treat HIV that was launched in 2003. In 2004, the company launched Truvada, a combination of Viread and Emtriva in a fixed-dose tablet, making available to patients the first one pill, once a day treatment for HIV. In addition to its convenience advantage, Gilead reported positive efficacy and safety data from a trial (Study 934) that compared Truvada to Combivir (GlaxoSmithKline). As a result, Truvada has become the most widely prescribed drug for newly infected HIV patients. Moreover, data from the "Comet" study showed that patients could be switched from Combivir to Truvada while maintaining efficacy and improving quality of life. The inclusion of the results from Study 934 on Truvada's label, as well as additional data from "Comet" and other ongoing switching studies, is expected to drive continued market share gains for Truvada in 2006. The introduction of Hepsera, a nucleotide reverse transcriptase inhibitor, to the US market in 2002, Europe in 2003, and Asia in 2005, established Gilead as an important player in the treatment of hepatitis B infection, which afflicts approximately 350 million people worldwide. The company receives a royalty from partner Roche on worldwide sales of Tamiflu, for the treatment and prevention of influenza. Sales of the product will benefit substantially over the next two years from government stockpiling to prepare for a possible avian flu pandemic.

Actelion

Actelion concentrates on the development and marketing of medicines used to treat cardiovascular diseases. Its Tracleer medicine is the first ➔*endothelin* receptor antagonist for oral administration. In 2002, the agent was approved in the US and in Europe for the treatment of pulmonary ➔*arterial hypertension*, a disease suffered by around 100 000 people. Since the successful launch of the drug in the USA and in Europe, revenue has grown to around CHF 650 mn with the company turning profitable as early as 2003. Zavesca, a drug developed by Oxford Glycoscience to treat ➔*Gaucher's disease* and licensed by Actelion in 2002, was approved for marketing in the USA in 2003. Actelion is running several clinical trials to extend the use



Market capitalization as at 12/31/2005: CHF 2.4 bn

of Zavesca. Additionally, Actelion is developing a selective endothelin receptor A antagonist called Clazosentan, for the treatment of ➔*vasospasms* as a result of ➔*subarachnoid haemorrhage (SAH)*, with a dose finding Phase IIb being fully enrolled both in the US and in Europe. Data release is expected in the first half of 2006. Lastly, Actelion runs an important alliance with the American company Merck for the development and marketing of ➔*renin inhibitors* for the treatment of cardiorenal diseases. Merck is expected to initiate clinical trials in 2006. Other ongoing clinical trials run at Actelion include a Phase IIa for Actelion-1 in an undisclosed cardiovascular indication as well as Phase I studies for both an orexin antagonist for treating sleep disorders and an S1P1 antagonist for treating autoimmune diseases.

Genzyme

Market capitalization as at 12/31/2005: USD 18.3 bn

Genzyme specializes in treatments for very diverse, previously non-treatable diseases. Among them are rare hereditary genetic disorders, kidney diseases, and orthopedic condi-

Company profiles

tions. Cerezyme, a biotechnologically manufactured →*enzyme* used in the treatment of Gaucher's disease (a →*lysosomal* storage disorder) is one of Genzyme's most important products. The company improved the treatment of patients with kidney disease who are on dialysis with the introduction of Renagel, a calcium and aluminium-free phosphate binder, in 1998. In 2003, Genzyme introduced two important new products in the area of lysosomal storage disorders in the US; Fabrazyme, a drug used to treat →*Fabry's disease*, and Aldurazyme, a product for treating →*mucopolysaccharidosis* type 1 (MPS I) that is being marketed with the company Biomarin. Approval of yet another product for a hereditary disorder, Myozyme for →*Pompe's disease*, is expected early in 2006. In 2004, the company established a presence in the large →*oncology* market with the acquisition of Ilex Oncology, which added Campath, on the market for chronic →*lymphocytic leukemia*, and Clolar, on the market for pediatric acute →*lymphoblastic leukemia*. In 2005, Genzyme regained marketing rights in the US and Europe to Synvisc, for orthopedic indications, and strengthened its renal franchise with the acquisition of Bone Care, which added Hectoral, a vitamin D analog on the market for dialysis patients with elevated →*parathyroid* hormone levels.

OSI Pharmaceuticals

Market capitalization as at 12/31/2005: USD 1.4 bn

OSI Pharmaceuticals develops and commercializes drugs for oncology, ophthalmology, and diabetes. The company's first marketed product is Tarceva, an oral inhibitor of the epidermal growth factor receptor (→*EGFR*) for cancer that is partnered with Genentech (US) and Roche (Europe). Results from a Phase III trial comparing Tarceva to best supportive care in second- and third-line →*non-small cell lung cancer (NSCLC)* patients showed a statistically significant two-month improvement in survival. Importantly, the survival benefit was seen across nearly all patient subgroups. Based on these strong results, Tarceva received US approval in November 2004; approval in Europe followed in September 2005. In September 2004, OSI announced that data from a Phase III trial comparing Eli Lilly's Gemzar plus Tarceva to Gemzar alone in first-line pancreatic cancer patients showed a statistically significant 23.5% improvement in survival. US approval of Tarceva for this indication was received in November 2005. Following the December 2004 failure of AstraZeneca's Iressa (another oral inhibitor of EGFr) to show an improvement in survival in the Phase IV ISEL trial in NSCLC, Tarceva has become the preferred product in all tumor types. Longer-term, Tarceva holds promise as an adjuvant and/or maintenance therapy in indications such as NSCLC and ovarian cancer, and replacement of chemotherapy in select indications such as second-line NSCLC may be possible with its use in combination with Genentech's Avastin, for example. The November 2005 acquisition of Eyetech Pharmaceuticals gave OSI its second marketed product, Macugen, which was approved for age-related →*macular degeneration (AMD)* in December 2004. Additional trials in AMD, as well as diabetic →*macular edema* and retinal vein occlusion, are currently ongoing.

Amgen

Amgen is the largest biotechnology company in the world with revenue exceeding USD 12 bn p.a. Key products include →*Epogen* and Aranesp for the treatment of anemia (low count of red blood cells), Neupogen and Neulasta for the treatment of chemotherapy induced →*neutropenia* (low count of white blood cells), and Enbrel for the treatment of →*rheumatoid arthritis*. Aranesp, an improved

Market capitalization as at 12/31/2005: USD 97.3 bn

version of Epogen, has profited from increased market penetration as it gains share from its principle competition Procrit/Eprex (J&J), in the USA as well as in Europe. Hereto in the treatment of neutropenia, market share has shifted from Neupogen to less frequently administered Neulasta. Enbrel continues to be the drug of choice in the rheumatoid arthritis market and is expanding to other areas such as →*psoriasis*, psoriatic arthritis, and ankylosing spondylitis/Bechterew's disease. The rest of the portfolio includes Sensipar for the treatment of secondary →*hyperparathyroidism* in dialysis patients. Palifermin, a keratinocyte growth factor used to treat →*mucositis* in cancer patients, was also approved in December 2004 to be used in patients with hematological cancer undergoing chemotherapy. Some of the more important products in Amgen's pipeline that warrant attention are AMG-162 for →*osteoporosis* and panitumumab for cancers. Panitumumab, jointly developed by Amgen and Abgenix, recently demonstrated benefit in dealying tumor progression in a randomized ph3 trial in refractory colorectal cancer. Amgen subsequently acquired Abgenix in December 2005 and now own the worldwide rights of panitumumab.

Genentech

Genentech is one of the two largest companies in the biotech sector and the leader in developing novel products for the treatment of cancer and other large market indications. 2005 was a remarkable year for Genentech with the clinical successes of Avastin for non-small cell lung cancer (NSCLC) and breast can-

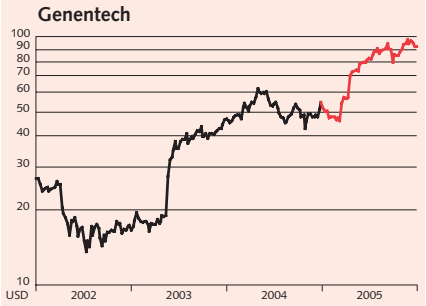
"I've been a stockholder since the day I could say BB BIOTECH correctly for the very first time"

For G.S. (11), a primary school pupil, the biggest things in life today are soccer, golf, tennis and skiing. His father believes in the potential of the industry and in the ability and competence of the Management Team.

"The biotech industry holds the key to the future, and I find the business philosophy of BB BIOTECH quite compelling"

L.K. (27), from Germany, who has been living in Switzerland for two years now, is part of the Technical Accounting division of a reinsurance company.

Company profiles



Market capitalization as at 12/31/2005: USD 97.5 bn

cer, Herceptin as adjuvant therapy in breast cancer, Lucentis for wet age-related macular degeneration, and Rituxan for rheumatoid arthritis. Avastin achieved more than 60% penetration in the metastatic front line colorectal cancer market already in the first year of its launch. We expect to see accelerating sales of Avastin from the use in NSCLC and metastatic breast cancer indications and Herceptin use in the adjuvant treatment of breast cancer. Some important drivers in 2006 for Genentech include label expansions of Avastin, approval of Lucentis in wet AMD and approval of Rituxan in rheumatoid arthritis.

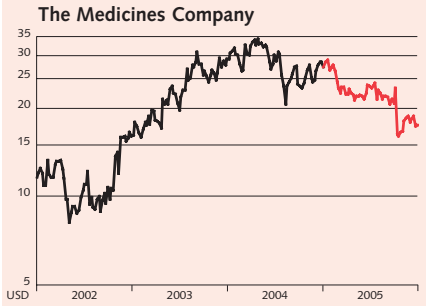
Affymetrix

Market capitalization as at 12/31/2005: USD 3.2 bn

Affymetrix Inc. is focusing on the development, manufacture, sale, and service of systems for genetic analysis for use in the life sciences and in clinical diagnostics. The company's GeneChip system employs ➔*microarray technology*, developed by the semiconductor companies, to detect genetic patterns in a highly efficient manner. The company has established itself as the clear technology leader. The recently added product offering for single nucleotide polymorphism (SNP) analysis has contributed substantially to the company's growth in 2005, and is expected to expand even further due to large population studies being initiated. The ➔*RNA* array offering increased with the tiling array as a novel exon array. Manufacturing of these arrays has become complex, with the company substantially expanding its capacity both in the US and internationally for the expected increasing demand in the future. The acquisition of Parallel has further broadened the offering to the research community, allowing ➔*allele-specific genetic read-outs*. The majority of the company's revenues expected at around USD 450 mn in 2006 are still driven by research use of these chips, with diagnostic applications being at an early stage. Affymetrix and Roche Diagnostic have signed an exclusive license for Affymetrix array technology, with Roche having launched the first molecular diagnostic test in January 2005 in the US. The test allows physicians to select appropriate medications and doses of medications in conditions such as cardiac diseases, pain and cancer.

The Medicines Company

Founded in 1996, the company is focused on the development of biopharmaceutical products for the acute care market. Angiomax (Bivalirudin), the company's biggest-selling product, is a clotting inhibitor used to treat patients with unstable ➔*angina pectoris* in the PCI (percutaneous coronary intervention) setting. The Replace-II-study, the most extensive clinical study of its kind, proved that Angiomax with provisional GP IIb/IIIa blockade during elective PCI is superior to heparin alone with respect to protection from ➔*ischemic* events and bleeding complications. The therapy was not inferior to that of heparin plus a GP IIb/IIIa inhibitor, and was associated with fewer bleeding complications. The results of further clinical studies show that patients treated with Angiomax have a significantly reduced mortality rate in comparison with those treated with heparin. Furthermore, the risk of a second myocardial infarction is also reduced.



