# Business & Financial Report


idonsia

# Idorsia – Reaching out for more

The purpose of Idorsia is to discover, develop and bring more, innovative medicines to patients.

We have more ideas, we see more opportunities and we want to help more patients.

# More experience – Driving innovation

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**>800**

Highly qualified professionals

**12**

Compounds in the pipeline, with four in late-stage development

**Strong**

balance sheet

**> 550**

State-of-the-art laboratory workspaces

# More science – Bursting with ideas

Idorsia started its operations after demerging from Actelion on June 15, 2017, and registered shares of Idorsia Ltd were listed on the SIX Swiss Exchange the next day. Today, Idorsia has an experienced team of highly qualified professionals, a full R&D pipeline, state-of-the-art facilities, and a strong balance sheet – the ideal constellation for bringing successful medicines to the market.



"With a cost-conscious attitude and a slight shift in timelines for some clinical programs, we spent less in 2019 than originally expected, ending the year with liquidity of CHF 739 million. For 2020, we expect non-GAAP operating expenses to be around CHF 500 million, excluding unforeseen events and potential milestone payments. Idorsia's liquidity will not last until break-even, thus we will need additional funding to bring our products to market, but we are fortunate in having several unencumbered assets in clinical development with key results in the near future, as well as financing options available to us."

**André Muller**
Chief Financial Officer

**Idorsia's key numbers (non-GAAP* result)**

| in CHF millions, except EPS (CHF) and number of shares (millions) | 2019 | 2018 |
|---|---|---|
| Revenues | 24 | 61 |
| Operating expenses | (470) | (399) |
| Operating income (loss) | (446) | (339) |
| Net income (loss) | (448) | (340) |
| Basic EPS | (3.41) | (2.72) |
| Basic weighted average number of shares | 131.2 | 124.8 |
| Diluted EPS | (3.41) | (2.72) |
| Diluted weighted average number of shares | 131.2 | 124.8 |

* Idorsia measures, reports and issues guidance on non-GAAP operating performance. Idorsia believes that these non-GAAP financial measurements more accurately reflect the underlying business performance and therefore provide useful supplementary information for investors. These non-GAAP measures are reported in addition to, not as a substitute for, US GAAP financial performance. The full financial statements can be found later in this report starting on page 38.

# A start-up – really?

For the uninitiated, Idorsia – a start-up, born on June 15, 2017 – can be something of an enigma. How is it possible that, after barely 3 years, the company already has a well-established team, purpose-built facilities and a rich pipeline, addressing multiple therapeutic areas?

Clearly, there's more to Idorsia than meets the eye! To get to the bottom of the story, we talked with Jean-Paul and Martine Clozel, who not only serve respectively as CEO and Chief Scientific Officer, but are also Idorsia's largest shareholders.

**For readers who are not familiar with Idorsia's history, can you explain how it is that the company is so well established after such a short time in operation?**

**Martine:** Quite simply, Idorsia is the result of 20 years of work that we put into Actelion! In 1997, we established a new company – Actelion – with ambitious plans to take the results of our research to patients. We didn't want to simply discover compounds and then out-license them, a business model that works for many companies. We wanted to discover them, develop them so as to demonstrate their clinical utility, and then describe those benefits to physicians, so that they could make the most of our discoveries for their patients.

**Jean-Paul:** It turned out that we were quite successful at this! In our research, both at the bench and in the clinic, we partnered with the expert community and transformed the treatment landscape of a little-known "orphan" disease – pulmonary arterial hypertension. This was an incredibly rewarding experience, as we changed the lives of thousands of patients. But as our product portfolio expanded, our success was attractive to others, and Actelion's time as an independent company was limited.

**Jean-Paul** and **Martine Clozel**

**Martine:** We were lucky to have Johnson & Johnson listen and understand our position – that we had spent 20 years not only building our product portfolio in one disease area, but building a clinical development pipeline with potential in multiple therapeutic areas. We couldn't simply walk away from the results of all that work. It had taken us so much time, energy and brainpower to get our discoveries to that point, we owed it to our researchers, our investors and our patients to try and realize the potential of those discoveries.

**Jean-Paul:** J&J worked very collaboratively to come up with a creative deal which allowed them to benefit from the advanced pipeline assets and the product portfolio, while allowing us to continue with our research. In a very short time, we were able to find a simple arrangement – supported by many complex agreements – that would result in Idorsia spinning out as an independent company.

**Idorsia began life with facilities which had been purpose-built, a pipeline of compounds covering a broad array of diseases, a billion Swiss francs in the bank, and a team of over 600 people! How different was it, establishing a new company the second time around?**

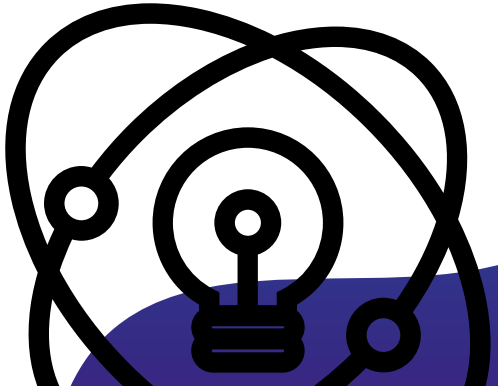
**Martine:** Oh, starting out with Idorsia was light-years away from our beginnings with Actelion. There's only so much you can achieve with a small team of 5 people working in a concrete shell! Actelion grew very rapidly, but it took us years to reach the human capacity we have today. I'm astounded at what can be achieved on a daily basis at Idorsia. Of course, the funding is important, as are the facilities, but what has allowed us to advance so quickly is the fact that we have teams of people who work well together and have a track record of success.

**Jean-Paul:** I agree, the speed at which we've moved has surprised even me. To separate our systems and infrastructure in a manner compliant with regulations, while at the same time initiating and running four Phase 3 studies, it's amazing! What has struck me, though, is not what is different about starting the two companies, but what is fundamentally the same. If we want to be successful, we must believe that we can make the impossible possible; we must set very ambitious goals; we must have a trailblazing, entrepreneurial mentality.

**Martine:** That's the culture of Idorsia! We are all entrepreneurs, who want to create value through innovation – in our case, bringing much-needed treatments to patients. This is the seam that runs through our company and will keep us agile enough to act on our convictions.

**Jean-Paul:** Today, I see Idorsia as an old head on young shoulders – and we must be the best of both. We need the quality of an established enterprise, with the energy and thriftiness of a start-up. Stay tuned to see what can be achieved when we keep this as our goal.

**Thank you both for sharing your perspectives on this unique story!**



# Milestones

**June 2017**
Listing of Idorsia on the SIX Swiss Exchange

**December 2017**
Collaboration agreement with Janssen Biotech, Inc., to jointly develop and commercialize aprocitentan

**December 2017**
Research collaboration agreement with Roche in the field of cancer immunotherapy

**June 2018**
Initiation of Phase 3 registration program with daridorexant for patients with insomnia

2017 — 2018

**March 2017**
Incorporation of Idorsia

**July 2017**
Positive results of Phase 2 program with daridorexant in insomnia

**May 2018**
Initiation of Phase 3 registration study with lucerastat for patients with Fabry disease

**June 2018**
Establishment of Idorsia Pharmaceuticals Japan

**June 2018**
Initiation of Phase 3 registration study with aprocitentan for resistant hypertension management

**December 2018**
Positive results of Phase 2 program with selatogrel for the treatment of suspected acute myocardial infarction

**January 2019**
Initiation of multiple-dose efficacy and safety study with cenerimod for the treatment of systemic lupus erythematosus

**February 2019**
Initiation of Phase 3 registration program with clazosentan for patients with cerebral vasospasm associated with aSAH

**November 2019**
Collaboration agreement with Antares for the development of a novel drug-device product for self-administration of selatogrel

2019

**December 2018**
Simon Jose joined the company as Chief Commercial Officer

**July 2019**
Janssen reported positive top-line Phase 3 results for ponesimod in adults with relapsing multiple sclerosis

**December 2019**
License agreement with Mochida for the supply, co-development and co-marketing of daridorexant in Japan

# More energy – Growing and delivering



## Dear Shareholders

Nearly three years ago, we launched our new enterprise with the ambition of making Idorsia one of Europe's leading biopharmaceutical companies. This year – as our detailed **Review of 2019** shows – we have made significant progress toward this goal by:

- **delivering** innovation through our drug discovery organization, with two new compounds entering clinical development;
- **advancing** all our clinical programs, with our first Phase 3 results expected soon; and
- **building up** our infrastructure and starting to plan for the commercial launch of our first product.

None of these achievements would have been possible without the full commitment of everyone at Idorsia. However, we are well aware that we cannot develop everything on our own, so, in 2020, we will focus on building the right partnerships and refining our strategic priorities, so that we can achieve our goals of financial sustainability and long-term value creation by delivering best-in-class, innovative drugs to patients.

We thank you for your confidence.

Sincerely,

**Jean-Paul Clozel**
CEO

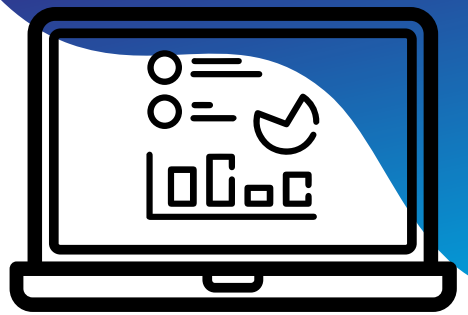
**Jean-Pierre Garnier**
Chairman of the Board

# The purpose of Idorsia is to discover, develop and bring more, innovative medicines to patients.

**Jean-Paul Clozel**
Chief Executive Officer

**Jean-Pierre Garnier**
Chairman of the Board

# Chairman and CEO's Review of 2019





In 2019, our focus has been on delivering on our strategic priorities by pressing ahead with our key clinical activities and getting ready for the wave of results approaching soon.

Having initiated four Phase 3 programs in 2018 – an impressive accomplishment for a company operating with a lean development team – we have been striving in 2019 to advance these programs as rapidly as possible, without compromising on quality. Each Phase 3 program, of course, involves company-wide activities to prepare for regulatory approval and launch.

We have set ourselves ambitious goals, seeking to achieve something which is exceedingly difficult to accomplish in our industry. So how have we done so far?

## Advancing the late-stage pipeline

Thanks to our teams' hard work, the Phase 3 studies are running smoothly, with initial data anticipated in a matter of months. The first data reported will be for daridorexant, our dual orexin receptor antagonist for the treatment of insomnia. What potentially differentiates daridorexant from existing treatments is the delivery of clinically meaningful benefits in sleep onset and maintenance, with a duration of action designed not to exceed a normal night. Patients with insomnia often face multiple challenges, including both falling asleep and staying asleep. They are actively seeking new safe and effective treatment options which can address both these needs, thus helping them to function better during the day. By blocking the action of orexin, it is hoped that daridorexant will allow patients to sleep throughout the night, while avoiding the rebound, withdrawal, or tolerance problems associated with many sleep medications that act through broad sedation of the brain.

Later in 2020, we also expect to have the results of the Japanese registration study with clazosentan – a selective endothelin (ETA) receptor antagonist being developed for the reduction of vasospasm, and vasospasm-related morbidity and mortality, following aneurysmal subarachnoid hemorrhage (aSAH). This is a significant problem in Japan, where the prevalence of aSAH is around twice as high as in the rest of the world. Here too, we are eager to see the data, which could lead to a new treatment making a big difference for patients. The global Phase 3 study outside of Japan – for prevention of clinical deterioration due to vasospasm-related delayed cerebral ischemia following aSAH – is progressing well, with results expected around a year after the Japanese data.

Also moving forward, though not quite as quickly as initially hoped, is the development of lucerastat, an oral therapy offering a new treatment approach for all patients with Fabry disease, irrespective of mutation type. Lucerastat acts by reducing the damaging build-up of lipids which is responsible for all

the symptoms of Fabry disease. The main objective in our registration study is the reduction of neuropathic pain – a symptom having a severe impact on many patients' lives. Additional endpoints include the reduction in gastrointestinal symptoms and the effect on biomarkers of Fabry disease. The results are now expected in 2021.

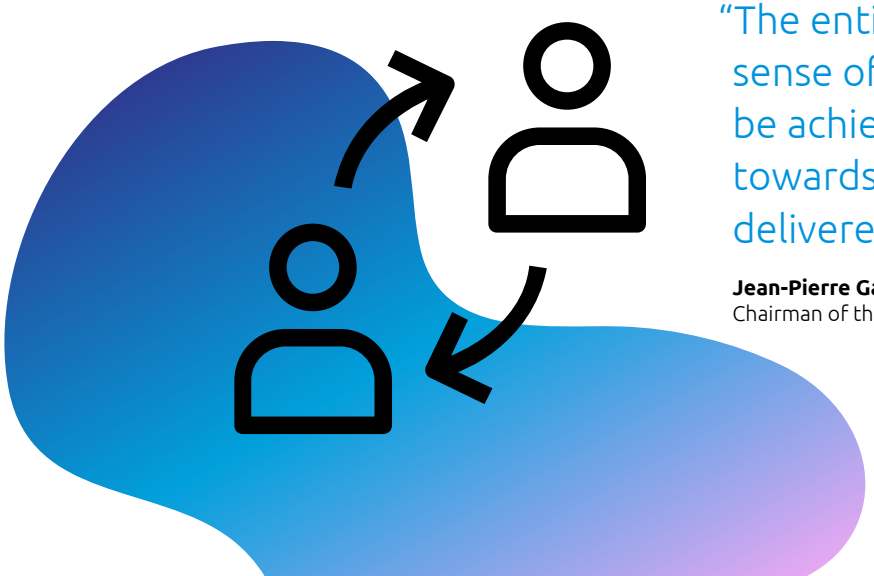
Our fourth Phase 3 program involves aprocitentan – an orally active dual endothelin receptor antagonist – investigated in the PRECISION trial for patients whose blood pressure is uncontrolled despite the use of at least three antihypertensive drugs. To accelerate recruitment, we are currently increasing the number of sites participating in this registration study. In addition, we recently decided not to proceed with a study of aprocitentan planned for patients with chronic kidney disease having uncontrolled blood pressure despite the use of antihypertensive drugs. Sites and patients that were to participate in this study can now be included in PRECISION. These measures should help speed up the evaluation of this new option, tapping the therapeutic potential of blocking the endothelin pathway.

### Engaging with the expert community

A vital aspect of our work is ensuring that experts are aware of our research and understand how treatments are being advanced in their field. We achieve this through publications in peer reviewed journals and contributions to scientific conferences. Given the fierce competition for the limelight, only the most impressive results are selected for oral, rather than poster, presentations. In 2019, we were honored to be able to share the results of several of our programs with experts at the most prestigious medical conferences.

Phase 2 data for daridorexant was presented at the annual SLEEP meeting of the Associated Professional Sleep Societies, attended by around 5,000 delegates, and again at World Sleep 2019, the biennial congress of the World Sleep Society, with over 3,300 attendees. Phase 2 data for both aprocitentan and selatogrel was presented at the European Society of Cardiology (ESC) Congress 2019, attended by almost 35,000 experts. In addition, Phase 2 data for cenerimod was presented at the annual meeting of the American College of Rheumatology, with over 15,000 delegates.





"The entire team at Idorsia is working with an absolute sense of urgency. It's very impressive to see what can be achieved when people team up and work tirelessly towards a common goal. What Idorsia has already delivered in its short life is awe-inspiring."

**Jean-Pierre Garnier**
Chairman of the Board

It was also gratifying to see our partner Johnson & Johnson reporting data from a successful Phase 3 trial on ponesimod (for the treatment of relapsing multiple sclerosis) at the 2019 Congress of the European Committee for Treatment and Research in Multiple Sclerosis – the largest annual international meeting devoted to basic and clinical research in this field. Not only are the scientists who discovered ponesimod now with Idorsia, but our revenue-sharing agreement with J&J means that quarterly payments of 8% of the net sales of ponesimod products are likely to be our first source of regular income.

## Progress with mid-stage assets

Cenerimod, our selective $S1P_1$ receptor modulator, is being investigated for the treatment of adults with systemic lupus erythematosus in a multiple-dose efficacy and safety study; good progress is being made with recruitment, which was initiated at the beginning of 2019. Within the limited current treatment landscape, the properties of cenerimod and the mechanism of $S1P_1$ receptor modulation provide significant potential to address the pathophysiology of lupus. We are doing everything we can to move the study forward, and preparing future development in parallel, so that this important treatment can be brought to patients as quickly as possible.

In 2019, we also made significant progress with selatogrel, our highly selective $P2Y_{12}$ receptor antagonist, which is being evaluated for an innovative approach to the management of acute myocardial infarction. In patients suffering a heart attack, subcutaneously administered selatogrel shows a very rapid onset of action (within 15 minutes), with the effects lasting over 4–8 hours. Given this rapid onset and the duration of action, as well as the safety and tolerability profile, we believe that selatogrel could be self-administered at the onset of symptoms to stop a suspected heart attack and preserve muscle and heart function. As we prepare the clinical evidence to support the use of selatogrel in these patients, we have been looking for a safe and reliable device which is easy to use under stressful conditions. In late 2019, we signed a deal with Antares Pharma, Inc., to develop a novel drug-device product combining selatogrel with the subcutaneous QuickShot® auto-injector. Usability and reliability studies are now being planned, and the Phase 3 design is being discussed with health authorities; the registration study is expected to be initiated in the first half of 2021. The potential importance of this product – both for patients and for the future of our company – cannot be overestimated.

## Preparing for success

As the pipeline advances, we hope it will soon be time for Clinical Development to pass the baton to our commercial team. This year, our Chief Commercial Officer, Simon Jose, has been establishing his core commercial team and defining detailed commercial strategies for our key late-stage compounds.

The breadth of our late-stage pipeline is an amazing opportunity, but it also presents challenges for a small team. For example, our products span a variety of therapeutic areas, each requiring a different commercial strategy. A rare disease managed by specialists calls for a different approach than a more common disorder mostly managed by general practitioners, or a product intended for use in an intensive care hospital setting. To build these different strategies, we need a deep understanding of patients, prescribers and market landscapes, to see how we can best differentiate our products and communicate a clear, consistent message. Having performed our research and honed our plans, we are ready to rapidly integrate the study data and execute our strategies as soon as the results are available.

While our late-stage compounds are being developed into commercial products, we are also continuing to innovate – balancing novel projects, seeking to address medical needs in a groundbreaking way, with best-in-class projects, driven by our deep understanding of disease mechanisms.

"At Idorsia, we're very fortunate to have the right professionals who know exactly what it takes to discover, develop and register a drug, and then bring it successfully to patients."

**Jean-Paul Clozel**
Chief Executive Officer

## Major shareholders (as of December 31, 2019)

| | |
|---|---|
| Martine and Jean-Paul Clozel | > 25% |
| Johnson & Johnson | > 5% |
| Rudolf Maag | > 5% |
| Georges Gaspard / David Coti | > 3% |

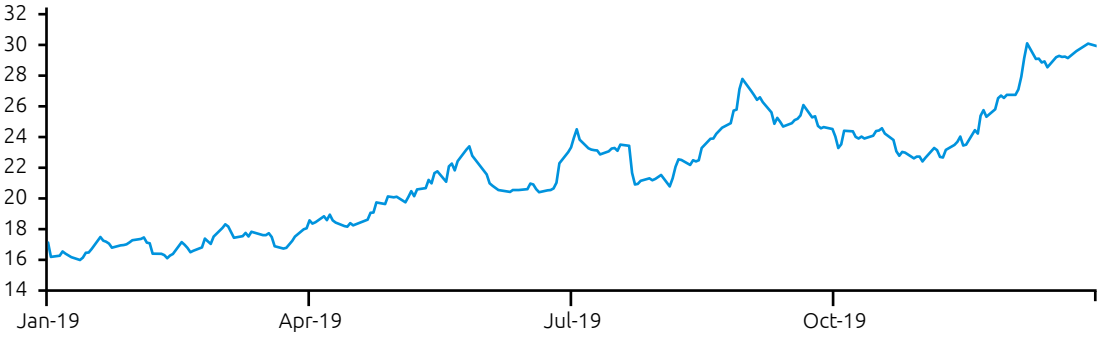
Idorsia Ltd is part of the following indices: SPI, SPIEX, SXSLI, SXI Life Sciences and SXI Bio+Medtech.

Idorsia is traded under the following symbols: Reuters IDIA.S/Bloomberg IDIA:SW

## Key share data (as of December 31, 2019)

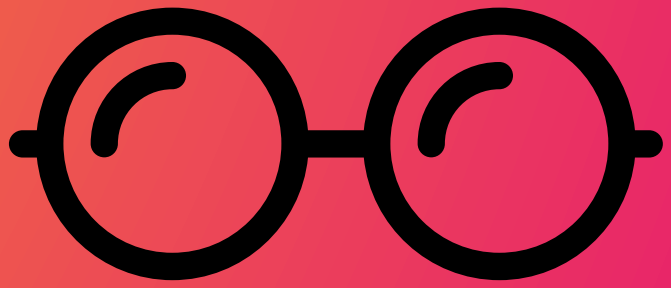
| | |
|---|---|
| Shares outstanding | 131.2 million |
| Closing share price | CHF 29.94 |
| Market capitalization | CHF 3.9 billion |
| 52-week high | CHF 30.88 |
| 52-week low | CHF 15.45 |
| YTD price change | CHF 13.72 (84.59% ) |
| Annual average daily volume | 327,699 shares |
| Free float | 74.5 million shares |

## Share price development (in CHF)



# Our Research & Development

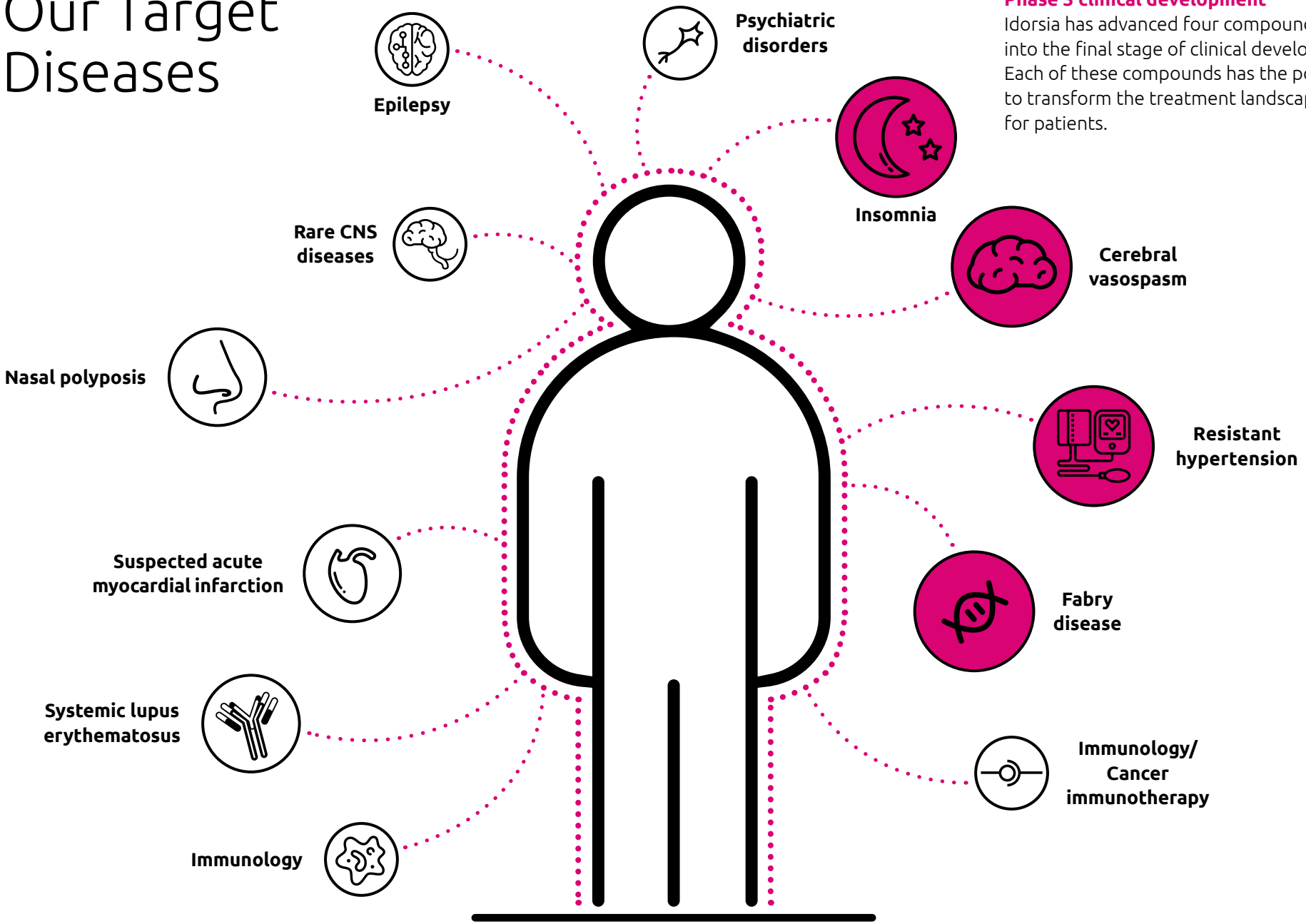
**Idorsia aims to deliver new products with the potential to significantly change the treatment options in their target diseases.**
We want to bring new perspectives to the development of innovative compounds, challenging accepted paradigms to answer the questions that matter most. Our key assets have the potential to transform treatment in the target indications.



"We tailor the target indication to characteristics of the compound. We always try to find the disease, spectrum of diseases or subset of medical conditions where the molecule will fit best from an efficacy and safety perspective, and where it addresses a medically important need."

**Guy Braunstein**
Executive Vice President,
Head of Global Clinical Development

# Our Target Diseases




**Phase 3 clinical development**

Idorsia has advanced four compounds into the final stage of clinical development. Each of these compounds has the potential to transform the treatment landscape for patients.

# More in the pipeline – Promising compounds

We have a diversified and balanced clinical development pipeline covering multiple therapeutic areas, including CNS, cardiovascular and immunological disorders, as well as orphan diseases.

"The way we work in research is focused on and built around innovation and core competencies. This has led to a diverse pipeline, addressing different diseases where either no treatment is available or certain patients are resistant to treatment."

**Martine Clozel**
Executive Vice President, Chief Scientific Officer

# Clinical development pipeline

## Systemic lupus erythematosus

**Cenerimod**
**$S1P_1$ receptor modulator**
Status: Phase 2

## Fabry disease

**Lucerastat**
**Glucosylceramide synthase inhibitor**
Status: Phase 3

## Vasospasm associated with aneurysmal subarachnoid hemorrhage

**Clazosentan**
**Selective endothelin (ETA) receptor antagonist**
Status: Phase 3

## Resistant hypertension management

**Aprocitentan**
**Dual endothelin receptor antagonist**
Status: Phase 3 *

## Insomnia

**Daridorexant**
**Dual orexin receptor antagonist**
Status: Phase 3 recruitment complete

## Rare CNS diseases

**Sinbaglustat (ACT-519276)**
**GBA2/GCS inhibitor**
Status: Phase 1

## Suspected acute myocardial infarction

**Selatogrel**
**$P2Y_{12}$ receptor antagonist**
Status: Phase 2 complete

## Nasal polyposis

**ACT-774312**
**CRTH2 receptor antagonist**
Status: Phase 2

## Psychiatric disorders

**ACT-539313**
**Selective orexin 1 receptor antagonist**
Status: Phase 1

## Immunology

**ACT-1014-6470**
Status: Phase 1

## Epilepsy

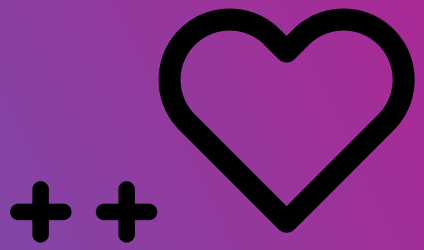
**ACT-709478**
**T-type calcium channel blocker**
Status: Phase 1

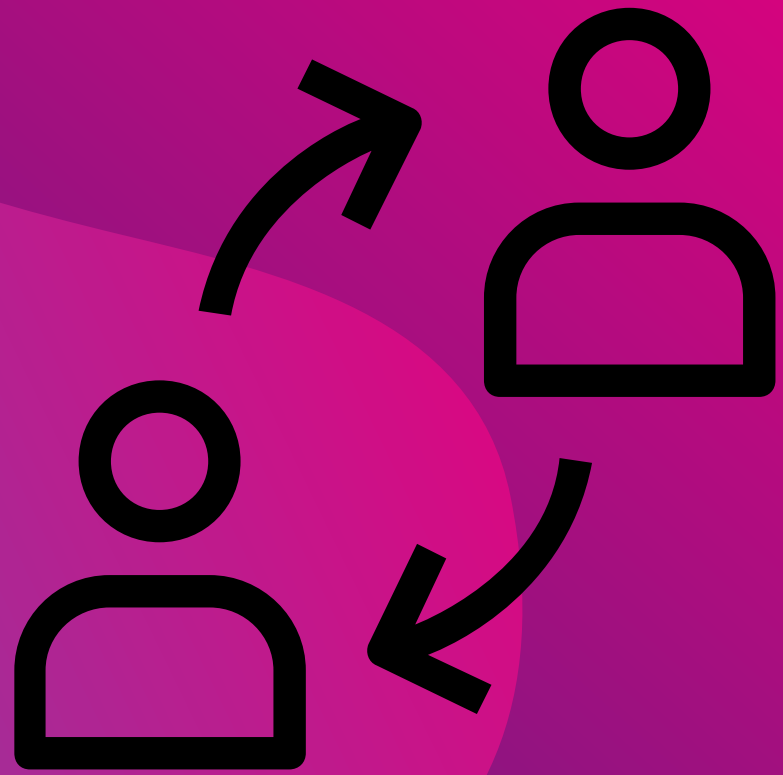
## Immunology/Cancer immunotherapy

**ACT-1004-1239**
Status: Phase 1

* In collaboration with Janssen Biotech, Inc.

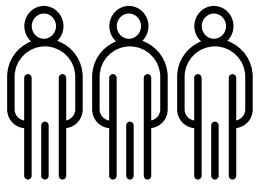
# Our People





# More experience – Driving innovation

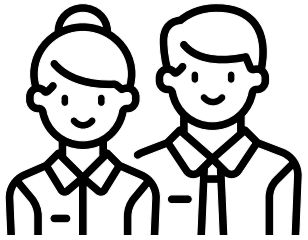
Simply put – our success depends on our people! This is why we want to recruit, engage and develop talented people who are passionate about working together and applying science to bring benefits to patients.



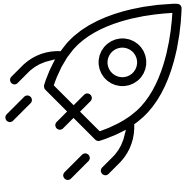
**>800**
employees

**Highly**
qualified professionals

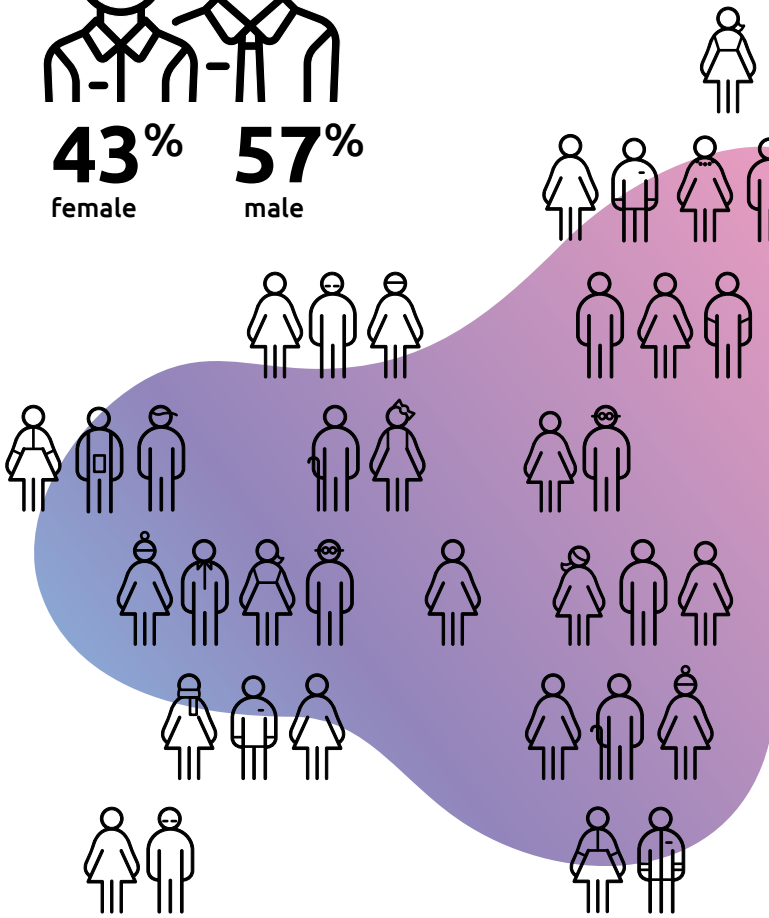
**34**
nationalities



**43%** female **57%** male



**One**
common goal



# More ambitions – Courageous and energetic

Since its foundation, Idorsia has added nearly 200 professionals to its ranks. This rapid growth reflects the rapid advancement of our pipeline and ongoing preparations to bring our drugs to patients.

To begin with, it was important to bolster the Global Information Services team. As so much of our work depends on smooth-running IT systems, we have made considerable efforts to establish a state-of-the-art environment supporting all activities.

Expansion was also required to ensure the development, manufacturing and control of high quality drug products, needed first for clinical development and ultimately, of course, for our commercial launches.

**The Idorsia Executive Committee**

**André C. Muller**
Executive Vice President,
Chief Financial Officer

**Jean-Paul Clozel**
Chief Executive Officer

# Our people show up every day with energy, intellect and creativity.

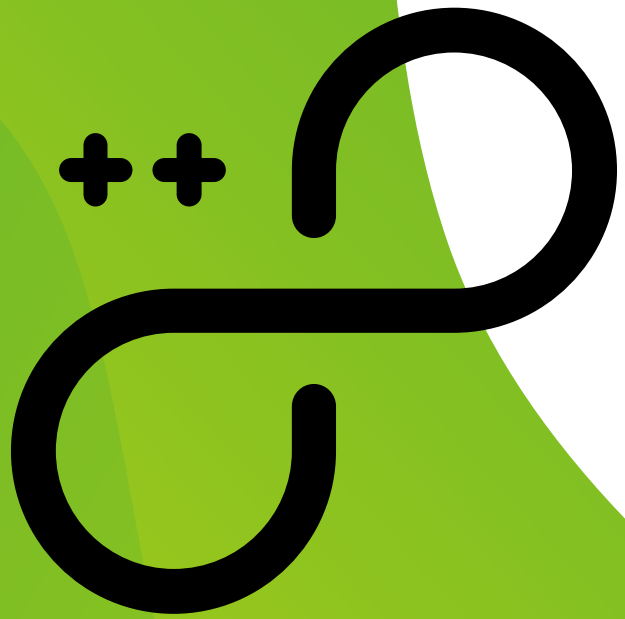
Finally, we had to start building commercial capabilities. This year, our Chief Commercial Officer hired several people to fill key strategic roles, such as Head of Global Marketing and Head of Global Market Access and we are close to welcoming the President of our US commercial organization. We have been very fortunate to attract individuals with wide experience in different medical settings, management skills, and the creativity which is a hallmark of Idorsia; most importantly, the people we have found are prepared to roll up their sleeves to get the job done.

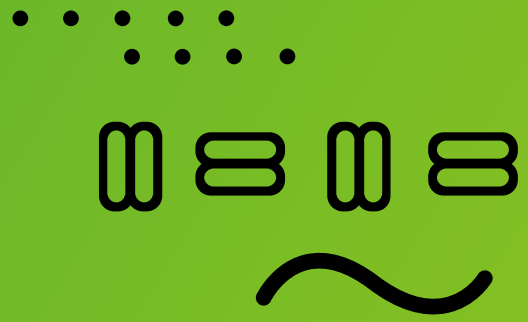
**Simon Jose**
Executive Vice President,
Chief Commercial Officer

**Martine Clozel**
Executive Vice President,
Chief Scientific Officer

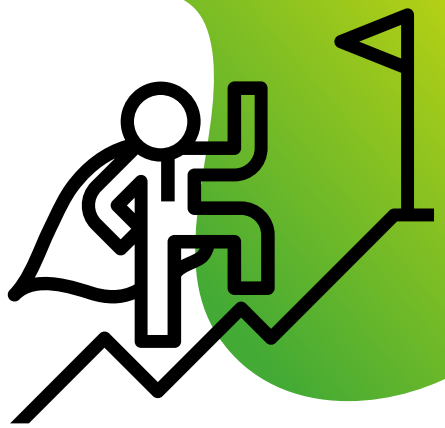
**Guy Braunstein**
Executive Vice President,
Head of Global Clinical Development

# Our Responsibilities





# More drive – For a better future



Idorsia's goal is to discover, develop and bring more, innovative medicines to patients. We believe that delivering on this mission is our core responsibility to our stakeholders and society in general. We also believe that it is possible to achieve this in an economically, socially and environmentally responsible manner.



Although we are a young company, we have already – thanks to our teams' experience of working together – established a robust governance framework, with a broad range of supporting policies, standard operating procedures, and guidelines (such as our Code of Business Conduct), driving a culture of integrity.

As we look forward to a strong growth trajectory, it is important that we are open and transparent about how we run our business, and about other topics that matter to our stakeholders. We are therefore conducting a materiality analysis and associated stakeholder engagement activities to lay the foundations for future sustainability reporting, also known as non-financial or environmental, social & governance (ESG) reporting.

In 2019, based on an analysis of ESG reports from a group of Idorsia's peers, we prepared a list of material sustainability topics and drew up a map of key stakeholders. This forms the basis for stakeholder engagement activities to be pursued in 2020, with a view to producing a materiality matrix.

These activities will allow us to develop an appropriate sustainability reporting strategy and to identify areas for improvement, as well as specific actions and initiatives.

For more information on Idorsia's commitment to stakeholders, our approach to corporate responsibility, and quantitative data on Idorsia's carbon emissions, water usage, and waste management, please visit our website: **www.idorsia.com/our-responsibilities**.

# Financial Review





Idorsia measures and reports its non-GAAP operating performance, which management believes more accurately reflects the underlying business performance. The Group believes that these non-GAAP financial measurements provide useful supplementary information for investors. These non-GAAP measures are reported in addition to, not as a substitute for, US GAAP financial performance.

Rounding differences may occur
nm = not meaningful

# Idorsia's key numbers

## Profit and loss

| (in CHF millions, except EPS) | Twelve months ended Dec 31, US GAAP 2019 | US GAAP 2018 | Non-GAAP 2019 | Non-GAAP 2018 | Fourth quarter US GAAP 2019 | US GAAP 2018 | Non-GAAP 2019 | Non-GAAP 2018 |
|---|---|---|---|---|---|---|---|---|
| **Net revenue** | | | | | | | | |
| Product sales | - | - | - | - | - | - | - | - |
| Contract revenue – royalties | - | - | - | - | - | - | - | - |
| Contract revenue – milestones | 24 | 61 | 24 | 61 | 4 | 41 | 4 | 41 |
| Contract revenue – others | - | - | - | - | - | - | - | - |
| **Operating expenses** | | | | | | | | |
| Research and development | (439) | (370) | (412) | (345) | (112) | (125) | (105) | (118) |
| Selling, general and administrative | (68) | (61) | (58) | (54) | (20) | (17) | (17) | (15) |
| **Net results** | | | | | | | | |
| Operating income (loss) | (482) | (371) | (446) | (339) | (127) | (101) | (118) | (92) |
| Net income (loss) | (494) | (386) | (448) | (340) | (142) | (108) | (121) | (91) |
| Basic EPS | (3.76) | (3.10) | (3.41) | (2.72) | (1.08) | (0.83) | (0.92) | (0.70) |
| Diluted EPS | (3.76) | (3.10) | (3.41) | (2.72) | (1.08) | (0.83) | (0.92) | (0.70) |

## Cash flow

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Cash flow** | | | | |
| Operating cash flow | (462) | (353) | (126) | (125) |
| Cash raise | - | 498 | - | - |
| Capital expenditure | (19) | (17) | (6) | (7) |

## Shares

| (in millions) | Dec 31, 2019 | Sep 30, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **Share count** | | | |
| Issued common shares | 131.2 | 131.2 | 131.1 |
| Equity derivatives | 44.6 | 44.6 | 44.6 |
| Equity instruments | 7.1 | 7.1 | 5.8 |
| **Total potential issued shares** | **183.0** | **182.9** | **181.5** |

## Liquidity and indebtedness

| (in CHF millions) | Dec 31, 2019 | Sep 30, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **Liquidity** | | | |
| Cash and cash equivalents | 263 | 385 | 799 |
| Short-term deposits | 476 | 490 | 123 |
| Long-term deposits | - | - | 298 |
| **Total liquidity** | **739** | **875** | **1,220** |
| **Indebtedness** | | | |
| Convertible loan | 380 | 378 | 372 |
| Convertible bonds | 199 | 199 | 198 |
| Other financial debt | - | - | - |
| **Total indebtedness** | **579** | **577** | **571** |

# Revenue

## Revenue

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Revenue** | | | | |
| Product sales | - | - | - | - |
| Contract revenue - royalties | - | - | - | - |
| Contract revenue - milestones | 24 | 61 | 4 | 41 |
| Contract revenue - others | - | - | - | - |
| **US GAAP revenue** | **24** | **61** | **4** | **41** |

Revenue of CHF 24 m consisted of deferred contract revenue in connection with the collaboration agreements with Janssen (aprocitentan: CHF 18.8 m) and Roche (research collaboration: CHF 5.0 m).

# Operating expenses

## Operating expenses

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Operating expenses** | | | | |
| Research | 115 | 115 | 29 | 33 |
| Development | 297 | 215 | 76 | 71 |
| Selling, general and administrative | 58 | 54 | 17 | 15 |
| Milestones paid | - | 15 | - | 15 |
| **Non-GAAP operating expenses** | **470** | **399** | **122** | **133** |
| Depreciation and amortization | 20 | 20 | 5 | 5 |
| Share-based compensation | 17 | 13 | 4 | 3 |
| Other | - | - | - | - |
| **Other operating expenses** | **37** | **33** | **9** | **9** |
| **US GAAP operating expenses** | **506** | **432** | **131** | **141** |

US GAAP operating expenses of CHF 506 m comprised non-GAAP operating expenses of CHF 470 m, depreciation and amortization of CHF 20 m and share-based compensation of CHF 17 m.