Market capitalization as at 12/31/2005: USD 868 mn

While the drug is more expensive than heparin, there are still significant pharmacoeconomic arguments in favor of Angiomax since its use results in fewer complications. For Angiomax, multiple label expansion opportunities lie in CABG (➔*coronary bypass arterial graft surgery*) and ACS (➔*acute coronary syndrome*). We expect data from the important ACUITY (Acute Catheterization and Urgent Intervention Triage strategY) trial testing Angiomax in ACS setting in spring 2006.

The most advanced products in the pipeline are a ➔*calcium antagonist* (Clevidipine) and a short-acting inhibitor of platelet activation (Cangrelor). Clevidipine is currently in Phase III studies to evaluate the use in preoperative hypertension and post-operative hypertension. Cangrelor is expected to enter Phase III in early 2006 in PCI setting.

Elan

Market capitalization as at 12/31/2005: USD 5.5 bn

Elan is a neuroscience based biotechnology company headquartered in Dublin, Ireland. The company is focused in discovering, devel-

Company profiles

oping and manufacturing advanced therapies in autoimmune diseases and neurology, particularly in multiple sclerosis, ➔*Alzheimer's disease*, Parkinson's, and severe pain. Following a period of significant turmoil, the new management at Elan, initiated a sizable restructuring program in the summer of 2002, and successfully restored financial stability. Elan's current products in the market are Prialt (severe chronic pain), Azactam and Maxipime (antibiotics). The company also holds a strong drug delivery franchise that generates royalty and collaboration revenues. The growth prospects for Elan depend on the future of Tysabri, a humanized alpha-4 integrin antibody, approved in November 2004 for the treatment of relapsing and remitting multiple sclerosis and withdrawn from the market on February 28, 2005 (see Biogen Idec section). In addition, Elan is running extensive research work on Alzheimer's disease and has already moved several projects into clinical development. An antibody against beta amyloid is currently tested in Phase II trials and a vaccine against beta amyloid entered Phase I in 2005.

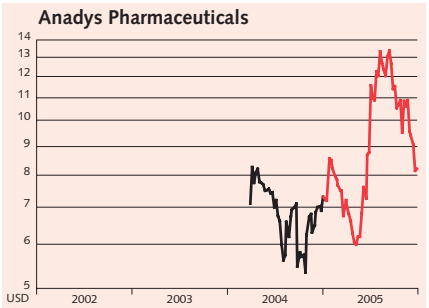
Vertex Pharmaceuticals

Market capitalization as at 12/31/2005: USD 2.7 bn

Vertex is focused on discovering and developing small molecule drugs for diseases that include HIV infection, hepatitis C, inflammatory and autoimmune disorders, cancer, pain, and bacterial infections. Its strategy is to retain US development and marketing rights to product candidates for hepatitis C and inflammation, and to partner candidates for other disease areas. Its lead product is VX-950, a ➔*protease inhibitor* for hepatitis C. Results from a Phase Ib trial with VX-950 monotherapy were very promising, showing a 4.4 log viral load reduction at day 14 in patients who received the optimal dose. Phase IIa studies in combination with ➔*pegylated interferon* and ribavirin (the current standard of care) in treatment-naive patients began in December 2005. Data and the start of 3-month Phase IIb trials are expected to follow in the first quarter of 2006. If the strong antiviral potency seen in the Phase Ib study is confirmed and results from Phase IIb and Phase III trials show a greater than 50% rate of sustained viral clearance with no significant safety and/or resistance issues, VX-950 has the potential to dramatically alter the standard of care in the multi-billion-dollar hepatitis C market. Current collaborators for candidates outside of Vertex's core area of focus include Avalon (IMPDH inhibitors for cancer), GlaxoSmithKline (protease inhibitors for HIV and ➔*sodium channel modulators* for pain), Merck (➔*aurora kinase inhibitors* for cancer), and Novartis (protein kinase inhibitors for multiple indications). Within its core area of focus, Vertex granted Kissei development and commercialization rights to p38 inhibitors in Asia and Mitsubishi development and commercialization rights to VX-950 in Asia.

Anadys Pharmaceuticals

Anadys is using its expertise to develop products for the treatment of hepatitis C, hepatitis B, and bacterial infections. The Company's lead compound for hepatitis C, ANA975, is an oral toll-like receptor 7 agonist designed to induce local overexpression of alpha interferon and other downstream modulators, thereby giving it the potential to replace PEG-Intron and Pegasys (worldwide sales over USD 1.5 bn) as an oral formulation with reduced side effects. Proof-of-concept was demonstrated by the first-generation compound, which showed a statistically significant viral load reduction at day 7 when delivered by intravenous injection in a Phase Ib trial. ANA975, a second-generation drug, was shown to cause alpha interferon production in animals. A 28-day Phase Ib trial with ANA975 in hepatitis C patients is expected to start in January of



Market capitalization as at 12/31/2005: USD 249 mn

2006, with results and the start of 3-month Phase II combination studies to follow in the second half of 2006. The Company will also pursue development of ANA975 for hepatitis B, with a Phase Ib trial set to begin in the first half of 2006. As part of an agreement struck with Novartis in June 2005, Novartis has worldwide rights to develop, manufacture, and commercialize ANA975 for hepatitis C and hepatitis B, as well as other infectious diseases. With partner LG Life Sciences, Anadys is also developing ANA380 for hepatitis B. The product has shown high potency in both treatment-naïve and lamivudine (GlaxoSmithKline)-refractory patients in early studies. Final data from a 3-month Phase II trial in lamivudine-refractory patients are expected in the first quarter of 2006.

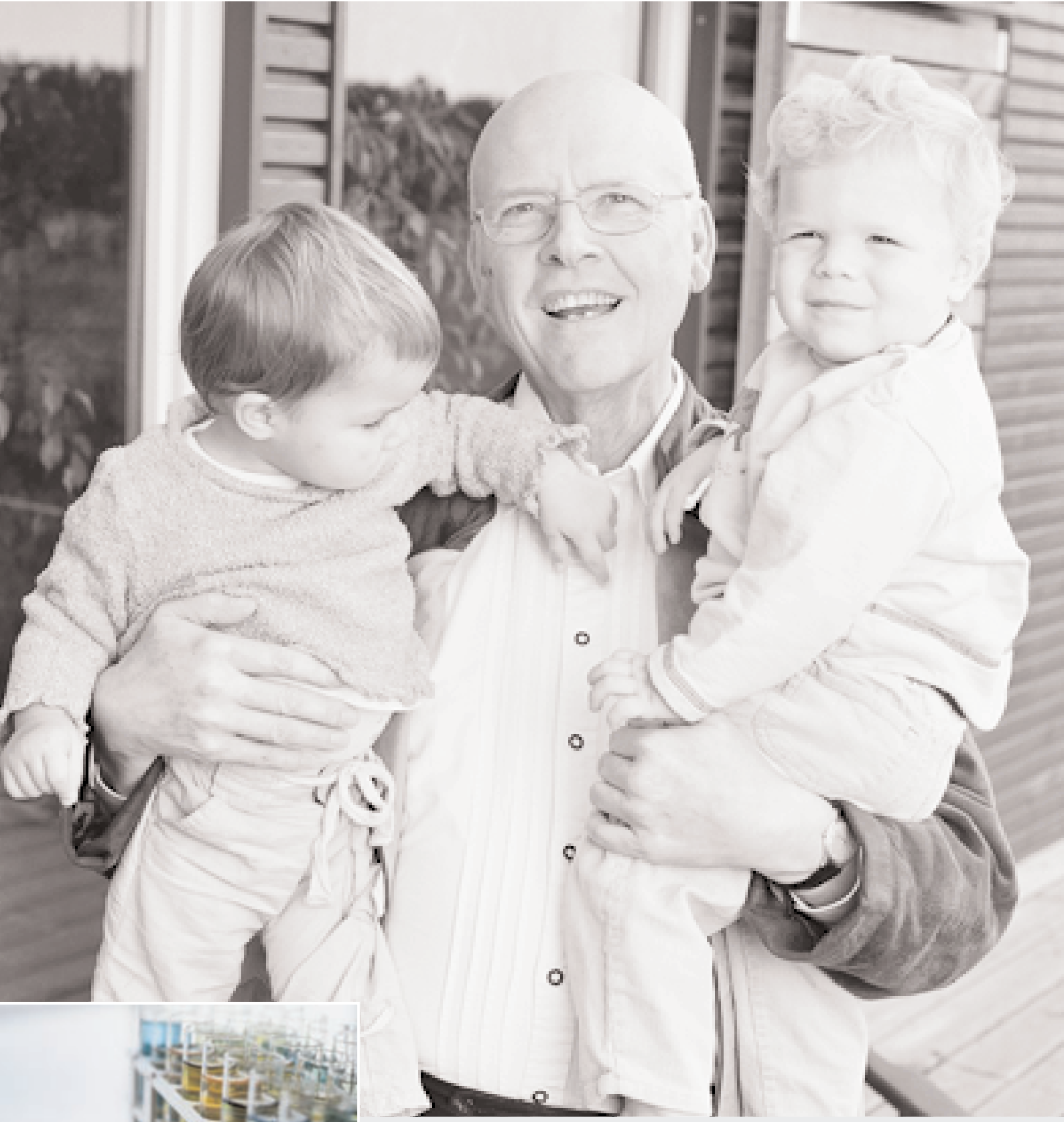
Incyte

Market capitalization as at 12/31/2005: USD 445 mn

In April 2004, Incyte made the transition from a service company providing gene sequence information to a drug discovery company focused on HIV infection, inflammation, cancer, and diabetes. In September 2003, Incyte li-

"I believe in the future of the biotech industry and I know how important research is for the future of medicine and that of humankind"

S.R. (47), an art aficionado from the state of Hesse in Germany, is engaged in the field service as a pharmaceutical consultant.



"This subject matter is far too complex even for an interested investor to make individual investment decisions"

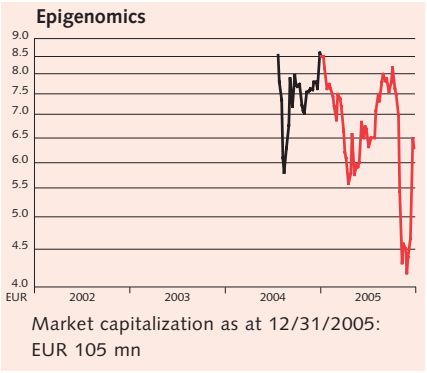
G.B. (60), a pensioner living in the Westerwald area in Germany, spends a great deal of time with his grandchildren on the pony farm.