## Research and development ("R&D") expenses

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **R&D expenses** | | | | |
| Research | 115 | 115 | 29 | 33 |
| Development | 297 | 215 | 76 | 71 |
| Milestones paid | - | 15 | - | 15 |
| **Non-GAAP R&D expenses** | **412** | **345** | **105** | **118** |
| Depreciation and amortization | 16 | 17 | 4 | 4 |
| Share-based compensation | 11 | 8 | 3 | 2 |
| Other | - | - | - | - |
| **US GAAP R&D expenses** | **439** | **370** | **112** | **125** |

Non-GAAP research expenses amounted to CHF 115 m for biology (CHF 26 m), chemistry (CHF 40 m) and preclinical activities (CHF 49 m).

Non-GAAP development expenses amounted to CHF 297 m, comprising CHF 215 m for clinical activities (including CHF 166 m study costs, mainly driven by Phase 3 studies for daridorexant, aprocitentan, clazosentan and lucerastat) and CHF 82 m for pharmaceutical development activities (including CHF 49 m for drug substance and CHF 13 m for drug product).

## Selling, general and administrative ("SG&A") expenses

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Non-GAAP SG&A expenses** | **58** | **54** | **17** | **15** |
| Depreciation and amortization | 3 | 3 | 1 | 1 |
| Share-based compensation | 6 | 5 | 1 | 1 |
| Other | - | - | - | - |
| **US GAAP SG&A expenses** | **68** | **61** | **20** | **17** |

Non-GAAP SG&A expenses amounted to CHF 58 m, comprising CHF 23 m for Global Information Systems, CHF 10 m for commercial activities and CHF 25 m for other support functions.

# Operating results

## Non-GAAP and US GAAP operating results

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Operating results** | | | | |
| Contract revenues | 24 | 61 | 4 | 41 |
| Operating expenses | (470) | (399) | (122) | (133) |
| **Non-GAAP operating income (loss)** | **(446)** | **(339)** | **(118)** | **(92)** |
| **Operating results** | | | | |
| Contract revenues | 24 | 61 | 4 | 41 |
| Operating expenses | (506) | (432) | (131) | (141) |
| **US GAAP operating income (loss)** | **(482)** | **(371)** | **(127)** | **(101)** |

The CHF 37 m difference between the non-GAAP and the US GAAP operating loss related to depreciation and amortization of CHF 20 m and share-based compensation of CHF 17 m.

# Financial results

## Financial results

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Financial results** | | | | |
| Interest income (expense), net | (0) | (2) | (1) | (0) |
| Other financial income (expense), net | (0) | 1 | (3) | 2 |
| **Non-GAAP financial income (expense)** | **(1)** | **(1)** | **(4)** | **2** |
| Accretion expense | (8) | (8) | (2) | (2) |
| Gain (loss) on marketable securities | 6 | (8) | (3) | (8) |
| **US GAAP financial income (expense)** | **(3)** | **(17)** | **(9)** | **(9)** |

US GAAP financial expense comprised non-GAAP financial expense of CHF 1 m, the non-cash accretion expense of CHF 8 m relating to the convertible debt and an unrealized gain of CHF 6 m on marketable securities.

# Income tax

## Income tax

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Income tax** | | | | |
| Income tax benefit (expense) | (1) | (0) | 1 | (1) |
| **Non-GAAP tax benefit (expense)** | **(1)** | **(0)** | **1** | **(1)** |
| Other tax benefit (expense) | (8) | 1 | (7) | 1 |
| **US GAAP income tax benefit (expense)** | **(9)** | **0** | **(6)** | **0** |

The CHF 8 m difference between the non-GAAP and the US GAAP income tax expense is mainly due to the non-cash impact of Swiss tax reform on the deferred tax position (CHF 4 m) and stock-based compensation (CHF 4 m).

Both US- and non-GAAP tax expense included an increase of the valuation allowance of CHF 106 m, mainly related to deferred tax assets arising from operating losses which can be carried forward and utilized for up to 7 years. As of the end of December 2019, Idorsia has net operating losses amounting to CHF 920 m, leading to a gross deferred tax asset of CHF 123 m.

# Net results, EPS and shares

## Net results

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Non-GAAP operating income (loss)** | **(446)** | **(339)** | **(118)** | **(92)** |
| Financial income (expense) | (1) | (1) | (4) | 2 |
| Income tax benefit (expense) | (1) | (0) | 1 | (1) |
| **Non-GAAP net income (loss)** | **(448)** | **(340)** | **(121)** | **(91)** |
| **US GAAP operating income (loss)** | **(482)** | **(371)** | **(127)** | **(101)** |
| Financial income (expense) | (3) | (17) | (9) | (9) |
| Income tax benefit (expense) | (9) | 0 | (6) | 0 |
| **US GAAP net income (loss)** | **(495)** | **(388)** | **(142)** | **(109)** |
| Net loss attributable to noncontrolling interests | 1 | 1 | 0 | 0 |
| **US GAAP net income (loss) attributable to Idorsia's shareholders** | **(494)** | **(386)** | **(142)** | **(108)** |

The CHF 46 m difference between the non-GAAP and the US GAAP net loss was mainly due to depreciation and amortization of CHF 20 m, share-based compensation of CHF 17 m, the financial accretion expense of CHF 8 m relating to the convertible debt, partially offset by an unrealized gain of CHF 6 m on marketable securities and the tax expense of CHF 8 m.

## Shares

| (in millions) | Issued | Potentially dilutive equity instruments: Derivatives | Awards | Total potential issued shares |
|---|---|---|---|---|
| **Dec 31, 2018** | **131.1** | **44.6** | **5.8** | **181.5** |
| Issuance | 0.2 | - | 1.7 | 1.9 |
| Exercised | - | - | (0.1) | (0.1) |
| Forfeitures | - | - | (0.3) | (0.3) |
| **Dec 31, 2019** | **131.2** | **44.6** | **7.1** | **183.0** |

Equity derivatives of 44.6 million at year-end 2019 comprised of 38.7 million issued to Cilag in connection with the convertible loan and 5.9 million shares in connection with the convertible bonds.

Equity awards of 7.1 million at year-end 2019 consisted of 6.4 million share options with an average strike price of 18.72 granted to eligible employees and non-executive directors of the Board and 0.7 million restricted share units granted to eligible employees.

## Earnings per share (EPS)

| (in CHF millions, unless otherwise indicated) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Non-GAAP net income (loss)** | **(448)** | **(340)** | **(121)** | **(91)** |
| Weighted-average number of basic shares (in millions) | 131.2 | 124.8 | 131.2 | 131.1 |
| **Non-GAAP basic EPS (in CHF)** | **(3.41)** | **(2.72)** | **(0.92)** | **(0.70)** |
| Weighted-average number of dilutive shares (in millions) | 131.2 | 124.8 | 131.2 | 131.1 |
| **Non-GAAP diluted EPS (in CHF)** | **(3.41)** | **(2.72)** | **(0.92)** | **(0.70)** |
| **US GAAP net income (loss)** | **(494)** | **(386)** | **(142)** | **(108)** |
| Weighted-average number of basic shares (in millions) | 131.2 | 124.8 | 131.2 | 131.1 |
| **US GAAP basic EPS (in CHF)** | **(3.76)** | **(3.10)** | **(1.08)** | **(0.83)** |
| Weighted-average number of dilutive shares (in millions) | 131.2 | 124.8 | 131.2 | 131.1 |
| **US GAAP diluted EPS (in CHF)** | **(3.76)** | **(3.10)** | **(1.08)** | **(0.83)** |

There is no difference between basic and diluted EPS since no shares were considered dilutive due to the net loss.

# Cash flow and liquidity

## Operating cash flow

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Operating cash flow** | | | | |
| US GAAP net income (loss) | (495) | (388) | (142) | (109) |
| Deferred contract revenue | (19) | (26) | (4) | (21) |
| Deferred taxes | 6 | (2) | 5 | (2) |
| Depreciation and amortization | 20 | 20 | 5 | 5 |
| Accretion of convertible debt discount | 8 | 8 | 2 | 2 |
| Share-based compensation | 17 | 13 | 4 | 3 |
| Other non cash items | (6) | 8 | 3 | 8 |
| **Funds from operations** | **(468)** | **(367)** | **(127)** | **(113)** |
| Net change in receivables | (7) | (0) | 0 | (1) |
| Net change in trade and other payables | 0 | 2 | (4) | (1) |
| Net change in other operating assets and liabilities | 13 | 12 | 5 | (9) |
| **Change in working capital** | **6** | **14** | **1** | **(12)** |
| **Operating cash flow** | **(462)** | **(353)** | **(126)** | **(125)** |

Operating cash flow for the full-year 2019 was negative at CHF 462 m, mainly driven by the non-GAAP operating expenses of CHF 470 m and a decrease of CHF 6 m in net working capital requirements.

## Cash flow

| (in CHF millions) | Twelve months ended Dec 31, 2019 | 2018 | Fourth quarter 2019 | 2018 |
|---|---|---|---|---|
| **Cash flow** | | | | |
| Operating cash flow | (462) | (353) | (126) | (125) |
| Acquisition of tangible, intangible and other assets | (19) | (17) | (6) | (7) |
| **Free cash flow** | **(481)** | **(370)** | **(132)** | **(132)** |
| Cash raise | - | 505 | - | - |
| Other items | 0 | (6) | (3) | 1 |
| **Cash flow**[1] | **(481)** | **129** | **(135)** | **(131)** |

[1]Cash flow is reconciled with the liquidity movements shown below.

Free cash flow is reconciled with liquidity of CHF 739 m at year-end 2019. Liquidity in 2019 decreased by CHF 481 m mainly driven by a negative operating cash flow of CHF 462 m.

## Liquidity

| (in CHF millions) | Liquidity |
|---|---|
| **Liquidity Dec 31, 2018** | **1,220** |
| Liquidity movements Q1 | (108) |
| **Liquidity Mar 31, 2019** | **1,111** |
| Liquidity movements Q2 | (108) |
| **Liquidity Jun 30, 2019** | **1,004** |
| Liquidity movements Q3 | (129) |
| **Liquidity Sep 30, 2019** | **875** |
| Liquidity movements Q4 | (135) |
| **Liquidity Dec 31, 2019** | **739** |

As of December 31, 2019, liquidity consisted of cash and cash equivalents of CHF 263 m, and short-term deposits of CHF 476 m.

Liquidity of CHF 739 m at year-end 2019 was mainly held in Swiss francs (CHF 610 m) and in US dollars (equivalent of CHF 122 m).

# Balance sheet

## Balance sheet

| (in CHF millions) | Dec 31, 2019 | Sep 30, 2019 | Dec 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Liquidity[1] | 739 | 875 | 1,220 |
| Tangible assets | 207 | 208 | 151 |
| Other assets | 58 | 44 | 36 |
| **Total assets** | **1,004** | **1,127** | **1,407** |
| **Liabilities and equity** | | | |
| Financial debt | 579 | 577 | 571 |
| Deferred revenue | 39 | 43 | 58 |
| Other liabilities | 222 | 188 | 121 |
| **Total liabilities** | **840** | **808** | **749** |
| **Total equity** | **164** | **319** | **658** |
| **Total liabilities and equity** | **1,004** | **1,127** | **1,407** |

[1] Liquidity includes cash, cash equivalents, short- and long-term deposits

Tangible assets (CHF 207 m) mainly consisted of real-estate, R&D equipment and right-of-use assets (see below for the impact of the new US GAAP lease standard).

Other assets (CHF 58 m) comprised prepayments of CHF 14 m, receivables of CHF 18 m, marketable securities of CHF 15 m (long-term CHF 11 m, short-term CHF 4 m) and other noncurrent assets of CHF 11 m.

Financial debt (CHF 579 m) comprised the debt component (CHF 380 m) of the outstanding convertible loan (nominal amount of CHF 445 m) and CHF 199 m relating to the convertible bonds (nominal amount of CHF 200 m).

Deferred revenue (CHF 39 m) related to the collaborations with Janssen (CHF 29 m) and Roche (CHF 5 m) and the option (CHF 5 m) granted in May 2019 to Neurocrine Biosciences, Inc. to license ACT-709478 and follow-up compounds.

Other liabilities (CHF 222 m) included current and noncurrent liabilities of CHF 94 m and CHF 128 m respectively. Current liabilities mainly comprised accrued expenses of CHF 75 m, payables of CHF 10 m and a short-term lease liability of CHF 9 m. Noncurrent liabilities mainly comprised a lease liability of CHF 44 m (see below impact of new US GAAP lease standard), pension obligations of CHF 53 m, subordinated liability (Vaxxilon) of CHF 12 m, deferred tax liabilities of CHF 14 m and other noncurrent liabilities of CHF 6 m.

*Impact and implementation of new US GAAP lease standard ASC 842:*
The Group decided to apply the new lease accounting standard ASC 842 at the date of adoption rather than at the beginning of the earliest period presented, as permitted under the simplification rule mentioned in ASU 2018-11. Implementation did not have any impact on the income statement, equity statement or statement of cash flows. The table below shows the impact on the opening balance as of January 1, 2019:

| (in CHF millions) | Jan 1, 2019 reported | Impact of adoption | Jan 1, 2019 adopted |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Other current assets | 18 | (3) | 15 |
| **Noncurrent assets** | | | |
| Right-of-use assets for operating leases | - | 63 | 63 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accrued expenses | 68 | (1) | 67 |
| **Noncurrent liabilities** | | | |
| Lease liabilities for operating leases | - | 61 | 61 |

As of December 31, 2019, the numbers for ASC 842 are as follows:

- CHF 56 m in tangible assets as right-of-use assets
- CHF 52 m in other liabilities as lease liability

The balance of CHF 4 m related to prepaid leases.

# Reconciliation of US GAAP to non-GAAP results

## Reconciliation of US GAAP to non-GAAP results for the twelve months ended December 31, 2019

| (in CHF millions, unless otherwise indicated) | **US GAAP results** | Depreciation, amortization, impairment | Share-based compensation | Other items | **Non-GAAP results** |
|---|---|---|---|---|---|
| **Net revenue** | | | | | |
| Product sales | - | - | - | - | - |
| Contract revenue – royalties | - | - | - | - | - |
| Contract revenue – milestones | 24 | - | - | - | 24 |
| Contract revenue – others | - | - | - | - | - |
| **Total net revenue** | **24** | **-** | **-** | **-** | **24** |
| **Operating expenses** | | | | | |
| Research and development | (439) | 16 | 11 | - | (412) |
| Selling, general and administrative | (66) | 2 | 6 | - | (58) |
| Amortization of intangible assets | (1) | 1 | - | - | - |
| **Total operating expenses** | **(506)** | 20 | 17 | **-** | **(470)** |
| **Operating results** | **(482)** | 20 | 17 | **-** | **(446)** |
| Total financial income (expense) | (3) | - | - | 2 | (1) |
| **Income before income tax benefit (expense)** | **(485)** | 20 | 17 | 2 | **(446)** |
| Income tax benefit (expense) | (9) | (0) | 4 | 5 | (1) |
| Noncontrolling interest | 1 | - | - | (1) | - |
| **Net income (loss)** | **(494)** | 19 | 21 | 6 | **(448)** |
| **Basic net income (loss) per share (CHF)** | **(3.76)** | 0.15 | 0.16 | 0.05 | **(3.41)** |
| Weighted-average number of basic shares (in millions) | 131.2 | - | - | - | 131.2 |
| **Diluted net income (loss) per share (CHF)** | **(3.76)** | 0.15 | 0.16 | 0.05 | **(3.41)** |
| Weighted-average number of dilutive shares (in millions) | 131.2 | - | - | - | 131.2 |

## Reconciliation of US GAAP to non-GAAP results for the fourth quarter 2019

| (in CHF millions, unless otherwise indicated) | **US GAAP results** | Depreciation, amortization, impairment | Share-based compensation | Other items | **Non-GAAP results** |
|---|---|---|---|---|---|
| **Net revenue** | | | | | |
| Product sales | - | - | - | - | - |
| Contract revenue – royalties | - | - | - | - | - |
| Contract revenue – milestones | 4 | - | - | - | 4 |
| Contract revenue – others | - | - | - | - | - |
| **Total net revenue** | **4** | **-** | **-** | **-** | **4** |
| **Operating expenses** | | | | | |
| Research and development | (112) | 4 | 3 | - | (105) |
| Selling, general and administrative | (19) | 1 | 1 | - | (17) |
| Amortization of intangible assets | (0) | 0 | - | - | - |
| **Total operating expenses** | **(131)** | 5 | 4 | **-** | **(122)** |
| **Operating results** | **(127)** | 5 | 4 | **-** | **(118)** |
| Total financial income (expense) | (9) | - | - | 5 | (4) |
| **Income before income tax benefit (expense)** | **(136)** | 5 | 4 | 5 | **(122)** |
| Income tax benefit (expense) | (6) | (0) | 1 | 5 | 1 |
| Noncontrolling interest | 0 | - | - | (0) | - |
| **Net income (loss)** | **(142)** | 5 | 5 | 10 | **(121)** |
| **Basic net income (loss) per share (CHF)** | **(1.08)** | 0.04 | 0.04 | 0.08 | **(0.92)** |
| Weighted-average number of basic shares (in millions) | 131.2 | - | - | - | 131.2 |
| **Diluted net income (loss) per share (CHF)** | **(1.08)** | 0.04 | 0.04 | 0.08 | **(0.92)** |
| Weighted-average number of dilutive shares (in millions) | 131.2 | - | - | - | 131.2 |

The non-GAAP metrics are reported in addition to, not as a substitute for, US GAAP financial performance, as management believes that they provide useful supplementary information to investors and more accurately reflect the underlying business performance.

# Consolidated Financial Statements





# Consolidated Income Statement

| (in CHF thousands, except per share amounts) | Notes | Twelve months ended December 31, 2019 | 2018 |
|---|---|---|---|
| **Net revenue** | | | |
| Product sales | | - | - |
| Contract revenue | 4 | 23,819 | 60,618 |
| **Total net revenue** | | **23,819** | **60,618** |
| **Operating (expenses)**[1] | | | |
| Research and development | | (438,526) | (370,083) |
| Selling, general and administrative | | (66,441) | (60,641) |
| Amortization of intangible assets | 10 | (1,273) | (970) |
| **Total operating (expenses)** | | **(506,240)** | **(431,694)** |
| **Operating income (loss)** | | **(482,421)** | **(371,075)** |
| Interest income (expense), net | | (404) | (1,581) |
| Accretion of convertible debt | 14 | (8,160) | (7,845) |
| Other financial income (expense), net | | 5,789 | (7,324) |
| **Total financial income (expense)** | | **(2,776)** | **(16,750)** |
| Income (loss) before income tax benefit (expense) | | (485,197) | (387,826) |
| Income tax benefit (expense) | 5 | (9,452) | 314 |
| **Net income (loss)** | | **(494,649)** | **(387,511)** |
| Less: Net (gain) loss attributable to the noncontrolling interests | 2 | 1,040 | 1,121 |
| **Net income (loss) attributable to Idorsia's shareholders** | | **(493,609)** | **(386,390)** |
| **Basic net income (loss) per share attributable to Idorsia's shareholders** | 6 | **(3.76)** | **(3.10)** |
| Weighted-average number of common shares (in thousands) | | 131,187 | 124,775 |
| **Diluted net income (loss) per share attributable to Idorsia's shareholders** | 6 | **(3.76)** | **(3.10)** |
| Weighted-average number of common shares (in thousands) | | 131,187 | 124,775 |
| **[1]Includes share-based compensation as follows:** | | | |
| Research and development | | 10,646 | 8,051 |
| Selling, general and administrative | | 6,370 | 4,941 |
| **Total share-based compensation** | | **17,016** | **12,992** |

The accompanying notes form an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

| (in CHF thousands) | Twelve months ended December 31, 2019 | 2018 |
|---|---|---|
| **Net income (loss)** | **(494,649)** | **(387,511)** |
| Other comprehensive income (loss), net of tax: | | |
| Foreign currency translation adjustments | (62) | 39 |
| Change of unrecognized components of net periodic benefit costs | (17,027) | (488) |
| **Other comprehensive income (loss), net of tax** | **(17,088)** | **(448)** |
| **Comprehensive income (loss)** | **(511,737)** | **(387,959)** |
| Less: Comprehensive (gain) loss attributable to noncontrolling interests | 1,040 | 1,121 |
| **Comprehensive income (loss) attributable to Idorsia's shareholders** | **(510,697)** | **(386,839)** |

The accompanying notes form an integral part of these Consolidated Financial Statements.

# Consolidated Balance Sheet (1/2)

| (in CHF thousands, except number of shares) | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7/8 | 263,007 | 798,557 |
| Short-term deposits | 8 | 476,279 | 122,865 |
| Receivables from related parties | 22 | 5,951 | 2,110 |
| Other current assets | 9 | 30,164 | 17,890 |
| **Total current assets** | | **775,401** | **941,422** |
| **Noncurrent assets** | | | |
| Long-term deposits | 8 | - | 298,415 |
| Marketable securities | 8 | 11,396 | 6,796 |
| Property, plant and equipment, net | 11 | 150,663 | 150,697 |
| Right-of-use assets | 13 | 56,063 | - |
| Intangible assets, net | 10 | 1,694 | 2,807 |
| Other noncurrent assets | | 8,983 | 6,633 |
| **Total noncurrent assets** | | **228,799** | **465,347** |
| **TOTAL ASSETS** | | **1,004,200** | **1,406,770** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 8,760 | 7,131 |
| Payables and accrued payables to related parties | 22 | 1,207 | 3,914 |
| Deferred revenue | 4 | 17,206 | 26,232 |
| Lease liability | 13 | 8,739 | - |
| Accrued expenses | 12 | 74,967 | 67,576 |
| **Total current liabilities** | | **110,879** | **104,853** |
| **Noncurrent liabilities** | | | |
| Convertible loan | 14 | 380,279 | 372,399 |
| Convertible bonds | 14 | 198,723 | 198,443 |
| Deferred revenue | 4 | 21,779 | 31,540 |
| Lease liability | 13 | 43,583 | - |
| Pension liability | 15 | 52,923 | 18,182 |
| Deferred tax liability | 5 | 13,661 | 6,018 |
| Other noncurrent liabilities | | 18,027 | 17,710 |
| **Total noncurrent liabilities** | | **728,975** | **644,292** |
| **Total liabilities** | | **839,854** | **749,145** |

# Consolidated Balance Sheet (2/2)

| (in CHF thousands, except number of shares) | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **EQUITY** | | | |
| **Idorsia's shareholders' equity** | | | |
| Common shares (par value CHF 0.05 per share, issued and outstanding 131,241,148 and 131,060,423 in 2019 and 2018 respectively; total number of authorized shares, including issued, authorized and conditional, 237,035,430 and 225,123,430 in 2019 and 2018 respectively) | 17 | 6,562 | 6,553 |
| Additional paid-in capital | | 1,083,677 | 1,065,228 |
| Accumulated profit (loss) | | (894,268) | (400,659) |
| Accumulated other comprehensive income (loss) | 18 | (23,527) | (6,439) |
| **Total Idorsia's shareholders' equity** | | **172,444** | **664,683** |
| Equity attributable to noncontrolling interests | 2 | (8,098) | (7,058) |
| **Total equity** | | **164,346** | **657,625** |
| **TOTAL LIABILITIES AND EQUITY** | | **1,004,200** | **1,406,770** |

The accompanying notes form an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Cash Flows (1/2)

| (in CHF thousands) | Twelve months ended December 31, 2019 | 2018 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net income (loss) | (494,649) | (387,511) |
| Adjustments to reconcile net income (loss) to net cash provided from operating activities: | | |
| Depreciation and amortization | 19,693 | 19,563 |
| Share-based compensation | 17,016 | 12,992 |
| Accretion of convertible debt | 8,160 | 7,845 |
| Fair value changes on marketable securities | (6,133) | 8,053 |
| Deferred revenue | (18,786) | (25,827) |
| Deferred taxes | 6,431 | (1,933) |
| Changes in operating assets and liabilities: | | |
| Other receivables | (7,288) | (126) |
| Trade and other payables | 417 | 2,425 |
| Accrued expenses | 7,490 | 20,055 |
| Changes in other operating cash flow items | 5,610 | (8,353) |
| **Net cash flow provided by (used in) operating activities** | **(462,039)** | **(352,817)** |
| **Cash flow from investing activities** | | |
| Purchase of marketable securities | - | (2,500) |
| Purchase of short-term deposits | (288,724) | (216,840) |
| Proceeds from short-term deposits | 213,552 | 313,848 |
| Purchase of long-term deposits | (20,000) | (299,050) |
| Proceeds from long-term deposits | 39,356 | 250,000 |
| Purchase of property, plant and equipment | (18,802) | (11,616) |
| Purchase of intangible assets | (189) | (2,650) |
| **Net cash flow provided by (used in) investing activities** | **(74,807)** | **31,193** |
| **Cash flow from financing activities** | | |
| Issuance of new shares, net | - | 299,449 |
| Proceeds from exercise of share options | 1,330 | - |
| Proceeds from issuance of convertible bonds, net | - | 198,315 |
| **Net cash flow provided by (used in) financing activities** | **1,330** | **497,764** |

# Consolidated Statement of Cash Flows (2/2)

| (in CHF thousands) | Twelve months ended December 31, 2019 | 2018 |
|---|---|---|
| Net effect of exchange rates on cash and cash equivalents | (34) | (35) |
| **Net change in cash and cash equivalents** | **(535,550)** | **176,105** |
| Cash and cash equivalents at beginning of period | 798,557 | 622,452 |
| **Cash and cash equivalents at end of period** | **263,007** | **798,557** |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the year for: | | |
| Interest | (4,068) | (3,485) |
| Tax | (2,712) | (146) |

The accompanying notes form an integral part of these Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

| (in CHF thousands, except number of shares) | Idorsia's shareholders | | | | | Noncontrolling interests | |
|---|---|---|---|---|---|---|---|
| | Common shares | | Additional paid-in capital | Accum. profit (loss) | Accum. other comprehensive income (loss) | Equity attrib. to noncontrolling interests | Total equity |
| | Shares | Amount | | | | | |
| **At January 1, 2018** | **119,123,430** | **5,956** | **759,747** | **(14,269)** | **(5,990)** | **(5,937)** | **739,506** |
| **Comprehensive income (loss):** | | | | | | | |
| Net income (loss) | | | | (386,390) | | (1,121) | (387,511) |
| Other comprehensive income (loss) | | | | | (448) | | (448) |
| **Comprehensive income (loss)** | | | | | | | **(387,959)** |
| Demerger adjustment | | | (6,810) | | | | (6,810) |
| Issuance of new shares[1] | 11,912,000 | 596 | 299,300 | | | | 299,896 |
| Share-based compensation expense | 24,993 | 1 | 12,991 | | | | 12,992 |
| **At December 31, 2018** | **131,060,423** | **6,553** | **1,065,228** | **(400,659)** | **(6,439)** | **(7,058)** | **657,625** |
| **Comprehensive income (loss):** | | | | | | | |
| Net income (loss) | | | | (493,609) | | (1,040) | (494,649) |
| Other comprehensive income (loss) | | | | | (17,088) | | (17,088) |
| **Comprehensive income (loss)** | | | | | | | **(511,737)** |
| Exercise of share options | 75,000 | 4 | 1,326 | | | | 1,330 |
| Share-based compensation expense | 105,725 | 5 | 17,123 | | | | 17,129 |
| **At December 31, 2019** | **131,241,148** | **6,562** | **1,083,677** | **(894,268)** | **(23,527)** | **(8,098)** | **164,346** |

[1]Issuance value of CHF 305 m less stamp duty of CHF 3 m, costs of CHF 3 m

The accompanying notes form an integral part of these Consolidated Financial Statements.

# Notes to the Consolidated Financial Statements

(CHF thousands, except share and per share amounts)



## Note 1. Description of business and summary of significant accounting policies

Idorsia Ltd ("Idorsia" or the "Group"), a biopharmaceutical company headquartered in Allschwil, Switzerland, aims to discover, develop and commercialize innovative drugs for high unmet medical needs.

### Basis of presentation

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

### Demerger of Idorsia

Idorsia Ltd was incorporated on March 3, 2017 as a subsidiary of Actelion Ltd ("Actelion") and demerged from Actelion on June 15, 2017, spinning-off Actelion's drug discovery operations and early-stage clinical development assets into the Idorsia Group (the "Demerger").

### Changes in accounting policies

The Group adopted the requirements of *ASU 2016-02, Leases*. On January 1, 2019, the Group adopted ASU 2016-02 using the modified retrospective approach. Results for reporting periods beginning after January 1, 2019, are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with the old guidance under ASC 840. The Group elected the package of practical expedients permitted under the transition guidance within ASC 842, which allowed the Group to carry forward the historical lease classification and retain the initial direct costs for any leases that existed prior to the adoption of the standard. The Group also elected to account for lease and nonlease components in the lease agreements as a single lease component in determining lease assets and liabilities.

Adopting the lease accounting standard impacted the prior period consolidated balance sheet as follows:

| | 2018 reported | Effect | Balances as at 1st, January 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Other current assets | 17,890 | (3,052) | 14,838 |
| **Noncurrent assets** | | | |
| Right-of-use assets for operating leases | - | 63,017 | 63,017 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accrued expenses | 67,576 | (611) | 66,965 |
| **Noncurrent liabilities** | | | |
| Lease liabilities for operating leases | - | 60,576 | 60,576 |

The adoption did not have a material impact on the consolidated income statements or consolidated statement of cash flows (see Note 13. Leases).

### Scope of consolidation

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

Variable interest entities ("VIE"), irrespective of their legal structure, are consolidated if the Group has been determined to be the primary beneficiary, as defined in the *Variable Interest Entities* subsection of FASB ASC ("ASC 810-10-25-20 to 59") and thus has the power to direct the activities that most significantly impact the VIE's economic performance and will also absorb the majority of the VIE's expected losses or receive the majority of the VIE's expected residual returns, or both. In determining whether or not an entity is a VIE, the Group considers if the equity at risk for the entity is sufficient to support its operations, if the voting rights of the equity holders are disproportionate to their risk and rewards, or if substantially all of the entity's activities are conducted on behalf of the Group. Fees for services provided on customary terms and conditions are not considered variable interests. Fees related to the provision of asset value guarantees, to the obligation to fund losses of the VIE or similar arrangements that protect other variable interest holders from losses in the VIE are included in the primary beneficiary evaluation. The Group did not identify any VIE where the Group is the primary beneficiary.

Ownership interests not attributable, directly or indirectly, to the Group and related to entities where the Group exercises control through a majority of the voting rights or through contract are allocated to noncontrolling interest holders and presented separately within the consolidated balance sheet and the consolidated statement of shareholders' equity. Net income (loss) and other comprehensive income (loss) of such entities are attributed to the Group and to the noncontrolling interests in proportion to their ownership rights, even if that attribution results in a deficit noncontrolling interest balance.

### Principles of consolidation

Businesses acquired or disposed of during the period are included in the Consolidated Financial Statements from the date of acquisition or until the date of disposal. The acquisition method of accounting follows the guidance codified in FASB ASC Topic, *Business Combinations*. Intercompany transactions and balances are eliminated.

### Use of estimates

The preparation of Consolidated Financial Statements in conformity with US GAAP requires management to make judgments, assumptions and estimates that affect the amounts and disclosures reported in the Consolidated Financial Statements. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition for contract revenue, share-based compensation, clinical trial accruals, provisions, loss contingencies and income taxes. The Group bases its estimates on historical information and on various market-specific and other relevant assumptions that are believed to be reasonable under the circumstances. The Group bases some estimates on experience from its predecessor, namely in the area of share-based compensation. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

### Revenue from contracts with customers (Product sales)

Revenue is recognized when control of the promised goods or services is transferred to the customers in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services.

### Revenue from collaborations (Contract revenue)

The Group accounts for revenue from collaborations in accordance with FASB ASC Topic 808, *Collaborative Arrangements*.

*Milestone payments*

Research milestone payments are recognized as revenues when the performance obligation has been satisfied, control has been transferred, and the Group has the unconditional right to the consideration. For milestone payments received where there are several performance obligations, including continuing involvement in the R&D process according to contractual terms, the consideration is allocated to each separately identifiable performance obligation on a relative standalone selling price basis. The portion of the consideration allocated to the R&D process is recognized as the R&D process performance obligation is satisfied, i.e. generally over the requisite service period.

### Research and development ("R&D")

R&D expense consists primarily of compensation and other expenses related to R&D personnel; costs associated with preclinical testing and clinical trials of the Group's product candidates, including the costs of manufacturing the product candidates; expenses for research and services rendered under co-development agreements; and facilities expenses. All R&D costs are charged to expense when incurred following the guidance codified in FASB ASC Topic 730, *Research and Development*.

Payments made to acquire individual R&D assets, including those payments made under licensing agreements, that are deemed to have an alternative future use or are related to proven products are capitalized as intangible assets. Payments made to acquire individual R&D assets that do not have an alternative future use are expensed as R&D costs. R&D costs for services rendered under collaborative agreements are charged to expense when incurred. Reimbursements for R&D activities received from other collaborators are classified as reduction of the Group's R&D expense (see Note 4. Collaborative agreements).

### Legal fees

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

### Patents and trademarks

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

### Share-based compensation

Share-based compensation expense is recognized and measured based on the guidance codified in FASB ASC Topic 718, *Compensation – Stock Compensation*. Consequently, costs are recognized in earnings over the requisite service period based on the grant-date fair value of these options and awards.

The grant-date fair value of restricted share units granted under the Restricted Share Plan ("the RSP") is determined based on the closing share price of the Group's share at the grant date, adjusted for expected dividend distributions and discounted over the requisite service period. The discount rates are derived from Reuters and match the maturity of the expected service period. The dividend yield corresponds to the expected dividend yield over the expected term of the restricted share units granted.

The grant-date fair value of options granted under the Standard Share Option Plans ("the SSOP") is estimated at the grant date using a Black-Scholes option pricing model. The model input assumptions are determined based on available internal and external data sources. The closing share price on the date of grant is used for the valuation. The expected term of an option is the remaining time from the grant date until options are expected to be exercised by participants. For options where participants are able to exercise in a set period after vesting, the most relevant historical share option exercise experience from the Group's predecessor is used. The risk-free rate used in the model is based on the rate of interest obtainable from Swiss government bonds over a period commensurate with the expected term of the option. Expected volatility is based on average peer group volatility. The dividend yield

is based on the expected dividend yield over the expected term of the options granted. The Group recognizes share-based compensation costs considering actual forfeitures.

Compensation costs for the RSP and the SSOP are recognized on a straight-line basis over the requisite service period for the entire award. Share option exercises are settled out of the conditional capital or with treasury shares, which the Group purchases on the market. Payroll taxes in all jurisdictions are recognized only upon exercise or vesting of the respective share-based compensation awards.

### Taxes

The Group accounts for income taxes in accordance with FASB ASC Topic 740, *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rules and laws that will be in effect when differences are expected to reverse. The Group performs periodic evaluations of recorded tax assets and liabilities and maintains a valuation allowance if deemed necessary. Uncertain tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on tax audit, including resolution of related appeals or litigation processes, if any. The recognized tax benefits are measured based on the largest benefit that has a greater than fifty percent likelihood of being sustained upon settlement. Interest and penalties related to uncertain tax positions are recognized as income tax expense.

Unrecognized tax benefits are presented as a reduction to deferred tax assets if they relate to net operating loss carryforwards or tax credit carryforwards. If the net operating loss carryforwards or tax credit carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes, or the tax law of the applicable jurisdiction does not require the Group to use, and the Group does not intend to use, the deferred tax assets for such a purpose, the unrecognized tax benefit is presented as a liability in the consolidated balance sheets and is not offset against deferred tax assets. All deferred tax liabilities and assets are classified as noncurrent in the balance sheet.

Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favorable or unfavorable effects on the future effective tax rate, which would directly impact the Group's financial position or results of operations. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of capital expenditures, and changes in overall levels of pre-tax earnings.

### Earnings per share ("EPS")

In accordance with FASB ASC Topic 260, *Earnings per Share*, basic EPS are computed by dividing net income available to common shareholders by the weighted-average common shares outstanding for the period. Diluted EPS reflect the potential dilution that could occur if dilutive securities, such as share options, restricted share units or convertible debt, were exercised or converted into common shares or resulted in the issuance of common shares that would participate in net income. Basic and diluted EPS exclude common share equivalents that would have had an antidilutive effect if they had been included in the calculation of weighted-average common shares for the periods presented. In accordance with ASC 260-10-45-19, the Group does not consider any potential common shares in the computation of diluted EPS if there is a loss from continuing operations (see Note 6. Earnings per share).

### Dividends

The Group may declare dividends upon the recommendation of the Board of Directors and the approval of shareholders at their Annual General Meeting. Under Swiss corporate law, the Holding Company's right to pay dividends may be limited in specific circumstances.

### Cash and cash equivalents

The Group considers all highly liquid investments with a contractual maturity of three months or less at inception to be cash equivalents.

### Short-term deposits

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

### Derivative instruments and foreign currency exchange risk

Part of the Group's operations is denominated in foreign currencies, principally in US dollars ("USD"), Euros ("EUR") and Japanese yen ("JPY"). Exposure to fluctuations in foreign currencies may adversely impact the Group's net income and net assets. The Group may use derivatives to partially offset these risks.

The Group records all derivatives on the balance sheet at fair value. Changes in fair value as well as gains and losses realized on derivative financial instruments are reported in "Other financial income (expense), net" in the consolidated income statement. The Group determines the fair value of these derivative contracts using an income-based industry standard valuation model which utilizes counterparty information and other observable inputs, including foreign currency spot rates, forward points and stated maturities. Fair value amounts recognized for the right to reclaim and the obligation to return cash collateral arising from derivative instruments recognized at fair value and executed with the same counterparty under a master netting arrangement are not offset. Recognized financial instruments subject to an enforceable master netting arrangement are presented gross in the consolidated balance sheet.

The Group does not regularly enter into agreements containing embedded derivatives. However, when such agreements are executed, an assessment is made based on the criteria set out in ASC 815 to determine whether the derivative is required to be bifurcated and accounted for as a standalone derivative instrument. If the derivative is bifurcated, changes in the fair value of the instrument are reported in "Other financial income (expense), net" in the consolidated income statement.

### Fair value measurements

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

### Financial instruments indexed to own shares

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

### Contract balances

The timing of revenue recognition, billings and cash collections results in billed accounts receivable, unbilled receivables (contract assets), and customer advances and deposits (contract liabilities) on the balance sheet. Milestones are billed in accordance with agreed-

upon contractual terms. Generally, billing occurs subsequent to revenue recognition, resulting in contract assets.

### Deferred revenue

For milestone payments accounted for as contract revenue under ASC 808 which require continuing involvement of the Group, part of the revenue is deferred and recognized over a period of time.

### Property, plant and equipment

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

The estimated useful lives are as follows:

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

Depreciation expense is recorded utilizing the straight-line method over the estimated useful life of the assets to their estimated residual value. If material, capitalized interest on construction in progress is included in property, plant and equipment.

### Leases

The Group determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets and lease liabilities in the Consolidated Balance Sheet. Finance leases are included in property and equipment and lease liabilities in the Consolidated Balance Sheet.
Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

### Intangible assets

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

### Impairment of long-lived assets

Long-lived assets to be held and used are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Potential indicators of impairment include but are not limited to: a significant decrease in the fair value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that affects the value of an asset, an adverse action or assessment by the US Food and Drug Administration (“FDA”) or another regulator, an accumulation of costs significantly in excess of the amount originally expected to acquire or construct an asset, and operating or cash flow losses combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with an income-producing asset. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. The cash flow estimates applied in such calculations are based on management’s best estimates, using appropriate and customary assumptions and projections at the time. In the event that such cash flows are not expected to be sufficient to

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

### Long-term deposits

Long-term deposits with contractual maturities greater than one year at inception are separated from short-term deposits and reported in a separate line in the consolidated balance sheet.

### Loss contingencies

The Group records accruals for loss contingencies, asserted or unasserted, to the extent that their occurrence is deemed to be probable and the related damages are estimable. If a range of liability is probable and estimable and some amount within the range appears to be a better estimate than any other amount within the range, the Group accrues that amount. If a range of liability is probable and estimable and no amount within the range appears to be a better estimate than any other amount within the range, the Group accrues the minimum of such probable range. Interest on litigation is accrued on a prospective basis. Litigation claims that the Group might be involved in entail highly complex issues which are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, the Group cannot reasonably estimate the maximum potential exposure or the range of possible loss in excess of amounts accrued for loss contingencies. These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. The Group's assessments are based on estimates and assumptions that have been deemed reasonable by management. Litigation is inherently unpredictable, and excessive verdicts do occur.

### Convertible debt

The Group accounts for its convertible debt in accordance with the guidance primarily codified in FASB ASC Topic 470-20, *Debt with Conversion and Other Options*.

*Convertible bonds*

The Group's outstanding senior unsecured convertible bonds have been recorded as a liability at initial recognition. Debt issuance costs are presented as a reduction from the carrying amount of the convertible bonds in the consolidated balance sheet and are amortized and recognized as additional interest expense over the life of the senior unsecured convertible bonds, using the effective interest method.

*Convertible loan*

The Group's outstanding convertible loan has been separated into a liability and an equity component at initial recognition by (a) recording the beneficial conversion feature at the commitment date at the intrinsic value in equity and (b) attributing the remaining net proceeds at issuance to the liability component. The resulting discount on the loan is accreted as expense in the income statement, using the effective interest rate method.