Company profiles

censed exclusive rights to its lead product DFC (formerly Reverset), a nucleoside reverse transcriptase inhibitor for HIV infection, in the US and Europe from Pharmasset. In vitro, preclinical, Phase I, and Phase IIa data indicated that DFC has the potential to inhibit wild-type HIV as well as HIV resistant to the most widely used drugs with once daily dosing. Data from a Phase IIb trial in 180 treatment-experienced patients who received DFC or placebo with other antiretroviral agents for six months were reported in July 2005 and showed a significant reduction in viral load in those who received the 200 mg dose without Epivir or Emtriva (other cytidine analogs). Together, these data suggest that DFC has the potential to replace Epivir/Emtriva as the preferred cytidine analog for second-line and salvage HIV regimens if the toxicity profile is favorable. Per the FDA's request, another Phase IIb study designed to demonstrate superiority of DFC over Epivir/Emtriva in triple class failure patients is expected to start in the first quarter of 2006, with results and the start of Phase III trials to follow in the second half of 2007. Additional programs include CCR2 inhibitors for inflammatory disorders and diabetes, partnered with Pfizer in November 2005, sheddase inhibitors for cancer, and CCR5 inhibitors for HIV infection.

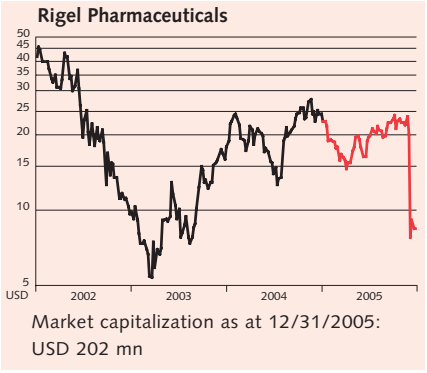
Epigenomics

Epigenomics is developing diagnostic markers for both the early detection of cancer as well as for the classification of already developed and identified cancers. The underlying technology measures gene activity of cancer cells either in isolated tissue to diagnose tumor stage and aggressiveness or in remote samples such as blood for the early detection and diagnosis of cancer. The most advanced program is developed for the early detection of colon cancer from blood samples. A positive outcome of this test was reported in late 2005, with the highly promising data being the basis for Roche to exercise its exclusivity option for the identified marker. The second most advanced developed diagnostic marker is a tissue based diagnostic test for the stratification of breast cancer patients according to their possible drug responsiveness to Tamoxifen. Additional projects in earlier development stages include a prostate cancer tissue classification test as well as blood screening tests for both breast cancer and prostate cancer. The company has signed a variety of collaborations with companies like AstraZeneca, Wyeth, Biogen Idec and Pfizer. The company runs a collaboration with Qiagen who is selling methylation relevant research reagents into academia.



Market capitalization as at 12/31/2005: EUR 105 mn

Rigel Pharmaceuticals

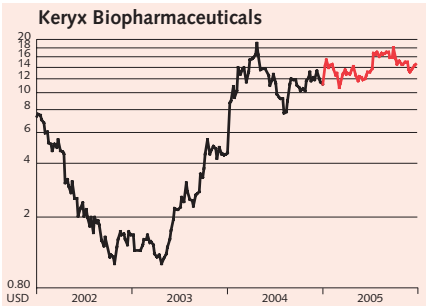


Market capitalization as at 12/31/2005: USD 202 mn

Rigel is discovering and developing novel small molecule drugs for indications that include →*allergic rhinitis*/allergic asthma, rheumatoid arthritis, and cancer using its proprietary cell-based target identification and validation technology platform.

The lead program is inhibitors of Syk (spleen tyrosine kinase), which plays a key role in IgE and IgG receptor mediated signaling in B cells, basophils, macrophages, and mast cells, allowing the potential to treat diseases such as allergic rhinitis, allergic asthma, and rheumatoid arthritis. While intranasal R112, the first generation Syk inhibitor for allergic rhinitis, showed promising data in an allergen challenge trial and a Phase II park study, a larger Phase II trial was not successful due to lack of durability of effect. Rigel has more potent analogs of R112 with slower dissolution rates, one of which could enter efficacy studies in the first half of 2007. In addition, it is developing analogs that will be formulated for inhaled delivery for allergic asthma as part of a USD 200 mn deal signed with Pfizer in January 2005. A lead compound is expected to be selected in the first half of 2006, with clinical trials to follow in the first half of 2007. Rigel has completed Phase I healthy volunteer studies with R788, a potent and selective oral Syk inhibitor for rheumatoid arthritis. The results showed that R788 was well tolerated and had a good pharmacokinetic profile. The start of Phase II efficacy trials with R788 is expected in mid-2006. In addition to Pfizer, Rigel has partnerships with Daiichi (oncology), Johnson & Johnson (oncology), Merck (ubiquitin ligase inhibitors for cancer), Novartis (immunology, oncology, chronic bronchitis), and Serono (aurora kinase inhibitors for cancer).

Keryx Biopharmaceuticals



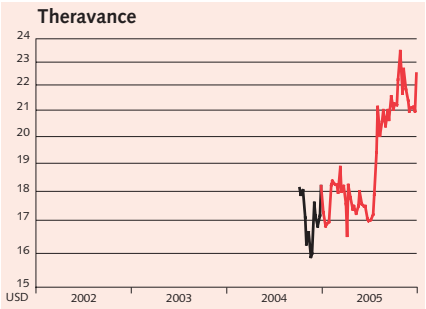
Market capitalization as at 12/31/2005: USD 552 mn

Keryx is focused on the acquisition, development, and commercialization of novel drugs for diseases that include diabetes and cancer. The company's lead product, KRX-101 (sulodexide), is in Phase III and Phase IV studies for the treatment of diabetic nephropathy

Company profiles

(high levels of the protein albumin in urine), which affects an estimated four to six million patients in the US. To date, KRX-101 has demonstrated the ability to significantly reduce urinary albumin levels, the presence of which is the first indicator of kidney dysfunction and an early predictor of renal failure, in eight pilot trials, a Phase II trial conducted in Italy and Eastern Europe (DiNAS), and a Phase II trial conducted in the US. Based on these data, the CSG (Collaborative Study Group, conducted the pivotal trials for two of the three drugs that are currently approved for diabetic nephropathy) recommended the start of a Phase III trial that will include 1 000 patients with elevated albumin levels despite maximum doses of anti-hypertensive drugs, which it will also conduct. Enrollment is expected to complete in the second half of 2006, with results to follow in the first half of 2007. Importantly, Keryx has received an SPA from the FDA for the trial, indicating that achievement of the primary endpoint has a high likelihood of yielding an approval. The company is also conducting multiple Phase II studies with KRX-401 (Perifosine) in various solid tumors and hematologic cancers. Data should be available in the first half of 2006.

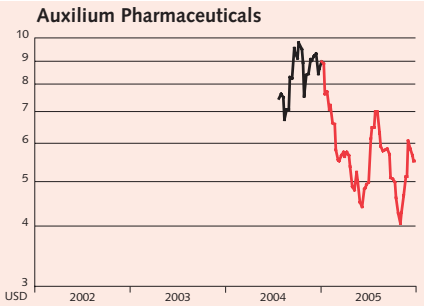
Theravance



Market capitalization as at 12/31/2005: USD 999 mn

Theravance is a biopharmaceutical discovery and development company with a pipeline of new products led by telavancin, a novel gram-positive antibiotic and the "Beyond Advair" program with GSK for the treatment of advanced respiratory disease. In March 2004, the company completed a development, commercialization and corporate alliance agreement with GSK. In exchange for an option to license product candidates from Theravance's current and future drug discovery programs initiated prior to September 1, 2007, GSK increased its investment in the company. GSK has the right, at its sole discretion, to acquire ("call") in 2007, half of Theravance's outstanding shares of common stock at USD 54.25 per share. Alternatively, Theravance's stockholders, other than GSK, have the right to cause GSK to acquire ("put") up to half of their outstanding stock in 2007 at USD 19.375 per share. The important events to watch for in 2006 are the clinical data from the Phase III telavancin trials, and the progress of the "beyond advair" program.

Auxilium Pharmaceuticals



Market capitalization as at 12/31/2005: USD 160 mn

Auxilium was founded in 1999 to develop and market pharmaceutical products that focus on urology and sexual health. The company's lead product, Testim, is a topical testosterone gel indicated for the treatment of →*hypogonadism*. Hypogonadism is a disorder that affects approximately 20% of the male population over age 50, and is associated with lower than normal levels of testosterone hormone which can lead to low energy levels; loss of sex drive; decreased sexual performance; loss of muscle mass; reduced bone density; increased body fat; and mild depression. The company's product pipeline includes AA4500 for the treatment of Peyronie's disease, and a transmucosal film delivery system for androgen replacement and the treatment of overactive bladder.

BioXell

(unlisted company)

BioXell is focusing on biologically active Vitamin D3 analogues, testing them in different urology and inflammation related diseases. The company is still private, being founded as a spin-off from Roche, Italy in 2002. The company's lead candidate, BXL-628, is currently being tested in a larger Phase IIb program for the treatment of benign →*prostatic hyperplasia* (BPH). Possible line extensions into other disease areas for BXL-62o are being tested for treating overactive bladder (OAB) and chronic non-bacterial prostatitis (CP). The OAB Phase IIa study is expected to report in 2006, with the CP study just recently being initiated. The company did sign an exclusive, worldwide license agreement with Merck & Co., Inc. for the development of both therapeutic and diagnostic applications in sepsis. In addition, the company has a collaboration agreement with ProSkelia in place for developing Vitamin D3 analogues for the treatment of osteoporosis and for secondary hyperparathyroidism. The latest financing round in October 2004 was led by BB BIOTECH, with the company raising additional EUR 23 mn for financing its broad clinical development plans.

Source of Charts: Datastream

"The biotech industry delivers enormous potential for decades ahead. With BB BIOTECH, I can participate in these advances"

R.B. (37), entrepreneur and molecular biologist from Italy, spent 10 years working for a US biotech company.

Glossary

Acute coronary syndrome (ACS): An acute insufficient oxygen supply to the heart.

AIDS: (Acquired Immunodeficiency Syndrome) Chronic infection with human immunodeficiency virus (HIV). The function of certain cell types of the immune system is altered. Therefore, AIDS patients have a compromised immune system.

Allele-specific genetic read-outs: Method for detecting differences in the genetic sequences of the two alleles. Each gene occupies a specific location or locus on a chromosome; this locus is called its "allele". Alternative forms of the particular gene can exist at each allele. These variants of the same gene (one from the mother and one from the father) are called alleles.

Allergic rhinitis: Allergic disorder of the nasal mucosa with the following symptoms: fits of sneezing, nasal secretions (runny nose), nasal obstruction (stuffy nose) and itching. This condition affects primarily individuals allergic to pollen, house dust mites, animal hair or molds.

Alzheimer's disease: A chronic disease of the brain characterized by slow but steady metal deterioration.

Angina pectoris: A symptom complex usually involving chest pain which can occur during physical exercise. Usually a consequence of narrowed coronary arteries.

Anti-TNF therapies: (TNF = tumor necrosis factor) Since TNF receptors are found in numerous cells, TNF can trigger a large number of biochemical processes. It can impair tumor growth, for example, by modifying the creation of surface proteins, including surface proteins responsible for forming bonds to other cells or for producing growth factors. TNF-alpha damages the blood vessels in tumors, causing microscopic thromboses and allowing immune cells to penetrate the tumor.

Aortocoronary bypass arterial graft surgery: The aortocoronary bypass operation is one of the most frequently performed surgical procedures. This operation is carried out by cardiac surgeons to reopen constricted or closed coronary vessels.