### Pension accounting

The Group accounts for pension assets and liabilities in accordance with FASB ASC Topic 715, *Compensation – Retirement Benefits*, which requires the recognition of the funded status of pension plans in the Group's balance sheet. The liability in respect to defined benefit pension plans is the projected benefit obligation calculated annually by independent actuaries using the projected unit credit method. The projected benefit obligation ("PBO") as of December 31 represents the actuarial present value of the estimated future payments required to settle the obligation that is attributable to employee services rendered before that date. Service costs for such pension plans, represented in the net periodic benefit cost, are included in the personnel expenses of the various functions where the employees are engaged. The other components of net benefit cost are included in the income statement separately from the service cost component, in "Other financial income (expense), net". Plan assets are recorded at their fair value. Unvested prior service costs arising from retroactive amendments to pension plans are originally reflected in "Accumulated other comprehensive income (loss)" ("AOCI") and distributed to income over the employees' remaining service period. Vested prior service costs, including those

related to retirees, are immediately recognized in the consolidated income statement. Gains or losses arising from plan curtailments or settlements are accounted for at the time they occur. Any net pension asset is limited to the present value of the future economic benefits available to the Group in the form of refunds from the plan or expected reductions in future contributions to the plan. In interim periods, a net pension asset reflects the Group's prepayments of annual employee and employer plan contributions. Actuarial gains and losses arising from differences between the actual and the expected return on plan assets are recognized in AOCI and amortized over the requisite service period (see Note 15. Pension plans) by applying the corridor approach.

The service cost component is reported in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period (wages/salaries/employee benefits). The other components of net benefit cost are presented in the income statement separately from the service cost component and outside a subtotal of income from operations.

### Comprehensive income (loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains/losses on available-for-sale debt securities, currency translation adjustments, actuarial gains (losses) and prior service costs resulting from retroactive amendments of defined benefit plans. The components of comprehensive income (loss) are shown net of related taxes where the underlying assets or liabilities are held in jurisdictions that are expected to generate a future tax benefit or liability (see Note 18. Accumulated other comprehensive income (loss)).

### Foreign currencies

The Group follows the guidance included in FASB ASC Topic 830, *Foreign Currency Matters*. The reporting currency of the Group is the Swiss franc. The functional currency of the Group's subsidiaries is generally the respective local currency.

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

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary assets and liabilities denominated in foreign currencies are recognized in the subsidiary's income statements in the corresponding period.

### Segment information

The Group follows the guidance established in FASB ASC Topic 280, *Segment Reporting,* for reporting information on operating segments in interim and annual financial statements. The Group operates in one segment, which primarily focuses on discovery, development and commercialization of innovative medicines for unmet medical needs. The Group's chief operating decision-makers, comprising the Group's executive committee, review the profit and loss of the Group on an aggregated basis and manage the operations of the Group as a single operating segment.

### Subsequent events

The Group evaluates subsequent events in accordance with FASB ASC Topic 855, *Subsequent Events,* through the date the financial statements are available to be issued (see Note 23. Subsequent events).

## Recent accounting pronouncements

*ASU 2018-18, Clarifying the Interaction between Topic 808 and Topic 606*

In November 2018, the FASB issued ASU 2018-18, *Clarifying the Interaction between Topic 808 and Topic 606*, an update to FASB ASC Topic 808, *Collaborative Arrangements*. ASU 2018-18 provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606. ASU 2018-18 is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Group does not expect a material impact on its financial position, results of operations or cash flows upon adoption.

*ASU 2018-15, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*

In August 2018, the FASB issued ASU 2018-15, *Customer's accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, an update to FASB ASC Topic 350, *Intangibles – Goodwill and Other* . ASU 2018-15 aligns the requirements for capitalizing implementation costs:

- Those incurred in a hosting arrangement that is a service contract
- Those incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).

ASU 2018-15 is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Group does not expect a material impact on its financial position, results of operations or cash flows upon adoption.

*ASU 2018-14, Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*

In August 2018, the FASB issued ASU 2018-14, *Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*, an update to FASB ACS Topic 715, *Compensation – Retirement Benefits*. ASU 2018-14 changes the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. ASU 2018-14 adds, removes and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020.

*ASU 2016-13, Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, an update to FASB ASC Topic 326, *Financial Instruments – Credit Losses*. ASU 2016-13 requires financial assets measured at amortized costs to be presented at the net amount expected to be collected, through an allowance for credit losses, which is deducted from the amortized costs basis of the asset. Available-for-sale debt securities will also require the use of an allowance to record estimated credit losses. ASU 2016-13 is effective for public entities for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. Early adoption is permitted for all fiscal periods beginning after December 15, 2018. The revised guidance will be applied through a cumulative catch-up adjustment to retained earnings in the period of adoption. The Group does not expect a material impact on its financial position, results of operations or cash flows upon adoption.

# Note 2.
# Noncontrolling interests

## Vaxxilon Ltd ("Vaxxilon")

Vaxxilon, a majority-owned subsidiary of the Group, aims to discover, develop, and commercialize synthetic carbohydrate vaccines. Vaxxilon was originally established in 2015 and incorporated under the laws of Switzerland by Actelion Ltd together with the Max Planck Society ("MPS"), a publicly funded nonprofit organization in Munich, Germany, and Seeberger Science GmbH, a private company in Kleinmachnow, Germany. The Group is the principal investor and majority shareholder, holding 73.9% of the voting interests in the company. Vaxxilon has licensed exclusive rights to multiple preclinical vaccine candidates and additional technologies from Max Planck Innovation GmbH ("MPI"), Munich, Germany, the technology transfer organization of MPS. Further details of the collaboration between Vaxxilon and MPI are provided in Note 3 ("Licensing agreements"). As part of the transaction, MPI ensures continued access to licensed intellectual property rights for multiple preclinical vaccine candidates and additional technologies.

In the periods ended December 31, 2019 and 2018, losses of CHF 1.0 m and CHF 1.1 m, respectively, are attributable to minority shareholders and disclosed as noncontrolling interests.

The following table reflects the effect of changes in noncontrolling interests on the Group's equity:

| | Equity attributable to Idorsia's shareholders | Equity attributable to noncontrolling interests | Total equity |
|---|---|---|---|
| **At January 1, 2018** | **745,444** | **(5,937)** | **739,506** |
| Net income (loss) of the Group | (383,218) | - | (383,218) |
| Net income(loss) from noncontrolling interests | (3,172) | (1,121) | (4,293) |
| **Change from net income (loss)** | **(386,390)** | **(1,121)** | **(387,511)** |
| Other change in equity[1] | 305,629 | - | 305,629 |
| **At December 31, 2018** | **664,683** | **(7,058)** | **657,625** |
| Net income (loss) of the Group | (490,666) | - | (490,666) |
| Net income(loss) from noncontrolling interests | (2,943) | (1,040) | (3,982) |
| **Change from net income (loss)** | **(493,609)** | **(1,040)** | **(494,649)** |
| Other change in equity[1] | 1,370 | - | 1,370 |
| **At December 31, 2019** | **172,444** | **(8,098)** | **164,347** |

[1]Details on other changes in equity are provided in the Consolidated Statement of Changes in Equity.

# Note 3.
# Licensing agreements

## In-licensing agreements

*Vaxxilon*
Vaxxilon, a majority-owned subsidiary of the Group, licensed exclusive royalty-bearing rights to multiple preclinical vaccine candidates and additional technologies from MPI. The payment for the license rights acquired from MPI has been deferred and will accrue interest until settlement.

Under the terms of the agreement, MPI will be entitled to receive a low-single-digit royalty as well as additional potential payments of up to EUR 41.3 m upon achievement of predefined development, approval and commercialization milestones. The Group has also committed to provide additional funding of up to EUR 10.0 m upon achievement of certain development milestones. In the event that Vaxxilon grants a sublicense to a third party, MPI will in addition participate with a low-teen percentage of the sublicense consideration. Further information on the contractual relationship between the Group and MPI, and on the portion of Vaxxilon's results allocated to MPS and Seeberger Science GmbH for the reporting period, is provided in Note 2 ("Noncontrolling interests").

*Former shareholders of Axovan Ltd ("Axovan sellers") / F. Hoffman-La Roche Ltd ("Roche")*
As part of the Demerger, the Group holds a license agreement with Roche and a share purchase agreement with the Axovan sellers to develop and commercialize clazosentan.

Axovan sellers and Roche are entitled to receive milestones of up to CHF 123 m in connection with clazosentan (CHF 27 m at filing in the US, EU and Japan, CHF 68 m at approval in the US, EU and Japan, as well as sales milestones of CHF 28 m). Roche would also be entitled to high-single-digit royalties on annual sales of clazosentan.

## Out-licensing agreements

*Midnight Pharma LLC ("Midnight")/Neuro Pharma LLC ("Neuro")*
As part of the Demerger, the Group holds a worldwide exclusive license agreement with Midnight to develop and commercialize almorexant, a dual orexin receptor antagonist which was discontinued by Actelion prior to the Demerger. The Group will be eligible to receive potential milestone payments of up to USD 39.8 m upon achievement of clinical milestones and approval in the first indication. The Group will also be entitled to receive high-single-digit royalties.

# Note 4.
# Collaborative agreements

## Janssen Biotech Inc. (“Janssen”)

Janssen, an affiliate of Johnson & Johnson (“J&J”), and the Group have entered into a collaboration agreement giving Janssen the option to collaborate with the Group to jointly develop and to solely commercialize aprocitentan (ACT-132577) and any of its derivative compounds or products worldwide, for all indications other than pulmonary hypertension. The collaboration agreement also grants Janssen the perpetual and exclusive right to develop and commercialize the licensed compounds and licensed products worldwide for pulmonary hypertension. Janssen may not, however, develop or commercialize the licensed compounds and licensed products for such purposes without the Group’s consent.

Following the end of the Phase II study meeting with the FDA and the receipt by Janssen of the complete Phase II data package, Janssen opted in to the collaboration by paying the Group a one-time milestone payment of USD 230 m (CHF 227 m) in December 2017. USD 160 m (CHF 158 m) was recognized as contract revenue in December 2017, and the remainder is being recognized as contract revenue on a straight-line basis until June 2022 (originally 2021), with CHF 18.8 m being recognized in 2019. The development timeline was reassessed and the deferral period was adjusted to reflect the new timeline. The deferred revenue will be recognized as follows: CHF 12 m in 2020 and 2021 and CHF 6 m in 2022, representing a decrease of CHF 9 m in 2020 and an increase of CHF 3 m in 2021 and CHF 6 m in 2022.

The development costs related to (i) the Phase 3 program for the initial product for the initial indication (resistant hypertension management); (ii) any Phase 3 program (or Phase 2b study that the parties agree to conduct) for any additional indications (comprising all indications other than resistant and pulmonary hypertension); and (iii) marketing approval applications and marketing approvals for any collaboration indication (comprising initial and additional indications) will be shared 50:50 between the Group and Janssen.

The Group will be responsible for funding its share of the development costs for the initial indication. Janssen Biotech will fund the Group's share of the development costs for the additional indications, and may only recoup amounts so funded from any royalty payments that become due by Janssen to the Group in respect of any collaboration indication. If no, or insufficient, royalties become due to the Group for Janssen to recoup the relevant portion of the Group’s share for the additional indications that have been funded by it, Janssen will be responsible for the shortfall. In 2019, the Group recognized net CHF 17 m of cost-sharing reimbursements for the initial indication Phase 3 studies as a cost reduction in R&D expenses.

The Group will also be entitled to receive tiered royalties on annual net sales in a calendar year (20% up to USD 500 m, 30% from USD 500 m up to USD 2,000 m, and 35% above USD 2,000 m) for the licensed products in the collaboration indications.

## Revenue sharing agreement with J&J

Actelion and the Group have entered into a revenue sharing agreement in respect of ponesimod, a late-stage pipeline product that remained with Actelion. If market authorization is obtained, the Group is entitled to receive 8% of the aggregate net sales of ponesimod.

## ReveraGen BioPharma Inc. (“ReveraGen”)

As part of the Demerger, the Group holds a collaborative agreement with ReveraGen to research and co-develop vamorolone, a non-hormonal steroid modulator for the treatment of Duchenne muscular dystrophy (“DMD”).

The Group will be entitled to exercise an option to obtain the exclusive worldwide license rights on vamorolone at any time, but not later than upon receipt of the Phase 2b study results for a consideration of USD 20 m. If the option is exercised, ReveraGen will be entitled to receive regulatory and commercial milestone payments up to USD 75 m in the DMD indication and three one-time sales milestone payments of up to USD 120 m in the aggregate.

ReveraGen is also entitled to receive milestones of up to USD 190 m for approval (USD 140 m) and commercialization (USD 50 m) in three additional indications. Furthermore, the Group will pay increasing tiered double-digit royalties on the net sales of vamorolone. The Group will also support R&D activities up to a maximum amount of USD 1 m per annum. The Group will not have any additional financial exposure if the option is not exercised.

The Group evaluated the contract with ReveraGen under the requirements of the VIE model and determined that ReveraGen is a VIE but the Group is not the primary beneficiary.

### Santhera Pharmaceuticals (Switzerland) Ltd ("Santhera")

The Group and Santhera entered into an agreement under which Santhera acquired the option to obtain an exclusive sublicense for vamorolone in all indications and all territories except Japan and South Korea.

Santhera may exercise the option upon receipt of data from the Phase 2b study and following a one-time consideration to the Group of USD 30 m. Following the exercise of the worldwide vamorolone license option by the Group and exercise of the vamorolone sublicense option for all territories worldwide except Japan and South Korea by Santhera, the Group will be entitled to regulatory and commercial milestone payments of up to USD 80 m in the DMD indication and four one-time sales milestone payments of up to USD 130 m in aggregate. Regulatory and commercial milestone payments by Santhera to the Group for three additional indications amount to up to USD 205 m in aggregate. Upon commercialization of vamorolone, Santhera has committed to pay tiered royalties to the Group, ranging from a single-digit to a low-double-digit percentage on the annual net sales of vamorolone. In 2019, the Group recognized net CHF 3.7 m of cost-sharing reimbursements as a cost reduction in R&D expenses.

The Group currently owns 1,333,333 shares in Santhera Holding, of which the initially received 1,000,000 shares are subject to a lock-up provision (see Note 8. Financial Assets and Liabilities).

### F. Hoffman-La Roche Ltd / Hoffman-La Roche Inc. ("Roche")

Roche and the Group have entered into a research collaboration that provides Roche with an exclusive option right to develop and market first-in-class compounds for a promising new approach in the field of cancer immunotherapy.

Roche made an upfront payment of CHF 15 m to the Group in January 2018 for the option to exclusively license the Group's compounds and compounds resulting from the collaboration. Upon exercising the option for a further payment of CHF 35 m, after a predetermined period, Roche has the exclusive worldwide right to develop and commercialize the Group's and collaboration compounds. The initially deferred contract revenue in the amount of CHF 15 m is being recognized on a straight-line basis beginning January 2018 until December 2020, with CHF 5 m being recognized in 2019.

The Group will be eligible to receive one-time payments of up to CHF 410 m upon achieving certain development and regulatory milestones. The Group will also be entitled to one-time milestones based on sales thresholds, as well as tiered royalties on annual net sales of all products resulting from the collaboration.

### Mochida Pharmaceutical Co., Ltd. ("Mochida")

Mochida and the Group have entered into an exclusive license agreement for the supply, co-development and co-marketing of daridorexant, Idorsia's dual orexin receptor antagonist, for insomnia and related disorders in Japan.

Idorsia will receive an initial payment of JPY 1 bn (approximately CHF 9 m) and will be eligible to receive additional development, regulatory and commercial milestones of up to JPY 9.5 bn. Idorsia will also be entitled to sales milestones and variable considerations based on net sales achieved by Mochida.

With regard to the development program, Idorsia will be responsible for the design and conduct of additional preclinical and clinical studies, and for health authority registration, with oversight from a Joint Development Committee. Costs associated with the co-development of daridorexant will be shared. In 2019, the Group recognized net CHF 3.4 m of cost-sharing reimbursements as a cost reduction in R&D expenses.

### Neurocrine Biosciences, Inc. ("Neurocrine")

The Group entered into an optional license and/or research collaboration agreement with Neurocrine to jointly develop and commercialize ACT-709478, currently in Phase 1, with a target indication in epilepsy, and/or to collaborate in a research program to discover, identify and develop novel calcium channel blocker compounds for follow-on compounds to ACT-709478. Under the agreement, Neurocrine made a payment of USD 5 m (CHF 5 m) for the option to either enter into the license and a research collaboration for an additional consideration of USD 52 m or a research collaboration only for an additional consideration of USD 2 m. As of December 31, 2019, the initial non-refundable payment of USD 5 m (CHF 5 m) was recorded as deferred revenue in the balance sheet.

Under the potential license of ACT-709478, the Group would be eligible to receive one-time payments of up to USD 365 m contingent upon the achievement of certain development and regulatory milestones, of which USD 200 m / USD 110 m / USD 55 m relate to the first, second and third indication, respectively. The Group would also be entitled to one-time milestones based on sales thresholds, as well as tiered royalties on annual net sales.

Under the potential license of each, up to two, follow-on compound(s), the Group would be eligible to receive one-time payments of up to USD 310 m, contingent upon the achievement of certain development and regulatory milestones, of which USD 195 m / USD 115 m relate to the first and second indication, respectively. The Group would also be entitled to one-time milestones based on sales thresholds, as well as tiered royalties on annual net sales of each product.

### Other

The Group holds several other collaborative agreements, of which currently none are material to the Group.

# Note 5.
# Income taxes

| | Twelve months ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Current tax (expense) | (3,013) | (1,619) |
| Deferred tax benefit (expense) | (6,439) | 1,933 |
| **Total income tax benefit (expense)** | **(9,452)** | **314** |

Income taxes payable and accrued as of December 31, 2019, amounted to CHF 1.9 m (December 31, 2018: CHF 1.5 m).

The significant components of the Group's gross deferred tax assets and deferred tax liabilities as of December 31, are shown in the table below:

| **Deferred tax assets** | **2019** | **2018** |
|---|---|---|
| Net benefit from operating loss carryforwards | 122,537 | 82,884 |
| Pension liability | 7,327 | 7,594 |
| Other temporary differences | 2,175 | 1,380 |
| **Deferred tax assets** | **132,039** | **91,858** |
| Valuation allowance for deferred tax assets | (127,136) | (88,443) |
| **Total deferred tax assets** | **4,903** | **3,415** |

| **Deferred tax liabilities** | **2019** | **2018** |
|---|---|---|
| Convertible loan | 8,648 | 5,630 |
| Convertible bonds | 172 | 121 |
| Intercompany loans | 2,975 | 1,706 |
| Share-based compensation | 4,483 | 596 |
| Other | - | 286 |
| **Total deferred tax liabilities** | **16,278** | **8,339** |

The Group incurred operating losses which may be carried forward and utilized within the coming seven fiscal years. The Group recorded a valuation allowance against the deferred tax assets due to the lack of sufficient positive evidence related to the realization of these deferred tax assets. A deferred tax liability has been recorded for the discount of the convertible debt (see Note 14. Borrowings).

In Switzerland changes to the Swiss federal and cantonal (Basel-Landschaft) tax laws were enacted during the period ended December, 31 2019. The Group has carried out a remeasurement of its deferred tax positions resulting in an increase of CHF 4.4 m in deferred tax liabilities and a deferred tax expense of CHF 4.4 m. The net deferred tax assets remained unchanged as the reduction of the gross deferred tax assets of CHF 68 m is offset by a reduction of the related valuation allowance for the same amount.

As of December 31, 2019, the gross value of unused tax loss carryforwards, with their expiry dates is as follows:

| | Total |
|---|---|
| One year | - |
| Two years | - |
| Three years | - |
| Four years | 16,666 |
| Five years | 18,774 |
| Six years | 381,237 |
| Seven years | 504,241 |
| More than seven years | - |
| **Total tax losses** | **920,918** |

The following table provides a reconciliation between the effective income tax benefit (expense) and the tax expense computed using the net Swiss statutory tax rate of 20.6%. The latter corresponds to a gross tax rate of 26%.

| | Twelve months ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Tax at net Swiss statutory tax rate | 99,951 | 79,892 |
| Tax rates different from the net Swiss statutory rate | 1,671 | (1,794) |
| Change in valuation allowance | (106,309) | (77,969) |
| Swiss tax reform | (4,386) | - |
| Other items | (379) | 185 |
| **Effective income tax benefit (expense)** | **(9,452)** | **314** |

## Note 6.
## Earnings per share

The following table sets forth the basic and diluted earnings per share (EPS) calculations at December 31:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| **Numerator** | | | | |
| Net income (loss) attributable to Idorsia's shareholders | (493,609) | (493,609) | (386,390) | (386,390) |
| **Net income (loss) available for EPS calculation** | **(493,609)** | **(493,609)** | **(386,390)** | **(386,390)** |
| **Denominator** | | | | |
| Weighted-average number of common shares | 131,186,621 | 131,186,621 | 124,775,273 | 124,775,273 |
| **Total average equivalent shares** | **131,186,621** | **131,186,621** | **124,775,273** | **124,775,273** |
| **Earnings (loss) per share attributable to Idorsia's shareholders** | **(3.76)** | **(3.76)** | **(3.10)** | **(3.10)** |

For the twelve months ended December 31, 2019, 51,724,672 shares that would have had an antidilutive effect were excluded from the diluted EPS calculation (December 31, 2018: 50,403,390 shares).