Arterial hypertension: Arterial hypertension is defined as blood pressure in the systemic circulation with a value of 140/90 or above.

Aurora kinase inhibitor: Aurora kinases play a central role in cell division (mitosis). They stabilize the genome during the replication of DNA. Especially high concentrations of the aurora kinases are found in tumor cells. Inhibitors of aurora kinases halt tumor growth.

Calcium antagonists: A drug which lowers blood pressure.

EGFR: (Epidermal Growth Factor Receptor) The epidermal growth factor receptor is a cell receptor. Recent studies show that this receptor has an effect on apoptosis (natural cell death), a process which is impaired in malignant cancer cells. The administration of inhibiting substances to this receptor group could trigger apoptosis and thus inhibit the growth of a malignant tumor or even cause it to decrease in size.

Endothelin: Naturally occurring hormone, most powerful vasoconstrictor, triggers constriction of vessels.

Enzyme: A protein that catalyses a specific reaction. Almost all chemical reactions occurring in uni- and multicellular organisms are catalyzed by enzymes.

Epogen: Recombinant erythropoietin α; this protein regulates the production of red blood cells and decreases blood transfusion requirements for hemodialysis patients.

Fabry's disease: Rare hereditary disease in which there is deficient activity of a lipocatabolic enzyme. It leads to organic disorders, in particular to renal failure.

FDA: Food and Drug Administration. US-authority which regulates market access of new drugs.

Glossary

Gaucher's disease type 1: A rare, hereditary lysosomal storage disorder. Lipids, abnormal Cerebrosides, are deposited in the spleen, liver and bone marrow. This leads to enlargement of and functional disorders in the affected organs.

Haematology: Haematology is the study of blood diseases.

Hepatitis B: Hepatitis B is a viral infection of the liver. Most adult patients with hepatitis B recover completely. However, 5–10% of cases become chronic and can lead to liver cirrhosis or cancer.

Hepatitis C: Acute inflammation of the liver caused by hepatitis C virus. Hepatitis C is the most frequent form of liver inflammation transmitted by blood transfusion, and accounts for approx. 90% of post-transfusion liver inflammations.

HIV: (Human Immunodeficiency Virus) The virus that causes AIDS.

Hyperparathyroidism: Over production of the parathyroid hormone (PTH) due to pathological enlargement of one or more parathyroid glands. Chronically high levels of PTH can cause symptoms including bone loss, bone pain, high blood pressure, kidney stones and mental dysfunction in varying combinations and severity.

Hypogonadism: Inadequate functioning of the gonads (testes or ovaries). Hypogonadism leads to a deficiency of sexual hormones (in male patients to a deficiency of testosterone).

Immunomodulators: Agents affecting the immune system.

Interferons: Proteins produced by human cells which ward off viral infection by "interfering" with viral growth. Interferons play an important role in the body's immune defenses.

Ischemic complications: Complications caused by a reduction or interruption of the perfusion of an organ, organ part, or tissue attributable to an insufficient arterial blood supply.

Leukoencephalopathy (PML): (Progressive multifocal leukoencephalopathy) A viral infection in the brain which can lead to various types of physical and mental impairment. The virus attacks certain cells in the brain, the oligodendrocytes, which perform the function of protecting and isolating the axons. When these cells die, transmission of nerve signals is interrupted. In general several regions are affected at the same time. Frequently, this process progresses until the entire cerebral hemisphere is damaged.

Lymphoblastic leukemia: Chronic lymphatic leukemia (CLL) is a lymphocytic non-Hodgkin's lymphoma displaying a low degree of malignancy. The incidence of the disease increases with age.

Lymphocytic leukemia: A malignant disease affecting the blood and lymph system in which abnormal cells proliferate and accumulate in the bone marrow, lymphatic system and blood.

Lymphoma: This is a benign or malignant swelling of the lymph nodes.

Lysosomes: Cell constituents inside the cells (e.g. white blood cells) which break down excess waste substances, e.g. toxins produced during the destruction of pathogenic microorganisms.

Macular degeneration: A disease of the retina resulting from pathological transformation processes and the deposition of breakdown products in the macula lutea – the area where retinal vision is most acute. The condition leads to gradual loss of vision.

Macular edema: Accumulation of fluid in the retinal macula causing impairment of vision.

Microarray technology: Analog to the process whereby tiny electrical circuits are placed on computer chips, it is now possible to place tiny amounts of genetic material on a chip in the form of DNA, RNA and protein molecules. The first major application to emerge from microarray technology is gene expression analysis. During this kind of analysis, thousands of genes are analyzed and evaluated simultaneously in individual cells.

Glossary

Mucopolysaccharidosis type 1:	This illness is one of the rare hereditary lysosomal storage disorders. Through a genetic enzyme defect it leads to a deficiency of the lysosomal enzyme alpha-L-iduronidase. This enzyme is required to as GAG (glycosaminoglycans). As more and more GAG builds up in a person's body, almost all organs can be irreversibly damaged.
Mucositis:	Inflammation of the mucous membranes (mucosa) in the oral cavity and gastrointestinal tract.
Multiple sclerosis:	A chronic degenerative neurological disease affecting nerve fibers, by which the myelin sheath, which is necessary for the normal functioning of the nerve fibers, undergoes destruction by a patient's own immune system.
Multiple myeloma:	Plasmacytoma (today usually referred to as multiple myeloma, in the past called Kahler's disease) is a malignant disease of the B cells. Infiltration of the hematopoietic (blood-building) bone marrow by malignant plasma cells is characteristic of the disease. Frequently reported symptoms include bone weakness, fractures and a deficiency of red and white blood cells.
Myelodysplasia (MDS):	(MDS) Myelodysplastic syndromes are blood diseases in which there are pathological changes in the blood composition as a consequence of defective maturation of blood precursor cells.
Nephrology:	Nephrology is the branch of medical science concerned with kidney disease.
Neutropenia:	A reduction in a particular type of white blood cells (neutrophil granulocytes).
Non-Hodgkin's lymphoma:	Malignant cancer of the lymphatic system.
Non small cell lung cancer (NSCLC):	Plum-sized tumor in the lower segments of the lungs with a displacing effect.
Nucleotide reverse transcriptase inhibitor:	A drug which inhibits the viral polymerase through direct binding competition with the natural deoxyribonucleotide substrate. It blocks the conversion of viral RNA to DNA and thereby stops human cells from being infected by the virus.
Oncology/Cancer:	Oncology deals with the treatment of malignant tumors and related diseases. Cancer is defined by uncontrolled or inappropriate cell proliferation or division. Migration of cancer cells leads to metastasis. Cancer is the second most common cause of death in the developed world.
Osteoporosis:	Loss of bone mass occurring mainly after age 60. In patients with osteoporosis the bones become progressively porous and brittle.
Parathyroid (PTH):	A hormone produced by the parathyroid. This hormone affects the balance between calcium and phosphorous, especially during bone formation.
Pegylated interferon:	Interferon administered in depot form.
Pompe's disease:	A disorder of glycogen storage (glycogenosis) characterized by excessive glycogen deposits in various organs (e.g. liver, kidney, heart).
Prostate hyperplasia:	Benign prostate enlargement occurs mainly in men over age 50. The main symptom is difficulty in urinating. The incomplete emptying of the bladder and residual urine characteristically found in this group of patients can lead to complications such as bladder and kidney infections.
Protease inhibitors:	Inhibit activity of an enzyme which cleaves proteins.
Psoriasis:	A skin disease characterized by papular and scaly cutaneous lesions.
Relapsed/refractory:	Recurring/insensitive, resistant to treatment.
Renin inhibitors:	Renin is an enzyme which starts the initial step of blood pressure-regulating metabolic cascade. A renin inhibitor blocks this metabolic cascade.

Glossary

Rheumatoid arthritis: Systemic autoimmune disease involving the destruction of the lining of the joints resulting in pain, swelling, stiffness, progressive joint destruction and immobilization.

RNA: RNA is a nucleic acid which occasionally serves as a carrier of genotypes in living cells instead of DNA. In the majority of living creatures, however, RNA plays a subordinate role to DNA as an information carrier.

Sodium channel modulators: Sodium channels are of vital importance to nerve cells for the transmission of signals. The pharmacological modulation of these channels aims to influence the exchange of sodium ions between the extracellular space and the inside of the cell. As a result, the transmission of stimuli (especially pain stimuli) can be suppressed.

Subarachnoid haemorrhage (SAH): A subarachnoid heaemorrhage is a serious, potentially life-threatening condition. It happens when an artery close to the brain surface ruptures. Blood leaks out into the space between the membranes that cover the brain and spinal chord. The cause is usually the bursting of a dilated cerebral vessel (aneurysm).

Vasospasms: Spasms of the arteries which lead to narrowing and ischaemia.

Clinical Trials and the Approval Process are conducted in three Phases:

Phase I: "First time in man" trials to determine the safety of a drug, its pharmacokinetics, meta bolism, biodistribution and excretion; typically involving 5 to 50 healthy volunteers.

Phase II: Determination of optimal dosage, safety (and initial indication of efficacy); typically involving 50 to 200 patients.

Phase III: Statistically relevant determination of safety and efficacy, may also include interaction with other drugs; typically involving 100 to more than 1 000 patients, depending of the therapeutic category. For marketing approval in the US, data from preclinical and clinical testing, and information about the manufacturing process are submitted to the Food and Drug Administration (FDA) in a New Drug Application (NDA) or Biologic License Application (BLA); an FDA advisory panel reviews the submission and gives a recommendation or non-recommendation for approval. The decision regarding marketing approval resides with the FDA, which usually, but not always follows the recommendation of the advising panel. The approval process in Europe is similar, leading agency is the EMEA (European Agency for the Evaluation of Medicinal Products).

Consolidated financial statements

Consolidated balance sheet as at December 31 (in CHF 1 000)

Assets	Notes	2005	2004	Liabilities and shareholders' equity	Notes	2005	2004
Current assets				**Current liabilities**			
Liquid funds		1 166	36 251	Payables to brokers		92 602	2 491
Receivables from brokers		108 065	4 491	Securities short	4	1 401	–
Receivables from convertible bond		197 000	–	Other short-term liabilities	5	1 113	1 067
Marketable securities	4	2 191 997	1 877 271	Tax provisions	6	64	29
Other assets		4	4				
		2 498 232	**1 918 017**			**95 180**	**3 587**
				Long term liabilities			
				Convertible bond	16	112 852	–
				Liability from options	16	10 318	–
						123 170	**–**
				Total liabilities		**218 350**	**3 587**
				Shareholders' equity			
				Share capital	7	25 700	25 700
				Treasury shares	7	(35 439)	(123 615)
				Additional paid-in capital	7	1 083 253	1 065 269
				Retained earnings		1 206 368	947 076
						2 279 882	**1 914 430**
Total Assets	**11**	**2 498 232**	**1 918 017**	**Total Liabilities and shareholders' equity**		**2 498 232**	**1 918 017**
Net Asset Value per share in CHF		90.29	80.32				

The notes on pages 40 to 49 are an integral part of these consolidated financial statements.

On 02/27/2006, BB BIOTECH AG's Board of Directors authorized these financial statements for issue.

Consolidated financial statements

Consolidated statement of income for the year ended December 31 (in CHF 1 000)

	Notes	2005	2004
Operating income			
Gains from marketable securities	4	332 660	213 326
Interest income		377	126
Dividend income		–	240
Foreign exchange gains net		–	2 017
Other income		213	55
	11	**333 250**	**215 764**
Operating expenses			
Interest expenses		17	35
Foreign exchange losses net		1 072	–
Administrative expenses	8	8 210	8 274
Commissions paid	16	1 500	–
Other expenses	9	4 277	4 609
		15 076	**12 918**
Operating income before tax		**318 174**	**202 846**
Tax expenses	6	181	94
Net income for the period		**317 993**	**202 752**
Gain per share in issue and diluted gain per share in issue in CHF	10	13.20	8.08
Average outstanding shares		24 088 668	25 096 961

The notes on pages 40 to 49 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of changes in equity for the year ended December 31 (in CHF 1 000)

	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Total
Balances at January 1, 2003	**27 800**	**(133 729)**	**1 243 385**	**627 834**	**1 765 290**
Trade with treasury shares (incl. balance change)	–	10 505	(15 913)	–	(5 408)
Net gain for the year	–	–	–	179 335	179 335
Balances at December 31, 2003	**27 800**	**(123 224)**	**1 227 472**	**807 169**	**1 939 217**
Balances at January 1, 2004	**27 800**	**(123 224)**	**1 227 472**	**807 169**	**1 939 217**
Dividend	–	–	–	(62 845)	(62 845)
Capital reduction	(2 100)	157 247	(155 147)	–	–
Trade with treasury shares (incl. balance change)	–	(157 638)	(7 056)	–	(164 694)
Net gain for the year	–	–	–	202 752	202 752
Balances at December 31, 2004	**25 700**	**(123 614)**	**1 065 269**	**947 076**	**1 914 430**
Balances at January 1, 2005	**25 700**	**(123 614)**	**1 065 269**	**947 076**	**1 914 430**
Dividend	–	–	–	(57 201)	(57 201)
Trade with treasury shares (incl. balance change)	–	88 176	16 781	–	104 957
Options on own shares	–	–	(75 627)	–	(75 627)
Liability from options	–	–	(10 318)	–	(10 318)
Convertible bond	–	–	87 148	(1 500)	85 648
Net gain for the year	–	–	–	317 993	317 993
Balances at December 31, 2005	**25 700**	**(35 438)**	**1 083 253**	**1 206 368**	**2 279 882**

The notes on pages 40 to 49 are an integral part of these consolidated financial statements.

Consolidated financial statements

Consolidated statement of cash flow for the year ended December 31 (in CHF 1 000)

	Notes	2005	2004
Cash flows from operating activities			
Proceeds from sales of securities	4	949 063	1 055 656
Purchase of securities	4	(929 728)	(770 249)
Receivables from/payables to brokers net		(13 463)	(4 905)
Dividends		–	276
Interest receipts		377	124
Interest payments		(17)	(35)
Payments for services		(12 227)	(13 626)
Taxes paid	6	(146)	(133)
Total cash from operating activities		**(6 141)**	**267 108**
Cash flows from financing activities			
Dividend payments		(57 201)	(62 845)
Purchase of treasury shares and derivates on treasury shares		(414 595)	(455 469)
Proceeds from sales of treasury shares and derivates on treasury shares		443 925	290 774
Loans		–	(13 000)
Total cash from financing activities		**(27 872)**	**(240 540)**
Foreign exchange difference		(1 072)	2 017
Increase/(decrease) in cash and cash equivalents		**(35 085)**	**28 585**
Cash and cash equivalents at beginning of year		**36 251**	**7 666**
Cash and cash equivalents at end of year		**1 166**	**36 251**
Liquid funds		1 166	36 251
Cash and cash equivalents at end of year		**1 166**	**36 251**

The notes on pages 40 to 49 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. The Company and its principal activity

BB BIOTECH AG (the Company) is listed in Switzerland, in Germany as well as in Italy and has its registered office in Schaffhausen, Vordergasse 3. Its principal activity is to invest in companies active in the biotechnology industry. The investments are held through its wholly-owned subsidiaries.

Company	Capital in CHF 1 000	Interest in capital in %
BIOTECH FOCUS N.V., Curaçao	11	100
BIOTECH INVEST N.V., Curaçao	11	100
BIOTECH TARGET N.V., Curaçao	11	100
BIOTECH GROWTH N.V., Curaçao	11	100

2. Accounting policies

General

The consolidated financial statements of the Company and its subsidiary companies (the Group) have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidation is prepared from the audited financial statements of the Group companies using uniform accounting principles. With the exception of financial assets and liabilities, the financial statements are prepared on a historical cost basis. The consolidated financial statements are drawn up in accordance with IFRS. This requires management to make assumptions and estimates that have an impact on the balance sheet values and items of the income statement in the current financial year. In certain circumstances, the actual values may diverge from these estimates. As at January 1, 2005 there are new and existing revised IAS Standards to be adopted. The Company has consequently adopted all relevant and below-mentioned Standards since January 1, 2005. In all other respects, the same accounting principles apply as used for the 2004 consolidated financial statements.

New and existing revised IAS Standards adopted by the Company since January 1, 2005:

– IAS 1 (revised 2003) – Presentation of Financial Statements
– IAS 8 (revised 2003) – Accounting Policies
– IAS 10 (revised 2003) – Events after the Balance Sheet Date
– IAS 21 (revised 2003) – The Effects of Changes in Foreign Exchange Rates
– IAS 24 (revised 2003) – Related Party Disclosures
– IAS 28 (revised 2003) – Investments in Associates
– IAS 32 (revised 2003) – Financial Instruments: Disclosure and Presentation
– IAS 33 (revised 2003) – Earnings per Share
– IAS 36 (revised 2003) – Impairment of Assets
– IAS 39 (revised 2003 and 2004) – Financial Instruments: Recognition and Measurement

There are no substantial effects and changes in the accounting policies due to the adoption of the new and existing revised IAS Standards.

In connection with the Standards IAS 28 and IAS 39 we refer to the following chapter "Marketable securities". Securities and derivatives are valued according to IAS 39 and classified as held at fair value through profit or loss. Based on the exemption in IAS 28 for Venture Capital Organizations, mutual funds and similar entities Investments in Associates are treated in accordance with IAS 39.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

The following standards, interpretations and amendments to published standards that are mandatory for accounting periods beginning on or after January 1, 2006 or later periods have not been early adopted:

– IAS 39 (effective January 1, 2006) – The Fair Value Option
– IFRS 7 (effective January 1, 2007) – Financial Instruments: Disclosures

The Group assessed the impact of IAS 39 and IFRS 7 and concluded that these amendments will not have an impact on the classification of financial instruments and will result in some additional disclosures. The Group will apply IAS 39 from annual periods beginning January 1, 2006 and IFRS 7 from annual periods beginning January 1, 2007.

Notes to the consolidated financial statements

Basis of consolidation
The consolidated financial statements include the Company and the subsidiary companies, which are controlled by it. Control is the power to govern the financial and operating policies generally defined as ownership, either directly or indirectly, of more than 50% of the voting rights of a company's share capital. The consolidation is performed using the purchase method. All intercompany transactions and balances with companies included in the consolidation are eliminated. All Group companies have a December 31 year-end.

Foreign currency translation
The consolidated financial statements of the companies are presented in Swiss Francs, which is the Group's functional and presentation currency. Transactions in foreign currencies are converted at exchange rates as at transaction dates. Assets and liabilities in foreign currencies at year-end are translated at rates of exchange prevailing as at the balance sheet date. Exchange differences are reflected in the statement of income. Translation differences on marketable securities held at fair value through profit or loss are reported as part of the net gains/(losses) from marketable securities.

Liquid funds
Liquid funds comprise current accounts and call money at banks.

Receivables/Payables against brokers
Receivables/Payables against brokers result from security transactions and do not bear any interest.

Marketable securities
Securities and derivatives are valued according to IAS 39 and classified as held at fair value through profit or loss. Initially securities and derivatives are recognized at cost and are subsequently remeasured at fair value based on market prices or generally accepted valuation models, such as Black-Scholes- and discounted cash flow model, that are based on market conditions existing at each balance sheet date. Purchases and sales of marketable securities are accounted for at trade date. Realized gains and losses on security trading are recognized in the statement of income as net realized gains/losses from marketable securities at the day of the transaction. Changes in fair value of securities are recognized as net unrealized gains/losses from marketable securities in the statement of income in the period in which they arise. Marketable securities are derecognized when the rights to receive cash flows from marketable securities have expired or where the Group has transferred substantially all risks and rewards of ownership.
Based on the exemption in IAS 28 for Venture Capital Organizations, mutual funds and similar entities Investments in Associates are treated in accordance with IAS 39.
The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity.

Taxes
Taxes are calculated based on reported income and include taxes on capital. Such taxes are calculated in accordance with the tax regulations in force in each country.
The Group provides for deferred taxes using the liability method for items reported in different periods for financial statements and income tax purposes. Tax loss carry forwards are only recorded if there is assurance that future taxable income will be sufficient to allow the benefit of the loss to be realized. Deferred tax balances are adjusted for subsequent changes in tax rates or for new taxes imposed.

Earnings per share
Basic earnings per share are calculated by dividing the net profit/loss attributable to shareholders by the weighted average number of bearer shares in issue during the year, less own shares. For the diluted earnings per share, the weighted average number of bearer shares in issue is adjusted to assume conversion of all dilution potential bearer shares. The potential bearer shares include all bearer shares, which will be issued by exercising warrants or options.

Treasury shares
Own shares and derivative instruments on own shares are deducted from shareholders' equity. On the other hand a short position of own shares increases shareholders' equity. All profits and losses arising from trading in own shares are directly credited/debited to retained earnings. Treasury shares may be acquired and held by the entity or by other members of the consolidated group.

Net Asset Value per share
The Net Asset Value per share is calculated by dividing the net assets included in the balance sheet by the number of shares outstanding less the own shares held.

Dividend income
Dividends on marketable securities are recognized in the income statement when the Group's right to receive payment is established.

Commitments, contingencies and other off-balance sheet transactions
The operations of the Group are affected by legislative, fiscal and regulatory developments for which provisions are made where deemed necessary.

3. Changes in companies consolidated

There have been no changes in the Group companies consolidated in comparison to the prior year.