## Note 7.
## Cash and cash equivalents

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

| | 2019 | 2018 |
|---|---|---|
| Cash | 43,007 | 69,500 |
| Cash equivalents | 220,000 | 729,057 |
| **Total** | **263,007** | **798,557** |

# Note 8.
# Financial assets and liabilities

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

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Total** | **Level 1** | **Level 2** | **Total** | **Level 1** | **Level 2** |
| **Financial assets carried at fair value** | | | | | | |
| Cash and cash equivalents | 263,007 | 263,007 | - | 798,557 | 798,557 | - |
| Derivative financial instruments[1] | - | - | - | - | - | - |
| Short-term marketable securities[1] | 3,780 | 3,780 | | 2,247 | 2,247 | |
| Long-term marketable securities | 11,396 | 11,396 | - | 6,796 | 6,796 | - |
| **Total** | **278,183** | **278,183** | **-** | **807,600** | **807,600** | **-** |

[1] Included in other current assets

As of December 31, 2019, short- and long-term deposits of a total of CHF 476 m (December 31, 2018: CHF 421 m) are not included in the table above as they are carried at amortized cost, which approximates their fair value. At inception, short-term deposits have a duration of more than three and up to twelve months, while long-term deposits have a duration exceeding twelve months.

## Derivative financial instruments

The Group is directly or indirectly affected by fluctuations in foreign currencies, which may adversely impact the Group's financial performance. Derivative financial instruments are deployed to manage market risks and do not qualify for hedge accounting as defined in FASB ASC Topic 815, *Derivatives and Hedging*. The Group does not use derivative financial instruments for speculative purposes.

The following table reflects the contract or underlying principal amounts and fair values of derivative financial instruments, analyzed by type of contract.

| | **Location of gain or loss recognized in income on derivatives** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|---|
| **Income Statement** | | | |
| Forward rate contracts | | | |
| Amount of gain recognized in income on derivatives | Other financial income (expense), net | 22 | 4,445 |
| Amount of loss recognized in income on derivatives | Other financial income (expense), net | (241) | (3,532) |
| **Total** | | **(219)** | **913** |

As at December 31, 2019 and 2018, the Group holds no foreign currency forwards and no other unsettled derivate contracts.

For the twelve months ended December 31, 2019, the realized net loss recognized on derivative financial instruments amounts to CHF 0.2 m (December 31, 2018: realized net gain of CHF 1.6 m). For the twelve months ended December 31, 2018, there was a reversal of prior periods' unrealized gain on the forward rate contracts of CHF 0.7 m as all outstanding contracts were settled.

### Ordinary shares in Santhera Pharmaceuticals Holding Ltd ("Santhera Holding")

On November 20, 2018, the Group and Santhera Pharmaceuticals (Switzerland) Ltd ("Santhera") entered into an agreement under which Santhera acquired the option to obtain an exclusive sublicense for vamorolone in all indications and all territories except Japan and South Korea (see Note 4. Collaborative agreements).

As non-refundable consideration for entering into the agreement, the Group received 1,000,000 new registered shares from Santhera Holding's existing authorized share capital (SIX: SANN), with an initial value of CHF 14.5 m. These initial 1,000,000 shares are subject to a lock-up undertaking, expiring the earlier of (i) the expiration of the option to sublicense (at the latest on December 31, 2021), (ii) Santhera receiving marketing authorization for vamorolone in Duchenne muscular dystrophy in the US or (iii) 2 years after Santhera opted into the sublicense. The Group holds these shares as long-term securities.

On December 14, 2018, Santhera Holding announced the completion of the placement of 3,133,334 new shares at CHF 7.50 per share. Under the private placement, the Group acquired an additional 333,333 shares, which are held as short-term marketable securities. The Group currently owns a total of 1,333,333 shares in Santhera Holding, representing 11.9% of the ordinary share capital of Santhera Holding as of December 31, 2019.

### Financial liabilities carried at amortized cost

The Group's financial liabilities carried at amortized cost relate to its convertible debt (see Note 14. Borrowings) and are stated in the following table at December 31:

| | 2019 | 2018 |
|---|---|---|
| Long-term financial debt | 579,003 | 570,842 |
| **Total** | **579,003** | **570,842** |

Interest income (expense), net in the Consolidated Financial Statements for the twelve months ended December 31, 2019, includes interest expense of CHF 1.5 m, including CHF 0.7 m as accrual (December 31, 2018: CHF 0.7 m, as accrual), paid to the bondholders on a yearly basis and other interest expenses of CHF 0.2 m (December 31, 2018: CHF 0.2 m). Additionally, interest income of CHF 1.3 m (December 31, 2018: negative interest income of CHF 0.7 m), mainly related to interest paid or received on the various cash accounts of the Group, is recorded in interest income (expense), net.

The aggregate foreign currency transaction loss included in other financial income (expense), net, in 2019 amounts to CHF 1.4 m (December 31, 2018: CHF 1.8 m). The Group recognized a loss on forward rate contracts of CHF 0.2 m (December 31, 2018: recognized gain of CHF 0.9 m).

For the twelve months ended December 31, 2019, the Group recorded an unrealized gain on marketable securities of CHF 6.1 m (December 31, 2018: unrealized loss of CHF 8.1 m) and a gain on other components of net periodic pension cost of CHF 1.3 m (December 31, 2018: CHF 1.7 m).

# Note 9.
# Other current assets

Other current assets consisted of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| VAT and withholding tax receivables | 8,356 | 4,684 |
| Prepaid expenses and accrued income | 17,694 | 10,631 |
| Marketable securities | 3,780 | 2,247 |
| Other current assets | 334 | 329 |
| **Other current assets** | **30,164** | **17,890** |

# Note 10.
# Intangible assets

Intangible assets consisted of the following at December 31:

| | 2019 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Accumulated amortization** | **Net carrying amount** |
| Acquired software and other | 4,077 | (2,383) | 1,694 |
| **Total** | **4,077** | **(2,383)** | **1,694** |

| | 2018 | | |
|---|---|---|---|
| | **Gross carrying amount** | **Accumulated amortization** | **Net carrying amount** |
| Acquired software and other | 3,917 | (1,110) | 2,807 |
| **Total** | **3,917** | **(1,110)** | **2,807** |

The aggregate amortization expense of intangible assets amounted to CHF 1.3 m (2018: CHF 1.0 m). The weighted-average amortization period for acquired software amounts to three years (see Note 1. Description of business and summary of significant accounting policies).

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

| **For the year ending December 31,** | **Amortization expense** |
|---|---|
| 2020 | 1,194 |
| 2021 | 452 |
| 2022 | 48 |
| 2023 | - |
| 2024 | - |
| Thereafter | - |
| **Total expected future amortization** | **1,694** |

# Note 11.
# Property, plant and equipment

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

| | 2019 | 2018 |
|---|---|---|
| At cost: | | |
| Land | 10,500 | 6,092 |
| Buildings | 117,830 | 117,830 |
| Furniture, fixtures and lab equipment | 51,770 | 45,765 |
| Computers | 2,289 | 1,166 |
| Construction in progress | 15,248 | 8,436 |
| Less: Accumulated depreciation | (46,974) | (28,592) |
| **Property, plant and equipment, net** | **150,663** | **150,697** |

For the twelve months ended December 31, 2019, the Group invested CHF 19.2 m (2018: CHF 12.5 m) in tangible assets. As of December 31, 2019, CHF 0.4 m (December 31, 2018: CHF 1.2 m) of those were unpaid and appropriately excluded from presentation in the consolidated statement of cash flows. Depreciation expense of property, plant and equipment was CHF 18.4 m in 2019 (2018: CHF 18.6 m).

# Note 12.
# Accrued expenses

Accrued expenses consisted of the following at December 31:

| | 2019 | 2018 |
|---|---|---|
| Personnel and compensation costs | 25,956 | 29,655 |
| Research and development goods and services | 37,357 | 29,531 |
| Site running costs | 1,422 | 1,089 |
| Professional and IT services | 3,011 | 2,024 |
| Fixed assets | 675 | 1,017 |
| Other accruals | 6,546 | 4,260 |
| **Total** | **74,967** | **67,576** |

# Note 13.
# Leases

The Group has several noncancelable operating leases for its office space, R&D facilities and equipment of various kinds in Switzerland and on international sites. The Group determines if an arrangement contains a lease at inception. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of the lease payments over the lease term, which is the noncancelable period stated in the contract, adjusted for any options to extend or to terminate when it is reasonably certain that the option will be exercised. Right-of-use assets include any prepaid leases and exclude lease incentives and initial direct costs incurred. The leases expire between 2020 and 2026; most leases have options to extend the initial lease period.

As of December 31, 2019, the Group does not have material finance leases. As most of the operating leases do not provide an implicit interest rate, the Group uses a portfolio approach to determine a collateralized incremental borrowing rate based on the information available at the commencement date to determine the lease liability. Operating lease expense is recognized on a straight-line basis over the lease term. Operating lease expense was CHF 12.0 m for the twelve months ended December 31, 2019.

The following table summarizes other information related to our operating leases as of December 31, 2019:

| Other information related to leases | Twelve months ended December 31, 2019 |
|---|---|
| Weighted-average remaining lease term | 7.45 |
| Weighted-average discount rate | 3.65% |
| Cash paid for amounts included in the measurement of lease liabilities | 11,117 |
| Right-of-use assets obtained in exchange for lease liabilities | 1,837 |

The following table summarizes a maturity analysis of the operating lease liabilities, showing the undiscounted lease payments as of December 31, 2019:

| Twelve months ended December 31, | Operating leases |
|---|---|
| 2020 | 10,988 |
| 2021 | 9,528 |
| 2022 | 8,694 |
| 2023 | 6,894 |
| 2024 | 6,874 |
| Thereafter | 20,872 |
| **Total undiscounted lease payments** | **63,850** |
| Less: imputed interest | (11,528) |
| **Total discounted lease payments** | **52,322** |

# Note 14. Borrowings

## Convertible loan

On June 15, 2017, Cilag Holding AG ("Cilag") provided a loan of CHF 580 m to the Group, which was convertible into ordinary shares of the Group up to an aggregate of 32% of the share capital at the time that the loan was provided. The loan does not carry interest, has a term of 10 years and matures on June 15, 2027.

On June 19, 2017, a first tranche of the convertible loan of CHF 135 m was mandatorily converted and Cilag acquired 11,793,220 of the shares of the Group (representing 9% of the issued shares as of December 31, 2019).

The remaining amount of CHF 445 m outstanding as of December 31, 2019, may be converted into 38,715,114 shares of the Group by Cilag (which would result in a total shareholding of 30% based on the issued shares as of December 31, 2019) as follows:

- up to an aggregate shareholding of 16% if another shareholder holds more than 20% of the issued shares of the Group, and
- up to the balance of the remaining amount within 20 business days of the maturity date of the convertible loan. In case of a takeover of the Group, Cilag has the right to convert the convertible loan in full.

At maturity of the convertible loan, if the remaining amount has not yet been converted, the Group may elect to settle the remaining amount in cash or in ordinary shares of the Group. The shares to be issued under the convertible loan will be created from conditional capital and/or authorized capital of the Group. The loan is potentially convertible into 38,715,114 shares at a conversion price of CHF 11.48, subject to customary antidilution provisions and dividend protection.

On the date these financial statements were available to be issued, Jean-Paul and Martine Clozel owned more than 25% of the Group's

issued shares, which would allow Cilag to increase its equity stake from 9% as of December 31, 2019, to 16%.

The Group determined that the convertible loan included a beneficial conversion feature at inception and correspondingly recognized the intrinsic value of the beneficial conversion feature of CHF 84 m in the additional paid-in capital, with an offsetting reduction to the carrying amount of the convertible loan.

The carrying amount of the convertible loan at December 31, 2019, is CHF 380 m (December 31, 2018: CHF 372 m). The Group will accrete the remaining loan discount over the remaining life of the instrument, i.e. until June 15, 2027, using an implied compound interest rate of 2.12% per year as interest expense. For the twelve months ended December 31, 2019, the Group recognized an accretion expense of CHF 8 m (2018: CHF 8 m).

### Senior unsecured convertible bonds

On July 17, 2018, the Group issued CHF 200 m (1,000 bonds with a denomination of CHF 200,000 per bond) of senior unsecured convertible bonds. The bonds were issued at par.

The bonds have an interest rate of 0.75% per annum and a conversion price of CHF 33.95, subject to customary antidilution provisions and dividend protection. Interest is payable annually in arrears.

The bonds have a term of six years, maturing on July 17, 2024, and will be redeemed at 100% of the principal amount. The Group may redeem the bonds before the maturity date (i) at any time after August 7, 2022, if the volume-weighted average price of the Idorsia share is at least 150% of the prevailing conversion price during a specified period or (ii) if less than 15% in aggregate of the principal amount of the bonds is outstanding.

The bonds are convertible into registered shares of the Group on or after August 27, 2018. The conversion ratio is currently 5,891.0162 shares per bond. The shares are sourced from the Group's conditional capital. Assuming full conversion, the number of shares to be issued amounts to 5,891,016 registered shares, which represented 4.5% of the outstanding shares at the time of the issuance of the bonds (i.e. 131,042,140 outstanding shares).

The debt obligations in respect of the bonds which are due subsequent to December 31, 2019, are as follows:

| Payable on July 17, | Type of payment | Amount |
|---|---|---|
| 2020 | Annual interest | 1,500 |
| 2021 | Annual interest | 1,500 |
| 2022 | Annual interest | 1,500 |
| 2023 | Annual interest | 1,500 |
| 2024 | Repayment of debt incl. annual interest | 201,500 |

The bonds are listed on the SIX Swiss Exchange. As of December 31, 2019, the fair market value of the bonds amounted to 109.95% of the principal amount (Level 1).

The Group accounts for the bonds at amortized cost. The debt issuance costs of CHF 1.7 m are deducted from the liability and are amortized and recognized as additional interest expense over the life of the bonds using the effective interest method.

As of December 31, 2019, the total book value of the bonds was CHF 198.7 m (December 31, 2018: CHF 198.4 m). For the year ended December 31, 2019, the Group recognized CHF 1.5 m interest cost (2018: CHF 0.7 m) and CHF 0.3 m (2018: CHF 0.1 m) related to the amortization of debt issuance costs.

### Credit facilities

On December 31, 2019, the Group had an undrawn credit line of CHF 243 m from Cilag. The Group does not pay any commitment fee on the undrawn credit line and would pay interest at a rate of LIBOR plus 2% per year on drawn amounts. The maturity date of the facility is June 19, 2032.

# Note 15.
# Pension plans

## Swiss employee pension plan

The Group maintains a pension plan (the "Basic Plan") covering all of its employees in Switzerland. The Basic Plan insures base salary and annual incentives up to an aggregate maximum of CHF 853,200. In addition to retirement benefits, the Basic Plan provides benefits on death or long-term disability of its employees.

On June 15, 2017, the Group signed an affiliation agreement ("Anschlussvereinbarung") with the Actelion Pension Foundation (the "Foundation") covering all risks associated with the Swiss pension plan. The Group and its employees pay retirement contributions, which are defined as a percentage of the employees' covered salaries. For the twelve months ended December 31, 2019, the Group made no contributions but used available funds from prior year contributions. Interest is credited to the employees' accounts at the minimum rate provided for in the Basic Plan. In 2019, the guaranteed interest rate for withdrawal benefits amounts to 1.0% for the mandatory portion and 0.25% for the non-mandatory portion of the contributions paid. Future benefit payments are managed by the insurance company. The Foundation entered into an insurance contract with a third-party insurance company to minimize the risk associated with the pension obligation and as a means to reduce the uncertainty and volatility of the Basic Plan's assets for the Group. Investment strategy and policies of the Foundation are determined by the insurance company. The Foundation Council's decision power in relation to investment strategies and asset allocation is limited to the amount of available unappropriated foundation reserves as determined by Swiss pension law.

The targeted allocation for the unappropriated foundation reserves (if any) is as follows:

| | Targeted allocation |
|---|---|
| **Asset category** | **Ranges in %** |
| Cash and cash equivalents | 0-100% |
| Equity securities Switzerland | 0-30% |
| Equity securities foreign issuers | 0-20% |
| Debt securities in CHF | 0-100% |
| Debt securities in foreign currencies | 0-20% |
| Real estate[1] | 0-30% |
| Alternative investments[2] | 0-100% |

[1]Investments in foreign countries are limited to a maximum of 33% of the total investments in real estate
[2]Only receivables and prepayments from insurance companies

The Group uses a measurement date of December 31 for all its pension plans.

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

| | Twelve months ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Service cost | 11,818 | 11,011 |
| Interest cost | 2,397 | 1,740 |
| Expected return on plan assets | (3,715) | (3,394) |
| Amortization of net actuarial (gain) loss | (211) | - |
| **Net periodic benefit cost** | **10,289** | **9,357** |

The following table provides the weighted-average assumptions used to calculate net periodic benefit cost, as well as the actuarial present value of projected benefit obligations and plan assets on December 31:

| | 2019 | 2018 |
|---|---|---|
| **Weighted-average assumptions used in calculation** | | |
| Mortality and disability assumptions | BVG 2015 | BVG 2015 |
| Discount rate | 0.30% | 0.90% |
| Salary increase | 1.50% | 1.50% |
| Long-term rate of return on assets | 1.50% | 1.50% |

For active plan participants, the projected benefit obligation ("PBO") corresponds to the present value of retirement, survivors', disability and termination benefits on the measurement date and considers future salary and pension increases as well as service termination probabilities. For retirees, the PBO corresponds to the present value of the current annuity, including future pension increases.

The weighted-average discount rate applied for the calculation of the PBO as at December 31, 2019, is 0.30%. A decrease of the discount rate by 0.25% would increase the PBO by CHF 14.4 m.

The expected long-term rate of return on plan assets corresponds to the return on benefits expected to be provided under the insurance contract.

The Group's subsidiary in Japan sponsors another defined benefit pension plan, which is not material to the Group. Pension liability, funded status and net periodic benefit costs of the Japanese pension plan are included in the following tables.

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

| | 2019 | 2018 |
|---|---|---|
| **Projected benefit obligation, at January 1,** | **258,989** | **236,171** |
| Service cost | 11,818 | 11,011 |
| Interest cost | 2,397 | 1,740 |
| Plan participants' contributions | 6,899 | 7,049 |
| Benefits (paid) / deposited | (3,685) | 3,292 |
| Actuarial loss (gain) | 25,307 | (274) |
| Foreign currency exchange rate changes | (2) | - |
| **Projected benefit obligation at December 31,** | **301,723** | **258,989** |

| | 2019 | 2018 |
|---|---|---|
| **Fair value of plan assets, at January 1,** | **240,807** | **214,401** |
| Actual return on plan assets | 12,198 | 2,632 |
| Employer contributions | - | 13,433 |
| Plan participants' contributions | - | 7,049 |
| Benefits (paid) / deposited | (4,204) | 3,292 |
| Foreign currency exchange rate changes | - | - |
| **Fair value of plan assets at December 31,** | **248,801** | **240,807** |
| | | |
| **Accumulated benefit obligation** | **291,893** | **250,813** |

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

| | 2019 | | |
|---|---|---|---|
| **Asset category** | **in CHF** | **as % of total plan assets** | **Level 2 in CHF** |
| Assets from insurance contract | 248,801 | 100.00% | 248,801 |
| **Total plan assets** | **248,801** | **100%** | **248,801** |

| | 2018 | | |
|---|---|---|---|
| **Asset category** | **in CHF** | **as % of total plan assets** | **Level 2 in CHF** |
| Assets from insurance contract | 240,807 | 100.00% | 240,807 |
| **Total plan assets** | **240,807** | **100%** | **240,807** |

The fair value of the Basic Plan's assets is the estimated cash surrender value of the insurance contract at the respective balance sheet date. The cash surrender value consists of the withdrawal benefits of the Basic Plan's members determined in accordance with the requirements of Swiss pension law, benefits derived from surplus sharing by the insurance company of CHF 15.4 m (2018: CHF 10.5 m), and premiums paid in excess of premiums owed by the Group of CHF 2.2 m (2018: CHF 19.7 m).

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

| | 2019 | 2018 |
|---|---|---|
| Present value of obligations | (301,723) | (258,989) |
| Fair value of plan assets | 248,801 | 240,807 |
| **Funded status** | **(52,923)** | **(18,182)** |

As of December 31, 2019, CHF 24 m (December 31, 2018: CHF 6.5 m) related to the pension plans was recognized in other comprehensive income (loss). Amounts recognized in accumulated other comprehensive income represent not yet amortized actuarial losses. In 2020, there will be no amortization as the amount is in the "corridor".

| | 2019 | 2018 |
|---|---|---|
| **Components of net periodic benefit costs, at January 1,** | **(6,484)** | **(5,996)** |
| Net gain (loss) arising during the period | (16,816) | (488) |
| Amortization of prior period service cost | (210) | - |
| Taxes | - | - |
| **Total included in other comprehensive income (loss) at December 31,** | **(23,511)** | **(6,484)** |

The expected future cash flows to be paid by the Group in respect of the pension plans as of December 31, 2019, were as follows:

| **Expected employer contributions** | |
|---|---|
| 2020[1] | 10,682 |
| | |
| **Expected future payments to beneficiaries** | |
| 2020 | 7,375 |
| 2021 | 5,088 |
| 2022 | 4,321 |
| 2023 | 2,783 |
| 2024 | 4,238 |
| Thereafter | 24,403 |

[1] Either paid or offset against existing prepayment

One subsidiary sponsors a defined contribution plan. This plan is structured as a saving scheme without further obligation of the Group. This plan is not material to the Group.

*Significant concentrations of risk and uncertainties.*
The Group is exposed to a credit loss in the event of non-performance by the insurance company, which has an S&P rating of A+ with a stable outlook. A portion of this credit risk is mitigated by the BVG Guarantee Fund Foundation ("Sicherheitsfonds"), as stipulated by Swiss pension law. In the event of default of a Swiss pension plan, this institution will cover the minimum benefits mandatorily required by Swiss pension law.

The Group is also exposed to the impact of significant interest rate changes and yields in the context of the current economic environment. If the long-term interest rates were to decrease, this might lead to a significant increase in the PBO and to a significant decrease in both the fair value of the Plan's assets and expected asset returns.

# Note 16.
# Share-based compensation

## Share-based payment arrangements ("SBPA")

The Group has several share-based payment plans for employees and members of the Board of Directors. The Board regularly reviews the allocation and conditions of the various SBPA of the Group.

The following table summarizes the number of outstanding share-based payment awards allocated under the various SBPA of the Group at December 31:

| | 2019 | 2018 |
|---|---|---|
| **Outstanding nonvested share equivalents under SBPA** | | |
| Restricted share units granted under the RSP | 741,339 | 263,700 |
| Share options granted under the ESOP | 5,952,203 | 5,033,560 |
| Share options granted under the DSOP | 425,000 | 500,000 |
| **Total outstanding nonvested share equivalents under SBPA** | **7,118,542** | **5,797,260** |
| Thereof exercisable | 425,000 | 500,000 |

Total compensation costs recognized in the Consolidated Financial Statements with respect to the Group's SBPA for the twelve months ended December 31, 2019, were CHF 17.0 m (December 31, 2018: CHF 13.0 m). Gross tax benefits of CHF 0.1 m were recognized in the period ended December 31, 2019 (December 31, 2018: none)

*Restricted Stock Plan ("RSP")*

Under the RSP, the Group allocates RSUs of its publicly traded shares to permanent employees in addition to other share-based awards distributed under the various SBPA of the Group. An RSU corresponds to a right to one Group share. RSUs granted under the RSP vest on the third anniversary of the grant dateThe following assumptions have been applied in the valuation model of the RSUs:

| | Period ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Expected term | 3 years | 3 years |
| Interest rate | 0.00% | 0.00% |
| Expected dividend yield | 0.00% | 0.00% |

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | **RSUs** | **Weighted-average grant date fair values** | **RSUs** | **Weighted-average grant date fair values** |
| **Outstanding at January 1,** | **263,700** | **25.23** | **-** | **-** |
| Granted | 501,591 | 17.57 | 263,700 | 25.23 |
| Forfeited | (23,952) | 21.25 | - | - |
| **Outstanding nonvested at December 31,** | **741,339** | **20.18** | **263,700** | **25.23** |

The Group recorded share-based compensation expense for the RSP of CHF 4.4 m for the twelve months ended December 31, 2019 (December 31, 2018: CHF 1.9 m). As of December 31, 2019, the total unrecognized compensation cost related to nonvested RSPs was CHF 8.7 m (December 31, 2018: CHF 4.8 m) which is expected to be recognized over a weighted-average period of 1.89 years (December 31, 2018: 2.17 years).

The weighted-average exercise price of RSUs granted, outstanding and forfeited is zero. The aggregate intrinsic value of nonvested RSUs amounts to CHF 22.2 m as of December 31, 2019 (December 31, 2018: CHF 4.3 m).

*Standard Share Option Plans ("SSOP")*

The SSOP comprise the employee share option plan ("ESOP") and the directors' share option plan ("DSOP"). The conditions of the SSOP are regularly reviewed and modified by the Board of Directors for new option grants. Vesting conditions of standard share options granted to employees and directors may differ depending on the timing of option allocation and the results of the Board's review of the SSOP conditions. Standard share options granted to employees under the ESOP generally vest and become exercisable three years after the grant date. Standard share options granted to non-executive Directors under the DSOP vested at the 2018 AGM. Each option entitles the holder to one share. Options generally expire ten years after the grant date.

The following assumptions have been applied in the valuation model of the ESOP:

| | Twelve months ended December 31, | |
|---|---|---|
| | **2019** | **2018** |
| Expected term | 6.25 years | 6.25 years |
| Interest rate | 0.00% | 0.00% |
| Expected volatility | 32.69% - 33.82% | 31.26% - 33.46% |
| Expected dividend yield | 0.00% | 0.00% |

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

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Share options** | Weighted-average grant date fair value | **Weighted-average exercise price** | **Share options** | Weighted-average grant date fair value | **Weighted-average exercise price** |
| **Outstanding at January 1,** | **5,033,560** | **6.05** | **18.95** | **4,348,130** | **5.74** | **17.73** |
| Granted | 1,169,030 | 5.95 | 18.06 | 887,450 | 7.47 | 24.64 |
| Forfeited | (250,387) | 5.99 | 18.59 | (202,020) | 5.74 | 17.73 |
| **Outstanding at December 31,** | **5,952,203** | **6.03** | **18.79** | **5,033,560** | **6.05** | **18.95** |
| Exercisable at December 31, | - | - | - | - | - | - |

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

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Share options** | Weighted-average grant date fair value | **Weighted-average exercise price** | **Share options** | Weighted-average grant date fair value | **Weighted-average exercise price** |
| **Outstanding at January 1,** | **500,000** | **5.67** | **17.73** | **500,000** | **5.67** | **17.73** |
| Exercised | (75,000) | 5.67 | 17.73 | - | - | - |
| **Outstanding at December 31,** | **425,000** | **5.67** | **17.73** | **500,000** | **5.67** | **17.73** |
| Exercisable at December 31, | 425,000 | 5.67 | 17.73 | 500,000 | 5.67 | 17.73 |

The following is a summary of options outstanding and exercisable under the SSOP at December 31, 2019:

| | Share options outstanding | | | Share options exercisable | | |
|---|---|---|---|---|---|---|
| **Range of exercise prices** | **Share options** | **Weighted-average remaining contractual life in years** | **Weighted-average exercise price** | **Share options exercisable** | **Weighted-average remaining contractual life in years** | **Weighted-average exercise price** |
| 17.41 - 17.57 | 948,160 | 9.17 | 17.41 | - | - | - |
| 17.58 - 17.76 | 4,347,686 | 7.50 | 17.73 | 425,000 | 7.50 | 17.73 |
| 17.77 - 23.70 | 318,630 | 8.76 | 20.40 | - | - | - |
| 23.71 - 24.87 | 103,610 | 9.75 | 24.32 | - | - | - |
| 24.88 - 26.10 | 659,117 | 8.17 | 25.43 | - | - | - |
| **Total** | **6,377,203** | **7.92** | **18.72** | **425,000** | **7.50** | **17.73** |

The Group recorded share-based compensation expense for the SSOP of CHF 10.7 m for the twelve months ended December 31, 2019 (December 31, 2018: CHF 10.6 m). As of December 31, 2019, the total unrecognized compensation cost related to nonvested options was CHF 11.5 m; this is expected to be recognized over a weighted-average period of 1.46 years. The aggregate intrinsic value of options outstanding at December 31, 2019, was CHF 71.9 m.

The total intrinsic value of options exercised during 2019 was CHF 0.1 million (2018: none). The aggregate intrinsic value of options exercisable at December 31, 2019, was CHF 5.2 m. Zero options expired in 2019 (2018: none).

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

| | 2019 | |
|---|---|---|
| | **Share options** | **Weighted-average grant date fair values** |
| **Outstanding nonvested at January 1,** | **5,033,560** | **6.05** |
| Granted | 1,169,030 | 5.95 |
| Forfeited | (250,387) | 5.99 |
| **Outstanding nonvested at December 31,** | **5,952,203** | **6.03** |

In 2019, the Group provided 75,000 newly issued shares from conditional capital in exchange for option exercises under SSOP (2018: none). Additionally, the Group provided 72,845 newly issued shares from conditional capital with a fair value of CHF 1.3 m to eligible permanent employees as a payout of the 2018 annual bonus (65% of 2018 annual bonus was granted in shares, 35% was paid in cash) and recorded an accrual of CHF 1.2 m as share-based compensation expense for a potential payout of 65% of the 2019 annual bonus in shares for certain eligible permanent employees in 2019. The shares granted are blocked for two years.

During 2019, the Group provided 32,880 newly issued shares from conditional capital with a fair value of CHF 0.7 m to members of the Board of Directors ("BoD") as compensation (2018: 24,493 newly issued shares with a fair value of CHF 0.5 m). At December 31, 2019, 45,675,740 conditional shares were available for grant of future share-based awards under the Group's SBPA. For changes in conditional capital approved to be used in connection with SBPA and similar share-based compensation awards, see Note 17 ("Share capital").

# Note 17.
# Share capital

The following table illustrates Idorsia's shares and the share capital of the Group:

| | Shares[1] | | | |
|---|---|---|---|---|
| (all numbers in thousands) | **Issued** | **Authorized** | **Conditional** | **Total** |
| **As of January 1, 2018** | **119,123** | **41,207** | **53,000** | **213,330** |
| Change in Idorsia's Articles of Association based on the AGM resolution dated April 24, 2018 | - | 11,793 | - | 11,793 |
| Shares issued for share-based compensation | 25 | - | (25) | - |
| Issuance of new registered shares | 11,912 | (11,912) | - | - |
| **At December 31, 2018** | **131,060** | **41,088** | **52,975** | **225,123** |
| Change in Idorsia's Articles of Association based on the AGM resolution dated May 3, 2019 | - | 11,912 | - | 11,912 |
| Shares issued for share-based compensation | 106 | - | (106) | - |
| Exercise of share options | 75 | - | (75) | - |
| **At December 31, 2019** | **131,241** | **53,000** | **52,794** | **237,035** |

[1]Fully paid-in registered shares with a nominal value of CHF 0.05 per share

## Issuance of new registered shares

On July 13, 2018, the Group issued 11,912,000 new shares, receiving gross proceeds of CHF 305 m through an accelerated bookbuilding.

## Authorized capital

As set forth in Article 3b of Idorsia's Articles of Association, authorized capital can be used for purposes of strategic partnering and financing of business transactions. The Board of Directors ("BoD") is authorized to increase the Group's share capital at any time until May 3, 2021, and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or cooperation transactions, research and clinical development programs and other strategic projects of the Group.

## Conditional capital

As set forth in Article 3a of Idorsia's Articles of Association, conditional capital can be used for capital increases upon the exercise of option rights or in connection with similar rights regarding shares granted to officers and employees and upon exercise of conversion rights or options in relation to convertible debt instruments, bonds, loans and similar forms of financing.

The BoD is authorized to increase the Group's share capital at any time. The pre-emptive rights and the advance subscriptions rights of the shareholders are excluded if the convertible debt instruments, bonds, loans and similar forms of financing are used (i) in connection with the financing or refinancing of the business of the company or its subsidiaries, (ii) in connection with the financing or refinancing of the acquisition (including takeover) of companies, enterprises, parts of enterprises, participations or joint ventures or strategic partnerships, or (iii) if the conversion rights are used in connection with the issuance of shares for conversions under the convertible loan granted by Cilag.

# Note 18.
# Accumulated other comprehensive income (loss)

Movements in accumulated other comprehensive income (loss) consist of the following:

| | Accumulated OCI (loss), net of tax | | | |
|---|---|---|---|---|
| | Jan 1, 2019 | Changes arising during period | Attr. to non-controlling interests | Dec 31, 2019 |
| Foreign currency translation adjustments[1] | 45 | (62) | - | (16) |
| Actuarial gains (losses)[2] | (6,484) | (17,027) | - | (23,510) |
| **Total accumulated OCI (loss)** | **(6,439)** | **(17,088)** | **-** | **(23,527)** |

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

[2]Actuarial gains (losses) on the Group's defined benefit plans. The amounts disclosed include income tax benefits gross of CHF 3.2 m for which a full valuation allowance has been recorded.

| | Accumulated OCI (loss), net of tax | | | |
|---|---|---|---|---|
| | Jan 1, 2018 | Changes arising during period | Attr. to non-controlling interests | Dec 31, 2018 |
| Foreign currency translation adjustments[1] | 6 | 39 | - | 45 |
| Actuarial (gains) losses[2] | (5,996) | (488) | - | (6,484) |
| **Total accumulated OCI (loss)** | **(5,990)** | **(448)** | **-** | **(6,439)** |

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

[2]Actuarial gains (losses) on the Group's defined benefit plans. The amounts disclosed include income tax benefits gross of CHF 1.3 m for which a full valuation allowance has been recorded.

# Note 19.
# Commitments, contingent liabilities and guarantees

## Commitments

The Group has entered into capital commitments of CHF 4.6 m related to the maintenance of the Group's own facilities, which are expected to be paid within the next twelve months.

## Contingent liabilities

65% of the Axovan sellers entered into an arbitration against Actelion claiming that the acquisition of Actelion by J&J and/or the Demerger triggers the accelerated payment of all outstanding milestones relating to clazosentan (See Note 3. Licensing) and another compound that was not developed, plus late interest payment. According to the demerger agreement Idorsia would be liable to pay any claims to the Axovan sellers.

As of 31 December 2019, it is reasonably possible that a loss between CHF 0 and CHF 127m could be realized. Idorsia has not accrued any amount in the Financial Statements.

At this stage, it is difficult to predict the outcome of the ongoing arbitration. The claims are being vigorously contested by Actelion and Idorsia.

## Guarantees

To secure any potential obligations resulting from overdraft facilities, forward and derivative transactions in foreign currencies and unpaid interest, the Group has issued a guarantee to two financial institutions, amounting in total to CHF 45.4 m.

In the ordinary course of business, the Group has entered into certain guarantee contracts and letters of credit in the aggregate amount of CHF 0.2 m.

To date, the Group has not been required to make payments under these contracts and does not expect any potential future payments to be material.

## Note 20.
## Concentrations

Cash, cash equivalents and short- and long-term deposits, at December 31, 2019, were primarily invested with four financial institutions with an S&P rating of A to AA-, and on December 31, 2018, with four financial institutions with an S&P rating of A to A+.

The Group could experience credit losses in the event of default or non-performance of these counterparties. Concerning risk mitigation, the Group reviews on an ongoing basis the creditworthiness of counterparties to such contracts. The Group has not experienced to date, and does not expect to incur, any significant losses from failure of counterparties to perform under such agreements.

## Note 21.
## Segment and geographic information

The Group operates in one segment, discovering, developing and commercializing drugs.

The Group's geographic information is as follows:

| | Switzerland | Rest of world | Total |
|---|---|---|---|
| **December 31, 2019** | | | |
| Contract revenue | 23,819 | - | **23,819** |
| Property, plant and equipment | 147,499 | 3,164 | 150,663 |
| | | | |
| **December 31, 2018** | | | |
| Contract revenue | 60,618 | - | 60,618 |
| Property, plant and equipment | 146,469 | 4,228 | 150,697 |

## Note 22.
## Related party transactions

J&J and its affiliates Actelion, Janssen and Cilag are considered related parties of the Group with the following material transactions:

- In 2017, the Group, Actelion and Cilag entered into a demerger agreement which, among other things, sets forth the steps necessary to effect the reorganization of the group and the demerger distribution and listing of the Idorsia shares and to govern the separation of the R&D business from the commercial activities and operations of Actelion.

- In addition to the demerger agreement, the Group and Cilag also entered into a shareholders' agreement which, among other things, includes a lock-up until 2019 and a standstill until 2022.

- As of December 31, 2019 the Group has a convertible loan from Cilag in the nominal amount of CHF 445 m (noncurrent liability of CHF 380 m and a remaining loan discount of CHF 64 m due to the beneficial conversion feature at inception, which will be accreted until maturity on June 15, 2027). The loan is convertible into 38,715,114 shares of the Group, which would represent 23% of the total share capital of the Group (see Note 14. Borrowings).

- In 2019, the Group did not draw from the credit facility it has with Cilag and did not pay any commitment fee (see Note 14. Borrowings).

- On December 1, 2017, Janssen opted in to a collaboration with the Group to jointly develop and solely commercialize aprocitentan (see Note 4. Collaborative agreements).

- Actelion is liable to pay 8% of the aggregate annual net sales of products containing ponesimod. In 2019, no amounts became due under this revenue sharing agreement (see Note 4. Collaborative agreements).

The Group and Actelion entered into a series of transitional and long-term service agreements. Under these agreements and the above-mentioned collaboration agreement with Janssen, during 2019, the Group received services from J&J and its affiliates of CHF 4 m and provided services of CHF 18 m. As of December 31, 2019, the Group had receivables and accrued income of CHF 5 m and no material payables and accruals with J&J and its affiliates.

In 2019, a Board member held a Board seat with Charles River Laboratories International, Inc. (together with its affiliates, "Charles River Laboratories"), a company providing contract research services. In the ordinary course of business, the Group entered into transactions with Charles River Laboratories, amounting to CHF 7 m in 2019. As of December 31, 2019, the Group had payables and accruals with Charles River Laboratories of CHF 1 m.

In 2019, a Board member held a Board seat with Catalent, Inc., a company providing clinical supply services. In the ordinary course of business, the Group entered into transactions with Catalent, Inc., amounting to CHF 2 m in 2019. As of December 31, 2019, the Group had no material payables and accruals with Catalent., Inc.

The Group entered into a service contract with Owkin Inc. under which research & development services were rendered amounting to CHF 0.8 m in 2019. One executive Board member owns 10% of the shares in Owkin Inc. and is the father of its CEO. As of December 31, 2019, the Group had no material payables and accruals with Owkin Inc.

Under the option and sublicense agreement with Santhera, in 2019, the Group provided services of CHF 4 m. As of December 31, 2019, the Group had receivables and accrued income with Santhera of CHF 1 m (see Note 4. Collaborative agreements).

During the twelve months ended December 31, 2019, the Group did not enter into any additional material related party transactions.

## Note 23.
## Subsequent events

The Group has evaluated subsequent events through February 4, 2020, the date these Consolidated Financial Statements were available to be issued. These events have been disclosed in the respective notes to these Consolidated Financial Statements.

# Report of the Statutory Auditor on the Consolidated Financial Statements

To the General Meeting of Idorsia Ltd, Allschwil

As statutory auditor, we have audited the accompanying consolidated financial statements of Idorsia Ltd (the "Group"), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, and the consolidated statements of cash flows for the years then ended and the related notes (pages 39 to 78)

## Board of Directors' responsibility

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

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

## Opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019 and 2018, the consolidated results of its operations and its consolidated cash flows for the years ended December 31, 2019 and 2018, in conformity with accounting principles generally accepted in the United States and comply with Swiss law.

As discussed in Note 1 to the consolidated financial statements, the Group changed its method of accounting for leases in 2019.

## Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

### Collaborative agreements

| | |
|---|---|
| Area of focus | The Group recognizes revenues from milestone payments related to collaborative agreements when the performance obligation has been satisfied, control has been transferred, and the Group has the unconditional right to the consideration. For milestone payments received where there are several performance obligations, including continuing involvement in the R&D process according to contractual terms, the consideration is allocated to each separately identifiable performance obligation based on a relative standalone selling price basis. The portion of the consideration allocated to the R&D process is recognized as the R&D process performance obligation is satisfied, i.e. generally over the requisite service period. In the year ended December 31, 2019, the Group's contract revenue from collaborative agreements amounted to CHF 23.8 million. Refer to notes 1 (Description of business and summary of significant accounting policies – Revenue from collaborations) and 4 (Collaborative agreements) in the consolidated financial statements for further details.<br><br>Collaborative agreements are considered significant to our audit due to the complexity and judgment involved in the Group's assessment of separately identifiable performance obligations, including continuous involvement, and estimation of relative standalone selling prices. |
| Our audit response | Our audit procedures included assessing the application of the Group's accounting policy for collaborative agreements. For significant transactions, we evaluated the Group's assessment of separately identifiable performance obligations, including continuous involvement, and determination of the relative standalone selling prices based on the underlying collaborative agreements and corroborated the key assumptions applied in such determination based on internally and externally available evidence and underlying data. Our audit procedures did not lead to any reservations concerning the recognition and measurement of revenues from collaborative agreements and disclosures of collaborative agreements. |

## Report on other legal requirements

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

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

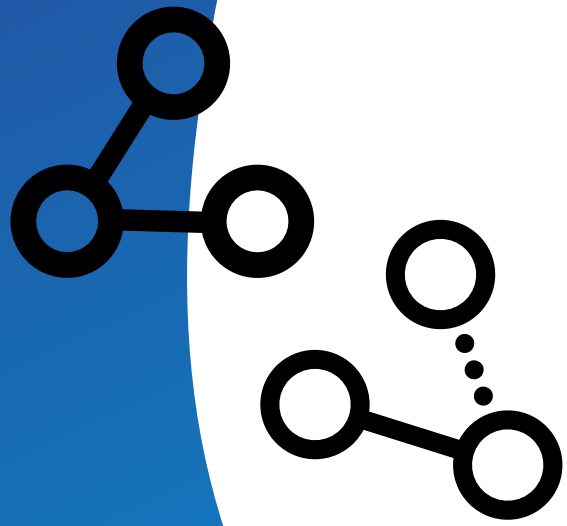
We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

| | |
|---|---|
| /s/Martin Mattes | /s/Michaela Held |
| **Martin Mattes**<br>Licensed audit expert<br>(Auditor in charge) | **Michaela Held**<br>Licensed audit expert |

Basle, February 4, 2020

# Holding Company Financial Statements



# Balance sheet (1/2)

| (in CHF thousands) | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 8,259 | 678,244 |
| Short-term deposits | | - | 79,207 |
| Other receivables from Group companies | | 6 | 2,515 |
| Prepayments and accrued income | | 1,308 | 1,276 |
| **Total current assets** | | **9,573** | **761,242** |
| **Noncurrent assets** | | | |
| Long-term deposits | | - | 298,415 |
| Long-term loans to Group companies | 2 | 207,988 | - |
| Long-term loans to Group companies (subordinated) | 2 | 850,000 | - |
| Investments in Group companies | 2 | 267,638 | 267,638 |
| **Total noncurrent assets** | | **1,325,626** | **566,053** |
| **TOTAL ASSETS** | | **1,335,199** | **1,327,295** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables to Group companies | 1 | 195 | 159 |
| Other current liabilities | | 4,957 | 1,108 |
| **Total current liabilities** | | **5,152** | **1,267** |
| **Noncurrent liabilities** | | | |
| Noncurrent financial debt | 3 | 644,575 | 644,575 |
| **Total noncurrent liabilities** | | **644,575** | **644,575** |
| **Total liabilities** | | **649,728** | **645,842** |

# Balance Sheet (2/2)

| (in CHF thousands) | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Shareholders' equity** | 4 | | |
| Common shares | | 6,562 | 6,553 |
| Legal reserves: | | | |
| Legal capital contribution reserve | | 695,422 | 694,731 |
| Other legal reserves | | 6,963 | 4,337 |
| Legal retained earnings: | | | |
| Accumulated profit (loss) | | (23,476) | (24,168) |
| **Total shareholders' equity** | | **685,471** | **681,453** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **1,335,199** | **1,327,295** |

# Income Statement

| (in CHF thousands) | Notes | Twelve months ended December 31, 2019 | 2018 |
|---|---|---|---|
| Financial income | | 12,986 | 7,140 |
| **Total income** | | **12,986** | **7,140** |
| Financial (expense) | | (6,119) | (8,953) |
| Valuation adjustment on loans to Group companies | 2 | (246) | (243) |
| Administrative (expense) | | (5,929) | (8,790) |
| **Total (expense)** | | **(12,294)** | **(17,986)** |
| **Income (loss) before taxes** | | **692** | **(10,846)** |
| Income tax benefit (expense) | | - | - |
| **Net income (loss)** | | **692** | **(10,846)** |

# Notes to the Holding Company Financial Statements

## Note 1.
## Summary of significant accounting policies

Idorsia Ltd (the "Company") is the Holding Company of the Idorsia Group and has its registered office at Hegenheimermattweg 91, 4123 Allschwil, Switzerland. The Company does and did not have any employees.