4. Marketable securities

Marketable securities comprise the following:

Company	Number 12/31/2004	Change to 12/31/2004	Number 12/31/2005	Market price in original currency		Valuation CHF mn 12/31/2005	Valuation CHF mn 12/31/2004
Biogen Idec	2 180 913	2 819 087	5 000 000	USD	45.28	298.5	165.7
Sepracor	3 000 000	1 000 000	4 000 000	USD	51.60	272.1	203.1
Celgene	5 093 400	(2 093 400)	3 000 000	USD	64.80	256.3	154.1
Gilead	6 000 000	(2 473 891)	3 526 109	USD	52.57	244.4	239.4
Actelion	1 850 000	(50 000)	1 800 000	CHF	108.70	195.7	216.1
Genzyme	2 229 000	(629 000)	1 600 000	USD	70.78	149.3	147.6
OSI Pharmaceuticals	–	4 000 000	4 000 000	USD	28.04	147.9	–
Amgen	1 000 000	250 000	1 250 000	USD	78.86	130.0	73.2
Genentech	–	940 000	940 000	USD	92.50	114.6	–
Affymetrix	–	1 765 600	1 765 600	USD	47.75	111.2	–
The Medicines Company (TMC)	4 136 419	(211 419)	3 925 000	USD	17.45	90.3	135.9
Elan	2 000 000	400 000	2 400 000	USD	13.93	44.1	62.2
Vertex Pharmaceuticals	–	1 100 000	1 100 000	USD	27.67	40.1	–
Anadys Pharmaceuticals	–	2 000 000	2 000 000	USD	8.80	23.2	–
Incyte	2 800 000	200 000	3 000 000	USD	5.34	21.1	31.9
Epigenomics	1 000 000	–	1 000 000	EUR	6.45	10.0	13.2
Rigel Pharmaceuticals	–	850 000	850 000	USD	8.36	9.4	–
Keryx Biopharmaceuticals	–	410 499	410 499	USD	14.64	7.9	–
Theravance	2 007 168	(1 827 168)	180 000	USD	22.52	5.3	41.0
Auxilium Pharmaceuticals	1 000 000	(444 850)	555 150	USD	5.50	4.0	10.1
Eyetech PharmaceuticalS	4 108 194	(4 108 194)	–	USD	0.00	–	213.2
Ligand Pharmaceuticals	4 870 000	(4 870 000)	–	USD	0.00	–	64.7
Icos	1 045 900	(1 045 900)	–	USD	0.00	–	33.7
Virologic	5 726 430	(5 726 430)	–	USD	0.00	–	18.2
Pozen	1 347 800	(1 347 800)	–	USD	0.00	–	11.2
Idenix Pharmaceuticals	432 008	(432 008)	–	USD	0.00	–	8.4
Listed shares						**2 175.4**	**1 842.8**
BioXell	1 887 505	–	1 887 505	EUR	5.30	15.5	15.5
Unlisted shares						**15.5**	**15.5**
Total shares						**2 190.9**	**1 858.3**

Company	Number 12/31/2004	Change to 12/31/2004	Number 12/31/2005	Price in original currency		Valuation CHF mn 12/31/2005	Valuation CHF mn 12/31/2004
Derivative instruments							
(share, type, strike price, expiration date, conversion ratio)							
Auxilium Pharmaceuticals,							
Call Option, USD 1.50, 11/03/2010, 1:1	300 300	–	300 300	USD	2.67	1.1	1.5
The Medicines Company (TMC),							
Call Option, USD 5.92, 03/02/2005, 1:1[1)]	591 435	(591 435)	–	USD	0.00	–	15.4
Virologic,							
Call Option, USD 1.11, 09/25/2006, 1:1[1)]	990 993	(990 993)	–	USD	0.00	–	2.1
Actelion,							
Put Option, CHF 120, 03/17/2006, 1:1 (short)	–	(100 000)	(100 000)	CHF	14.01	(1.4)	–
Total derivative instruments						**(0.3)**	**19.0**
Total securities						**2 190.6**	**1 949.4**
				USD 1	= *CHF*	*1.3184*	*1.1405*
				EUR 1	= *CHF*	*1.5547*	*1.5459*

[1)] Option exercise

The options are valued on the basis of a widely used valuation model which is based on market conditions existing at each balance sheet date.

The marketable securities are deposited with Credit Suisse, Zurich, Luzerner Kantonalbank, Lucerne, Deutsche Bank, Frankfurt, Morgan Stanley, London, as well as Bank am Bellevue, Küsnacht.

Investment decisions have been delegated to Asset Management BAB N.V., Curaçao.

Change in value by investment category from January 1, 2004 to December 31, 2004 (incl. securities short, in CHF 1 000)

	Listed shares	Unlisted shares	Convertible bonds	Derivative instruments	Total
Opening balance as at 01/01/2004 at fair values	**1 828 876**	**66 230**	**30 719**	**23 526**	**1 949 351**
Purchase	754 779	15 470	–	–	770 249
Sales	(1 024 113)	–	(31 543)	–	(1 055 656)
Reclassification [1)]	143 045	(141 267)	–	(1 778)	–
Realized gains	106 604	–	824	–	107 428
Realized losses	(49 122)	–	–	(693)	(49 815)
Unrealized gains	270 443	75 037	–	1 498	346 978
Unrealized losses	(187 755)	(11)	–	(3 499)	(191 265)
Net (losses)/gains from maketable securities	140 170	75 026	824	(2 694)	213 326
Closing balance as at 12/31/2004 at fair values	**1 842 758**	**15 459**	**–**	**19 054**	**1 877 271**

[1)] Cashless exercise TMC Warrants (1 778), IPO Eyetech, Theravance and Auxilium

Notes to the consolidated financial statements

Change in value by investment category from January 1, 2005 to December 31, 2005 (incl. securities short, in CHF 1 000)

	Listed shares	Unlisted shares	Derivative instruments	Total
Opening balance as at 01/01/2005 at fair values	**1 842 758**	**15 459**	**19 054**	**1 877 271**
Purchase	929 728	–	–	929 728
Sales	(948 700)	–	(363)	(949 063)
Reclassification[1)]	14 314	–	(14 314)	–
Realized gains	256 681	–	–	256 681
Realized losses	(166 095)	–	(1 224)	(167 319)
Unrealized gains	405 340	88	–	405 428
Unrealized losses	(158 635)		(3 495)	(162 130)
Net (losses)/gains from maketable securities	337 291	88	(4 719)	332 660
Closing balance as at 12/31/2005 at fair values	**2 175 391**	**15 547**	**(342)**	**2 190 596**

[1)] Cashless exercice TMC Warrants (12 295) and exercise Virologic Warrants (2 019)

5. Other short-term liabilities (in CHF 1 000)

Other short-term liabilities comprise the following:

	12/31/2005	12/31/2004
Payables to the Asset Manager	257	0
Payables to the Board of Directors	168	146
Total liabilities to related parties	**425**	**146**
Other liabilities	688	921
Total liabilities to third parties	**688**	**921**
	1 113	**1 067**

Liabilities to related parties represent unpaid fees as well as administration and legal costs.

6. Taxes

In the current year as well as in the prior year the average effective income tax rate on a consolidated basis was less than 1%. This low rate is mainly attributable to the fact that the biggest part of income was realized by companies situated in Curaçao (offshore-companies). No provisions for deferred taxes are needed.

As at December 31, 2005, BB BIOTECH AG, Schaffhausen, had a nettable loss carry forward of CHF 9 155 877 on its books from the year 1999; this loss carry forward remains nettable until 2006.

Loss carry forwards are not capitalized since it cannot be assumed that BB BIOTECH AG will generate taxable profits that can be netted against the existing loss carry forwards.

Notes to the consolidated financial statements

7. Shareholders' equity

The share capital of the Company consists of 25.7 mn fully paid bearer shares (2004: 25.7 mn) with a par value of CHF 1 each (2004: CHF 1). Additional paid-in capital result from additional paid-in premiums upon share capital increases less capital increase costs. CHF 5.14 mn of the additional paid-in capital (2004: CHF 5.14 mn) are undistributable.

	Par value per share in CHF	Nominal value of the share capital in CHF 1 000	Bearer shares Number	Treasury shares Number	Out-standing shares Number
January 1, 2004	**1**	**27 800**	**27 800 000**	**1 825 722**	**25 974 278**
Capital reduction		(2 100)	(2 100 000)	(2 100 000)	–
Purchases of treasury shares at an average price of CHF 70.57				6 454 364	(6 454 364)
Sales of treasury shares at an average price of CHF 67.39				(4 314 716)	4 314 716
December 31, 2004	**1**	**25 700**	**25 700 000**	**1 865 370**	**23 834 630**
January 1, 2005	**1**	**25 700**	**25 700 000**	**1 865 370**	**23 834 630**
Purchases of treasury shares at an average price of CHF 72.10				4 702 059	(4 702 059)
Sales of treasury shares at an average price of CHF 72.56				(6 116 802)	6 116 802
December 31, 2005	**1**	**25 700**	**25 700 000**	**450 627**	**25 249 373**

At the Annual General Meeting held April 20, 2004, a resolution was passed to lower the Company's capital stock by CHF 2 100 000 to currently CHF 25 700 000.

Further on there are authorized capital of CHF 12.5 mn (2004: CHF 12.5 mn) and a conditional capital of CHF 12.5 mn (2004: CHF 12.5 mn).

8. Administrative expenses (in CHF 1 000)

Administrative expenses comprise the following:

	2005	2004
Fund manager		
– Fixed fees portion	7 431	7 494
Board of Directors remuneration		
– Fixed fees portion	743	749
– Social security employer's contribution	36	31
	8 210	**8 274**

Detailed information regarding the remuneration model for the Board of Directors and the Asset Manager are mentioned under note 15, related party transactions.

Notes to the consolidated financial statements

9. Other expenses (in CHF 1 000)

Other expenses comprise the following:

	2005	2004
Bank charges	950	979
Annual General Meeting and financial reporting	2 115	2 095
Other expenses	1 212	1 535
	4 277	**4 609**

10. Earnings per share

	2005	2004
Net gain for the year (in CHF 1 000)	317 993 000	202 752 861
Weighted average number of shares in issue	24 088 668	25 096 961
Gain per share in CHF	**13.20**	**8.08**

At December 31, 2005 there were no potential issues of bearer shares, which would have a dilution effect.

11. Information by geographical area (in CHF 1 000)

The Group has only one business segment, namely the holding of investments in companies active in the biotechnology industry.

The geographical analysis of assets is as follows:

Assets	12/31/2005	12/31/2004
USA	1 949 363	1 574 656
Switzerland	478 003	252 131
Ireland	44 077	62 157
Italy	15 929	15 750
Germany	10 791	13 258
Great Britain	69	65
	2 498 232	**1 918 017**

The geographical analysis of the operating income is as follows:

Operating Income	2005	2004
USA	359 520	248 920
Italy	88	(11)
Switzerland	(757)	(33 108)
Germany	(3 116)	(630)
Ireland	(22 485)	593
	333 250	**215 764**

12. Assets pledged

The securities are a collateral for a credit line of CHF 200 mn and USD 140 mn (2004: CHF 200 mn and USD 140 mn). At December 31, 2005 the Group hasn't claimed credits (2004: none).

Notes to the consolidated financial statements

13. Commitments, contingencies and other off-balance sheet transactions

The Group had no commitments or other off-balance sheet transactions open at December 31, 2005 (2004: none).

The operations of the Group are affected by legislative, fiscal and regulatory developments for which provisions are made where deemed necessary. Management concludes that as at December 31, 2005 no proceedings existed which could have any effect on the financial position of the Group (2004: none).

14. Financial instruments

Within the framework of the law, articles of incorporation and regulations, the investment management can carry out currency and marketable security forward transactions, buy, sell and make use of options as well as fulfill all necessary obligations that result from these businesses, and especially arrange all necessary security.

Credit risk

The Company maintains business relations only with counterparties with a high credit rating. All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligation.

Market risks

Risk associated with changing market prices

Due to its business activity and the resulting high portion of marketable securities in relation to total assets, the Company is exposed to market price risk arising from uncertainties and fluctuations on the financial and foreign exchange markets. No hedging is made to cover positions in foreign currency. The Company participates partially, but to a substantial extent, in the capital of its investments. In the case of sales of large parts of these investments, its influence of the market price is possible. The Company's marketable securities positions are monitored on a daily basis by the Asset Manager and are reviewed on a monthly basis by the Board of Directors.

Interest risk

Interest rates on liquid funds are based on market rates. The funds are due at sight.
Short-term borrowings from banks are on current and short-term loan accounts with interest based at market rates. Due to the high level of own funds the effect of interest payable on the statement of income is insignificant. The majority of the Company's marketable securities are non-interest bearing; as a result, the Company is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

Liquidity risk

The Company invests the majority of its assets in investments that are traded in an active market and can be readily disposed of; it invests only a limited proportion of its assets in investments not actively traded on a stock exchange. The Company's listed securities are considered readily realizable as they are listed on stock exchanges. The Company invests a minor part of its portfolio in marketable securities, which are not traded on a stock exchange and may be illiquid. As a result, the Company may not be able to liquidate quickly its investments in these instruments.

Fair values

As at December 31, 2005 and December 31, 2004 the values in the balance sheet of liquid funds, other receivables, short-term borrowings from banks, other short-term liabilities and the tax provision correspond to fair values because of their short-term maturity. The values of marketable securities also correspond to their fair values. Details about valuation are shown in the accounting policies as well as in note 4.

Diversification

As a rule, the securities portfolio consists of five to eight core holdings as well as 10 to 20 minor ones. The maximum share of companies without a stock-market listing is 10%.

As per December 31, 2005 the Company held six core investments, representing 62% of the portfolio. The portfolio is – in line with the strategy – concentrated on a limited number of investments. Risk diversification is therefore bounded. A core investment could represent more than 50% of the portfolio.

Notes to the consolidated financial statements

15. Related party transactions

Purchases and sales of shares traded in Switzerland are partly processed and settled via Bank am Bellevue. The transactions in question are based on common contractual forms in the sector and are concluded subject to market terms and conditions. In connection with the issue of partly mandatorily convertible bonds amounting to CHF 200 mn, the joint lead managers, Bank am Bellevue and HVB Corporates & Markets, as well as the co-managers, Reichmuth & Co. Privatbankiers, received a total of 1.5% of the issue volume by way of remuneration. The administration and legal costs incurred at Bellevue Asset Management were passed on to the BB BIOTECH Group, totaling CHF 332 442 (2004: CHF 244 674). The amounts outstanding at the balance sheet date are disclosed in note 5.

In connection with the acquisition of call options on treasury shares, Swissfirst AG was credited with financing costs and commissions amounting to CHF 1.6 mn.

The member of the Board of Directors with the highest remuneration earned in 2005 a total of CHF 267 506 (2004: CHF 259 945) in cash.

The remuneration model of BB BIOTECH AG ensures that the interests of the shareholders, the Asset Manager and the Board of Directors are all the same. Remuneration therefore depends on the share price and is made up of a flat fee component and a performance-related fee component. The Board of Directors receives remuneration in an amount of 10% of the remuneration of the fees paid to the Asset Manager.

Flat fee component:
This amounts to 0.4% of market capitalization annually and is calculated as at the end of each quarter pro rata temporis on the basis of the closing price of the stocks traded on the Swiss Stock Exchange. The basic remuneration paid out in 2005 is reported under note 8.

Performance-related fee:
The performance-related fee is calculated quarterly and amounts to 0.19% of the market value at the end of the previous period in the case of an increase in the stock price of 5 to 10% per annum (p.a.), an additional 0.25% in the case of an increase of 10 to 15% p.a., and an additional 0.31% in the case of an increase of 15 to 20% p.a. The price basis or hurdle for the performance-related pay component rises after each quarter to the value on which the last performance-related pay component was paid, though by a minimum of 5% p.a. and a maximum of 20% p.a. The hurdles are calculated separately for each group of capital (i.e. the capital increases at different times and prices) from the day of their initial listing. No performance-related remuneration was paid in fiscal 2005.

Because of the minimum/maximum performance and calculation being done over the lifetime, it can occur that the applicable market value at the end of a weak quarter is still above the price basis for a performance-related fee. Conversely, a period with above-average growth in the market value will not result in performance-related pay if the hurdles are not exceeded.

For the end of the next quarter (03/31/2006) the hurdle rates for payment of a performance related fee will be as follows:

– 18 026 978 shares (70.1% of the Company) CHF 94.75
– 3 697 842 shares (14.4%) CHF 101.83
– 924 460 shares (3.6%) CHF 105.31
– 1 571 583 shares (6.1%) CHF 222.13
– 1 479 137 shares (5.8%) CHF 228.60

On April 28, 2005 a resolution was passed at the Annual General Meeting to pay out a dividend of CHF 2.40 per bearer share; the payout in question was made on April 29, 2005. Subsequently, the levels at which performance-related compensation is to be paid were also adjusted downward by CHF 2.40 as at April 29, 2005.

The remuneration model is determined by the Board of Directors and has not been amended since the Company was founded.

Notes to the consolidated financial statements

16. Partially mandatorily convertible bond issue

BB BIOTECH AG, Schaffhausen, has concluded the following capital market transaction:

Issue of partially mandatorily convertible bonds

Coupons:	3.5%
Conversion price:	CHF 90
Pricing and allocation:	Dec. 16, 2005
Payment date:	Jan. 6, 2006
Maturity:	3 years
Final redemption:	Jan. 6, 2009
Mandatory conversion:	As at January 6, 2009, a mandatory conversion will take place of up to 50% of the bonds originally issued.
Delivery of shares:	Treasury shares and/or from conditional capital of BB BIOTECH AG at the discretion of the issuer.

The above list is not exhaustive. For detailed information, please refer to the prospectus on the 3.5% partially mandatorily convertible bond 2006–2009. The prospectus can be obtained from the company free of charge.

In accordance with the International Financial Reporting Standards (IFRS), the convertible bond issue was divided up into an equity and a liability portion. The liability portion represents the net present value of the future obligations and is reported in the balance sheet under the item "convertible bond". The liability portion was determined using the discounted cash flow method at an interest rate of 2.5%. Taking the transaction costs into account, the equity portion represents the difference of the issue volume in relation to the borrowed portion. The commissions, totaling CHF 3 mn, were charged to equity and to the income statement in relation to the mandatorily convertible portion.

In order to cover its delivery commitment under the mandatorily convertible bond, BB BIOTECH has acquired 1.11 mn call options with a strike of CHF 10, maturity December 15, 2008. The call options, in conjunction with the delivery commitment, were reported under equity in accordance with the International Reporting Standards (IFRS). The purchase commitment under the call option represents the present value of the future obligation and is reported in the balance sheet under the heading of "liability from options".

17. Subsequent events

There have been no events subsequent to December 31, 2005, which would affect the financial statements 2005.

Report of the group auditors

Report of the group auditors
to the General Meeting of
BB BIOTECH AG
Schaffhausen

As auditors of the group, we have audited the consolidated financial statements (balance sheet, statement of income, statement of changes in equity, statement of cash flows and notes/pages 36 to 49) of BB BIOTECH AG for the year ended December 31, 2005.

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

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

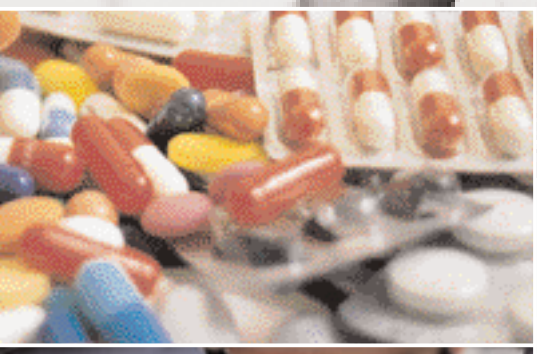
In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply the accounting provisions as contained in the Additional Rules for the Listing of Investment Companies of the SWX Swiss Exchange as well as with Swiss law.

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

PricewaterhouseCoopers AG

Albert Schönenberger Adrian Keller

Zug, February 27, 2006



"In hardly any other industry are so many new patent applications filed as in the biotech industry; accordingly, investors also stand to benefit from this trend"

M.Z. (58), a European patent lawyer from Switzerland, advises and represents numerous small- and large-scale companies in issues relating to patent law.

"My dad said that BB BIOTECH stocks are future-oriented and that I myself will stand to benefit from the new medications"

Grammar school pupil A.H. (16), a dance and music enthusiast from the Taunus region near Frankfurt, has been a BB BIOTECH shareholder for many years now.

Financial statements BB BIOTECH AG

Balance sheet as at December 31 (in CHF)

Assets	2005	2004	Liabilities and shareholders' equity	2005	2004
Current assets			**Current liabilities**		
Liquid funds	215 424	92 789	Other current liabilities		
Marketable securities	75 627 215	–	– Third parties	283 612	199 746
Other receivables			– Related parties	289 165 326	170 548 848
– Third parties	197 004 151	3 829	Provisions	592 424	265 027
– Group companies	–	10 157 750			
	272 846 790	**10 254 368**		**290 041 362**	**171 013 621**
			Long term liabilities		
			Convertible bond	200 000 000	–
				200 000 000	**–**
Fixed assets			**Shareholders' equity**		
Financial fixed assets			Share capital	25 700 000	25 700 000
– Investments	1 177 069 500	1 177 069 500	Legal reserves		
			– General reserve	5 140 000	5 560 000
			– Reserve for own shares	35 439 249	123 615 079
			Other reserves	887 364 461	853 268 631
			Accumulated deficit	6 231 218	8 166 537
	1 177 069 500	**1 177 069 500**		**959 874 928**	**1 016 310 247**
Total assets	**1 449 916 290**	**1 187 323 868**	**Total liabilities and shareholders' equity**	**1 449 916 290**	**1 187 323 868**

On 02/27/2006 BB BIOTECH AG's Board of Directors authorized these financial statements for issue.

Statement of income for the year ended December 31 (in CHF)

	2005	2004
Operating income		
Interest income	103 909	618 304
Other income	7 405 286	8 129 134
	7 509 195	**8 747 438**
Operating expenses		
Administrative expenses	779 317	779 961
Interest expense	3 564	4 038 978
Other expenses	5 878 429	3 095 233
	6 661 310	**7 914 172**
Operating income before tax	**847 885**	**833 266**
Taxes	81 983	93 601
Net income for the year	**765 902**	**739 665**

Notes to the financial statements

1. Notes in accordance with Article 663b of the Swiss Code of Obligations

1.1 Guarantee

BB BIOTECH AG has provided a guarantee of CHF 200 mn and USD 140 mn to a bank relating to a credit line granted to its subsidiaries (2004: CHF 200 mn and USD 140 mn). At December 31, 2005 no credits are claimed (2004: none).

1.2 Significant investments

Company	Capital in CHF 1 000	Interest in capital in %
BIOTECH FOCUS N.V., Curaçao	11	100
BIOTECH INVEST N.V., Curaçao	11	100
BIOTECH TARGET N.V., Curaçao	11	100
BIOTECH GROWTH N.V., Curaçao	11	100

The above mentioned companies hold shares in companies active in the biotechnology industry.

1.3 Own shares

	Amount of shares
Balance at January 1, 2005	**1 865 370**
Purchases at an average price of CHF 72.10	4 702 059
Sales at an average price of CHF 72.56	(6 116 802)
Balance at December 31, 2005	**450 627**

The own shares are held indirectly by BB BIOTECH AG Schaffhausen.