### Basis of presentation

The financial statements of Idorsia Ltd have been prepared in accordance with generally accepted accounting principles, as set out in the Swiss Code of Obligations ("SCO") Art. 957 to 963b. All amounts are presented in Swiss francs ("CHF"), unless otherwise indicated. Group companies include all legal entities which are directly or indirectly owned and controlled by the Company. Current account balances due from or payable to such legal entities are presented as other receivables from or other payables to Group companies in the balance sheet.

### Foreign currencies

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the remeasurement of current assets and current liabilities denominated in foreign currencies are recognized in financial income and financial (expense). Net unrealized gains on noncurrent assets and liabilities are deferred in noncurrent liabilities, and net unrealized losses are recognized in financial expense.

### Investments in and loans to Group companies

Investments in and loans to Group companies are valued at cost. The Company reviews the carrying amount of these investments and loans annually and if events and circumstances suggest that the carrying amount may not be recoverable, a valuation adjustment is recognized in the income statement.

# Note 2.
# Investments in and loans to group companies

The following table shows all direct and the material indirect investments of the Company as of December 31, 2019 and 2018:

| Company | Country | Ownership & voting interest | Direct & indirect investment | Share Capital | Function |
|---|---|---|---|---|---|
| Idorsia Pharmaceuticals Ltd | Switzerland | 100% | direct | CHF 1,000,000 | R&D |
| Idorsia Pharmaceuticals US Inc | United States | 100% | direct | USD 1,000,000 | Clinical Development |
| Idorsia Pharmaceuticals Deutschland GmbH | Germany | 100% | direct | EUR 25,000 | Clinical Development |
| Idorsia (Shanghai) Pharmaceuticals Co., Ltd | China | 100% | direct | RMB 1,000,000 | R&D |
| Idorsia Pharmaceuticals Japan Ltd | Japan | 100% | direct | JPY 95,000,000 | R&D |
| Vaxxilon Ltd | Switzerland | 74% | direct | CHF 100,000 | R&D |

Vaxxilon Ltd was overindebted as of December 31, 2019. Subordinated loans of CHF 22 m to this Group company are fully provided for.

Idorsia Pharmaceuticals Ltd was overindebted as of December 31, 2019. The Company provided subordinated loans of CHF 850 m to Idorsia Pharmaceuticals Ltd. All operations are conducted by Idorsia Pharmaceuticals Ltd whereas Idorisa Ltd has no operations. In order to fund the Idorsia Groups' operations, Idorsia Ltd grants loans to Idorsia Pharmaceuticals Ltd. The recoverability of the investment and intercompany loans is dependent on the future commercial success of Idorsia Groups' products on the market.

# Note 3.
# Noncurrent financial debt

## Convertible Loan

On June 15, 2017, Cilag Holding AG ("Cilag") provided a loan of CHF 580 m to the Group, which was convertible into ordinary shares of the Group up to an aggregate of 32% of the share capital at the time that the loan was provided. The loan does not carry interest, has a term of 10 years and matures on June 15, 2027.

On June 19, 2017, a first tranche of the convertible loan of CHF 135 m was mandatorily converted and Cilag acquired 11,793,220 of the shares of the Company (representing 9% of the shares in the Company).

The remaining amount of CHF 445 m outstanding as of December 31, 2019 may be converted into 38,715,114 shares of the Company at a conversion price of CHF 11.48 per share by Cilag (which would result in a total shareholding of 30% based on the issued shares as of December 31, 2019) as follows:

- up to an aggregate shareholding of 16% if another shareholder holds more than 20% of the issued shares of the Company, and
- up to the balance of the remaining amount within 20 business days of the maturity date of the convertible loan. In case of a takeover of the Company, Cilag has the right to convert the convertible loan in full.

At maturity of the convertible loan, if the remaining amount has not yet been converted, the Company may elect to settle the remaining amount in cash or in ordinary shares of the Company. The shares to be issued under the convertible loan will be created from conditional capital and/or authorized capital of the Company.

On the date these financial statements were available to be issued, Jean-Paul and Martine Clozel owned more than 25% of the Company's issued shares, which would allow Cilag to increase its equity stake from 9% as of December 31, 2019, to 16%.

## Senior Unsecured Convertible Bonds

On July 17, 2018, the Company issued CHF 200 m of senior unsecured convertible bonds (the "Bonds") divided into 1,000 bonds with a denomination of CHF 200,000 each. The Bonds were issued at par.

The bonds have a coupon of 0.75% per annum and are convertible into shares in the Company at a conversion price of CHF 33.95 per share, subject to customary antidilution provisions and dividend protection. Interest is payable annually in arrears.

The bonds have a term of six years, maturing on July 17, 2024, and will be redeemed at 100% of the principal amount. The Company may redeem the bonds before the maturity date (i) at any time after August 7, 2022, if the volume-weighted average price of the Idorsia share is at least 150% of the prevailing conversion price during a specified period or (ii) if less than 15% in aggregate of the principal amount of the bonds is outstanding.

The bonds are convertible into registered shares of the Company on or after August 27, 2018. The shares are sourced from the Company's conditional capital.

The bonds are listed on the SIX Swiss Exchange.

# Note 4.
# Shareholders' equity

The following table illustrates Idorsia's shares and the share capital of the Company:

| | Shares[1] | | | |
|---|---|---|---|---|
| (all numbers in thousands) | **Issued** | **Authorized** | **Conditional** | **Total** |
| **As of January 1, 2018** | **119,123** | **41,207** | **53,000** | **213,330** |
| Change in Idorsia's Articles of Association based on the AGM resolution dated April 24, 2018 | - | 11,793 | - | 11,793 |
| Shares issued for share-based compensation | 25 | - | (25) | - |
| Issuance of new registered shares | 11,912 | (11,912) | - | - |
| **At December 31, 2018** | **131,060** | **41,088** | **52,975** | **225,123** |
| Change in Idorsia's Articles of Association based on the AGM resolution dated May 3, 2019 | - | 11,912 | - | 11,912 |
| Shares issued for share-based compensation | 106 | - | (106) | - |
| Exercise of share options | 75 | - | (75) | - |
| **At December 31, 2019** | **131,241** | **53,000** | **52,794** | **237,035** |

[1]Fully paid-in registered shares with a nominal value of CHF 0.05 per share.

## Issuance of new registered shares

On July 13, 2018, the Company issued 11,912,000 new shares, receiving gross proceeds of CHF 305 m through an accelerated bookbuilding.

## Authorized capital

As set forth in Article 3b of Idorsia's Articles of Association, authorized capital can be used for purposes of strategic partnering and financing of business transactions. The Board of Directors ("BoD") is authorized to increase the Company's share capital at any time until May 3, 2021, and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or cooperation transactions, research and clinical development programs and other strategic projects of the Company.

## Conditional capital

As set forth in Article 3a of Idorsia's Articles of Association, conditional capital can be used for capital increases upon the exercise of option rights or in connection with similar rights regarding shares granted to officers and employees and upon exercise of conversion rights or options in relation to convertible debt instruments, bonds, loans and similar forms of financing.

# Note 5.
# Significant shareholders

According to the information available to the Board of Directors, the following shareholders held above three percent of the Company's issued shares at December 31:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Percentage of share capital** | **Percentage of voting rights** | **Percentage of purchase positions** | **Percentage of sale positions** | **Percentage of share capital** | **Percentage of voting rights** | **Percentage of purchase positions** | **Percentage of sale positions** |
| Clozel Jean-Paul & Martine | >25% | >25% | >25% | - | >25% | >25% | >25% | - |
| Cilag Holding AG[2] | >5% | >5% | >30% | - | >5% | >5% | >30% | - |
| Rudolf Maag[1] | >5% | >5% | >5% | - | >5% | >5% | >5% | - |

[1] According to shareholders' disclosure notifications to SIX Swiss Exchange. For more information, please refer to https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.
[2] Includes shares from the initial conversion of the convertible loan.

# Note 6.
# Shareholdings of the Members of the Board of Directors and the Idorsia Executive Committee

The tables below represent the share-based instruments held by the members of the Board of Directors and the Idorsia Executive Committee ("IEC") as per Art. 663c of SCO. Only members of the IEC are members of the executive board within the meaning of Art. 663c SCO.

## Investments and options held by the members of the Board of Directors

The members of the BoD held the following investments and share-based instruments at December 31:

| | | Number of shares | | Number of options | |
|---|---|---|---|---|---|
| | | *thereof granted in the respective year*[1] | | *thereof granted in the respective year* | |
| **Name** | **Functions** | **2019** | **2018** | **2019** | **2018** |
| **Jean-Pierre Garnier** | Chairman<br>Member of the Nominating, Governance & Compensation Committee | 41,714<br>*11,742* | 29,972<br>*8,747* | 200,000<br>- | 200,000<br>- |
| **Robert Bertolini** | Chairman of the Finance & Audit Committee | 24,757<br>*5,536* | 19,221<br>*4,124* | 75,000<br>- | 75,000<br>- |
| **John J. Greisch** | Chairman of the Nominating, Governance & Compensation Committee | 15,778<br>*5,536* | 10,242<br>*4,124* | 75,000<br>- | 75,000<br>- |
| **Viviane Monges** | Member of the Finance & Audit Committee<br>Member of the Nominating, Governance & Compensation Committee | 8,782<br>*5,033* | 3,749<br>*3,749* | -<br>- | -<br>- |
| **Mathieu Simon** | Member of the Finance & Audit Committee<br>Member of the Nominating, Governance & Compensation Committee (since 3 May 2019) | 8,429<br>*3,429* | N/A | -<br>- | N/A |
| **David Stout** | Member (until 3 May 2019) | N/A | 5,126<br>*3,749* | N/A | 75,000<br>- |
| **Jean-Paul Clozel** | CEO and executive member of the Board | See table "Investments and options held by the members of the IEC" | | | |
| **Total** | | **99,460**<br>***31,276*** | **68,310**<br>***24,493*** | **350,000**<br>**-** | **425,000**<br>**-** |

[1]Granted at an average price of CHF 21.91 (2018: CHF 21.83).

## Investments and options held by the members of the IEC

The members of the IEC held the following investments and share-based instruments at December 31:

| Name | Functions | Number of shares | | Number of options | |
|---|---|---|---|---|---|
| | | *thereof granted in the respective year*[1] | | *thereof granted in the respective year*[2] | |
| | | **2019** | **2018** | **2019** | **2018** |
| **Jean-Paul Clozel** | Chief Executive Officer | 27,501,529 | 27,472,813 | 706,380 | 446,860 |
| | | *28,716* | *-* | *259,520* | *196,860* |
| **Guy Braunstein** | Head of Global Clinical Development | 172,500 | 162,437 | 372,980 | 251,870 |
| | | *10,063* | *-* | *121,110* | *91,870* |
| **Martine Clozel** | Chief Scientific Officer | 9,802,449 | 9,795,691 | 327,340 | 232,180 |
| | | *6,758* | *-* | *95,160* | *72,180* |
| **André C. Muller** | Chief Financial Officer | 59,391 | 52,461 | 372,980 | 251,870 |
| | | *6,930* | *-* | *121,110* | *91,870* |
| **Simon Jose** | Chief Commercial Officer | - | - | 150,620 | 64,110 |
| | | *-* | *-* | *86,510* | *64,110* |
| **Total** | | **37,535,869** | **37,483,402** | **1,930,300** | **1,246,890** |
| | | ***52,467*** | ***-*** | ***683,410*** | ***516,890*** |

[1]Granted at an average price of CHF 17.52.

[2]The Company has an employee share option plan ("ESOP"). Options granted in 2019 have an average exercise price of CHF 17.41 and a vesting period of 3 years (2018: CHF 24.66). Note 16 ("Share-based compensation") to the Consolidated Financial Statements provides details on the ESOP conditions and valuation.

Not included in the table above are conversion rights from the convertible bonds. As of December 31, 2019 and 2018, Jean-Paul Clozel held 1,231,222 conversion rights and Martine Clozel held 441,826 conversion rights from the convertible bonds. Note 14 ("Borrowings") to the Consolidated Financial Statements provides details on the conditions and valuation of the convertible bonds.

# Note 7.
# Commitments, contingencies and guarantees

## Guarantees

To secure any potential obligations resulting from overdraft facilities, forward and derivative transactions in foreign currencies and interest rates, the Company has issued a guarantee to a financial institution in the total amount of CHF 45 m.

In the ordinary course of business, the Company has entered into certain guarantee contracts and letters of credit in the amount of CHF 0.1 m.

To date the Company has not been required to make payments under these contracts and does not expect any potential future payments to be material.

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

# PROPOSED APPROPRIATION OF ACCUMULATED PROFIT (LOSS)

| | 2019 | 2018 |
|---|---|---|
| **Accumulated profit (loss) at beginning of period** | **(24,168)** | **(13,322)** |
| Net income (loss) for the period | 692 | (10,846) |
| **Balance to be carried forward** | **(23,476)** | **(24,168)** |

# Report of the Statutory Auditor on the Financial Statements

To the General Meeting of Idorsia Ltd, Allschwil

As statutory auditor, we have audited the accompanying financial statements of Idorsia Ltd (the "Company"), which comprise the balance sheet, income statement and notes (pages 83 to 93), for the year ended December 31, 2019.

## Board of Directors' responsibility

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

## Auditor's responsibility

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

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

## Opinion

In our opinion, the financial statements for the year ended December 31, 2019 comply with Swiss law and the Company's articles of association.

## Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

## Valuation of investments in Group companies

**Area of focus**

As at December 31, 2019, the investment in group companies of Idorsia Ltd amounts to CHF 268 million and loans receivables due from group companies amount to CHF 1,058 million. Investments and loan receivables are valued at historical cost less adjustment for impairment of value, if events and circumstances suggest that the historical cost may not be recoverable. Refer to notes 1 (Summary of significant accounting policies) and 2 (Investments in and loans to group companies) in the holding company financial statements for further details.

The investments in group companies and loan receivables due from group companies are significant to our audit due to the judgment involved in the Company's impairment testing methodology.

**Our audit response**

Our audit procedures included gaining an understanding of the Company's impairment testing methodology for investments in group companies and loan receivables due from group companies and the determination of indicators of impairment. We evaluated the Company's assessment and corroborated key elements based on internally and externally available evidence and underlying data. Our audit procedures did not lead to any reservations concerning the valuation of investments in group companies.

## Report on other legal requirements

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

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

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

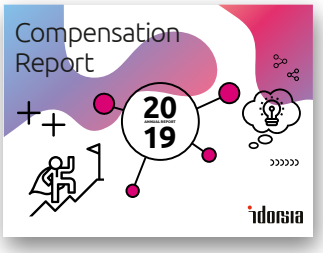
Ernst & Young Ltd

| | |
|---|---|
| /s/Martin Mattes | /s/Michaela Held |
| **Martin Mattes**<br>Licensed audit expert<br>(Auditor in charge) | **Michaela Held**<br>Licensed audit expert |

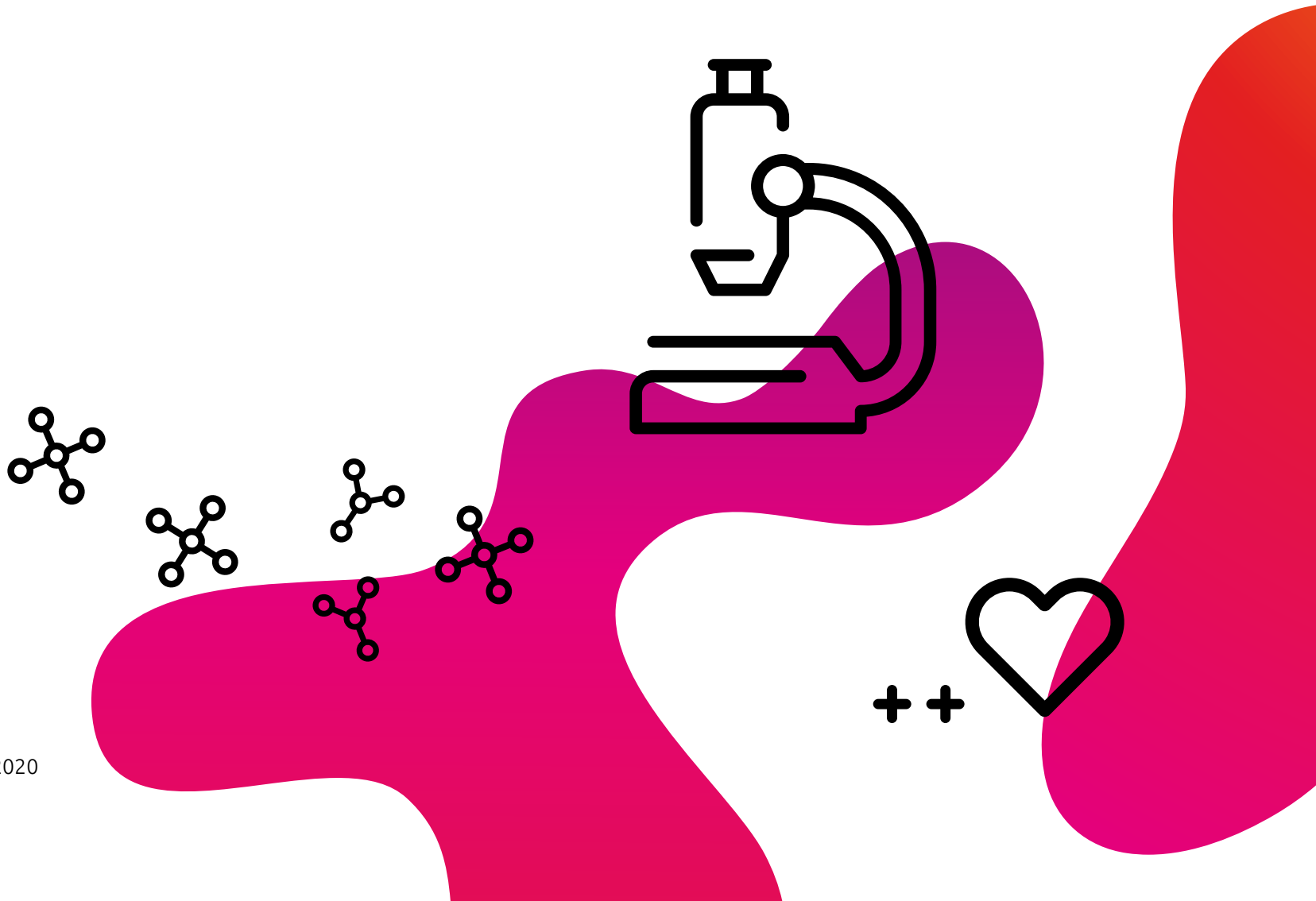
Basle, February 4, 2020

# Be prepared for more

**Further parts of the Idorsia Annual Report 2019**

# Curious to learn more?
# Reach out to us.



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