1.4 Capital increase

	12/31/2005 CHF	12/31/2004 CHF
Authorized capital	12 500 000	12 500 000
Conditional capital	12 500 000	12 500 000

The Board of Directors was authorized at the General Meeting of shareholders on April 20, 2004 to increase the share capital by an authorized share capital increase of CHF 12.5 mn at most until April 20, 2006 and a conditional share capital inrease of CHF 12.5 mn at most. Since the General Meeting 2004, the Board of Directors has not increased the share capital.

2. Movements on retained earnings (in CHF)

	2005	2004
Accumulated deficit at the beginning of the year	8 166 536	(8 228 624)
Appropriation of other reserves	54 500 000	78 500 000
Dividend	(57 201 221)	(62 844 505)
Net income for the year	765 902	739 665
Retained earnings/(accumulated deficit) at the end of the year	**6 231 217**	**8 166 536**

Proposal of the Board of Directors for appropriation of the capital surplus and retained earnings (in CHF)

	2005 Proposal of the Board	2004 Resolution passed at th AGM
Retaind earnings/(accumulated deficit)	6 231 217	8 166 536
Appropriation of other reserves	40 500 000	54 500 000
Retained earnings at the disposal of the Annual General Meeting	**46 731 217**	**62 666 536**
Dividend	46 260 000	57 201 221
Carry forward to the next period	471 217	5 465 315
	46 731 217	**62 666 536**

Report of the statutory auditors

Report of the group auditors
to the General Meeting of
BB BIOTECH AG
Schaffhausen

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, statement of income and notes/pages 53 to 54) of BB BIOTECH AG for the year ended December 31, 2005.

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

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

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

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

PricewaterhouseCoopers AG

Albert Schönenberger Adrian Keller

Zug, February 27, 2006

Information on corporate governance

The following chapter is intended to supplement the Annual Report with information on corporate governance. As our organization is listed on the Swiss, German and Italian stock exchanges, we wish to be in compliance with the rules and regulations that apply to each of these markets. A great deal of the required information has already been supplied in past sections of the Annual Report or is available for download from the Internet. In such cases we allow us to refer to the relevant pages in this report or to our website, www.bbbiotech.com.

1. Group structure and shareholdership

Please refer to the note 1 of the consolidated annual financial statements, in supplementation whereof we wish to advise that the Board of Directors is not aware of any cross-holdings with other companies exceeding a limit of 5% in terms of capital or the number of votes.

2. Capital structure

Please refer to the notes to the consolidated annual financial statements and "Shareholder information" at page 59. The terms and conditions relating to authorized capital are available on our website ("About BB BIOTECH", "Statuten").

3. Board of Directors

3.1 Members, first election, nationality and stock holding

Prof. Dr. Thomas D. Szucs (2003), Chairman (2004), Switzerland. Co-Chairman of the European Center of Pharmaceutical Medicine. 1 650 shares (ditto as at 09/30/2005).
Prof. Dr. David Baltimore (1993), Vice Chairman (2004), USA. President of the California Institute of Technology, Nobel laureate. No shares.
Dr. Clive Meanwell (2004), USA. Executive Chairman and Director of The Medicines Company. 3 500 shares (no shares as at 09/30/05).

The Board members have no executive functions, neither today nor in the last three years. Moreover, no business relations are in place between the Board members and BB BIOTECH. Detailed resumes available from our website ("About BB BIOTECH").

3.2 Crossed Board/Management functions

Prof. Dr. David Baltimore is Board member of Amgen, Dr. Clive Meanwell is Executive Chairman and Director of The Medicines Company and Prof. Dr. Thomas D. Szucs is Board member of BioXell.

3.3 Term of office/Limitations on tenure

The Board of Directors is elected for a term of office of one year. There are no limitations on its tenure.

3.4 Internal organization

President, Vice-President and members, no committees.
The Board of Directors meets at least once per month via video or telephone conference; in addition, two strategy (field research) weeks are organized each year. These meetings are attended by representatives of the Asset Manager commissioned. See also "investment focus and selection", page 13.

3.5 Director's Dealing

BB BIOTECH publishes each purchase/sale of BB BIOTECH AG stocks by members of the Board of Directors, of the management as well as by first-degree relatives of such persons and which exceeds the amount of EUR 5 000 within three trading days. This information is made available for 30 days on our website ("About BB BIOTECH").

4. Asset Management

Being a pure holding company, BB BIOTECH AG does not have a management of its own. Fundamental analyses, portfolio management, marketing and administration are performed by the Swissfirst Asset Management Group (formerly Bellevue Asset Management Group) in line with its mandate ratio. The Swissfirst Asset Management Group is remunerated in terms of the management fee. The mandate agreement is valid for an indefinite period and may be terminated by either party subject to 12 months' notice.
Detailed information on this mandate (issuing prospectus) and the members of the management involved is available from the website ("About BB BIOTECH").

5. Remuneration

See note 9 and 16 of the consolidated financial statements for details relating to remuneration. The remuneration model is defined by the Board of Directors but has remained unchanged since the Company was founded.

"We really appreciate the specialist expertise and the company's friendly attitude to (minor) shareholders in evidence for many years now"

Insurance expert K.K. (35) and hospital nurse E.K. (34) from Kaarst originally hail from Poland and are regular visitors to the shareholder events organized.

Information on corporate governance

6. Stockholders' rights of cooperation

6.1 Limitations to voting rights; voting by proxy

There are no limitations to voting rights and no internal rules at variance from the statutory provisions concerning attendance of a General Meeting.

6.2 General Meeting

There are no rules relating to the presence of a quorum for voting purposes which differ from the statutory provisions. The rules of procedure adopted at general meetings shall be in accordance with those laid down by law.

6.3 Dividend policy

Since 2004 a dividend is paid out which is linked to the discount of the share price to the Net Asset Value. The following model is used to this end: if the discount amounts to

5 – ≤ 10%:	1% of the Net Asset Value at year-end
>10 – ≤ 15%:	2% of the Net Asset Value at year-end
>15 – ≤ 20%:	3% of the Net Asset Value at year-end
>20%:	4% of the Net Asset Value at year-end

The discount on which the resolution is based is calculated according to the average discount of daily closing prices from January 1 through December 31 of the respective fiscal year. The dividend is paid out in cash.

The dividend proposed for the 2005 fiscal year amounts to CHF 1.80.

7. Change of control and defensive measures

7.1 Obligatory offer for sale

An opting-out rule is in place.

7.2 Change of control clauses

No change of control clauses are in place in favor of the Board of Directors and the management team.

8. Audits

8.1 Duration of mandate and term in office of the auditor-in-chief

Since fiscal 1994 PricewaterhouseCoopers AG have been the official auditors and group auditors of BB BIOTECH AG.

The lead auditor, Albert Schönenberger, has been responsible for auditing the Company's books since fiscal 2003.

8.2 Fees

The following fees for professional services in the year ended December 31, 2005 were invoiced using an accruals basis:

Audit fees (including interim audits) PricewaterhouseCoopers: CHF 108 386
Other services PricewaterhouseCoopers: CHF 42 500

8.3 Instruments of supervision and control vis-à-vis the auditors

The Asset Manager and the auditors are continually in contact with each other. The auditor is consulted by the Board of Directors where necessary. The auditors attend at least two meetings of the Board of Directors per year.

9. Information policy/diary of company events

Please refer to "Shareholder information" at page 59.

10. Trading in own stocks

BB BIOTECH operates as an active purchaser/seller of own stocks itself on the market, securing additional liquidity in the process. BB BIOTECH's maximum holding of own stocks is 10%.

Shareholder information

Company profile

BB BIOTECH acquires holdings in companies in the biotechnology growth market and is currently one of the world's largest investors in the sector. The focus of the holdings is on quoted companies that are concentrating on the development and marketing of innovative medicines. For the selection of holdings, BB BIOTECH relies on fundamental analysis by physicians and molecular biologists. The Board of Directors has many years of industrial and scientific experience.

Official listing and share structure

Foundation:	November 9, 1993; Schaffhausen, Switzerland
Issue price adj. November 15, 1993:	CHF 23.76
Official listing:	December 27, 1993 in Switzerland, December 10, 1997 in Germany, October 19, 2000 in Italy
Share structure:	CHF 25.7 mn nominal, 25 700 000 bearer shares with a par value of CHF 1
Authorized capital:	CHF 12.5 mn
Conditional capital:	CHF 12.5 mn
Shareholders, free float:	Institutional and private investors. 100% free float.
Security number Switzerland:	144.158
Security number in Germany and Italy:	888 509
ISIN:	CH0001441580
Convertible bond 3 1/2% 06-09:	Security number: 2 355 519, ISIN CH0023555193 (Quote: Bloomberg BIO06 Corp.)

Shareholder information

- The Company publishes its Net Asset Value daily via the major stock market information services and on its website www.bbbiotech.com.
- The portfolio composition is published at least every three months within quarterly reports. In its Monthly News, BB BIOTECH announces major events relating to its investments.
- In addition, we periodically hold information events for shareholders and interested members of the public.
- Interested? Subscribe to our mailing list by post/fax/telephone or via www.bbbiotech.com.

Quotes and reports

NAV:	**in CHF**	– Bloomberg: BIO SW Equity NAV, BABB	**in EUR**	– Bloomberg: BBZ GY Equity NAV; BABB
		– Datastream: S:BINA		– Datastream: D:BBNA
		– Reuters: BABB		– Reuters: BABB
		– Telekurs: BIO resp. 85, BB1 (Investdata)		– Frankfurter Allgemeine Zeitung (D): listed twice weekly
		– Finanz & Wirtschaft (CH), M2: listed twice weekly		
Stock price:	**in CHF (SWX)**	– Bloomberg: BIO SW Equity	**in EUR (Xetra)**	– Bloomberg: BBZ GY Equity
		– Datastream: S:BIO		– Datastream: D:BBZ
		– Reuters: BIO.S		– Reuters: BIOZ.DE
		– Telekurs: BIO	**in EUR (IM)**	– Bloomberg: BBA IM Equity
				– Datastream: I:BBB
				– Reuters: BB.MI

Corporate calendar 2006/2007

Annual General Meeting:	April 20, 2006, 04.00 PM, Lake Side Casino Zürichhorn, Bellerivestrasse 170, CH-8008 Zurich
3 Months Report:	April 27, 2006, 07.30 AM CET
BB BIOTECH Information Days:	May 15 to 18, 2006 (Details see at www.bbbiotech.com)
Interim Report:	August 3, 2006, 07.30 AM CET
9 Months Report:	October 26, 2006, 07.30 AM CET
Prel. Report & Portfolio 2006:	January 25, 2007, 07.30 AM CET
Annual Report 2006:	March 8, 2007, 07.30 AM CET

BB Stock Plan

The BB Stock Plan enables investors with a long-term perspective to hold/acquire BB BIOTECH bearer shares without having to pay substantial commissions or custody fees. Detailed information: BB Stock Plan, c/o SAG SIS Aktienregister AG, P.O. Box, CH-4609 Olten, Phone +41 62 311 61 44, www.bbbiotech.com/bb-aktienplan.

Contact for investors and media

Swissfirst Asset Management AG, Seestrasse 16, CH-8700 Küsnacht, Phone +41 44 267 67 00, Fax +41 44 267 67 01, bb@swissfirst.ch

BBBIOTECH

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