Financial Report

2018

ANNUAL REPORT

idorsia

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.

Contents

Contents navigation

> **Contents**

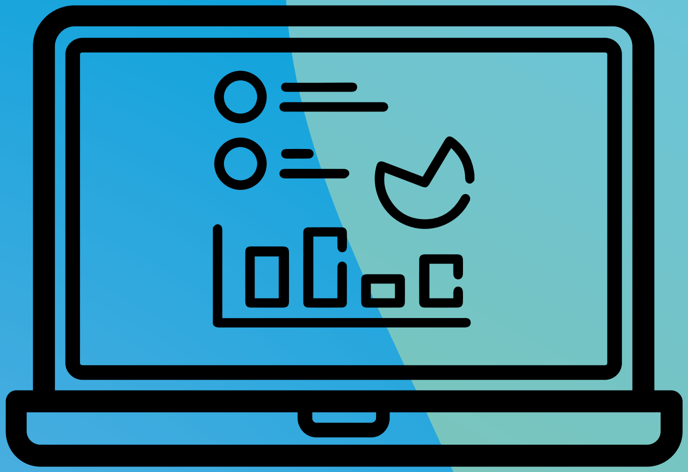
Finance in Brief

Financial Review

Consolidated Financial Statements

Holding Company Financial Statements

Finance in Brief



Idorsia continued to deliver

After getting off to a good start in 2017, Idorsia continued to deliver on its priorities in 2018.

During 2018, Idorsia moved four compounds into Phase 3 clinical development – aprocitentan for resistant hypertension, lucerastat for Fabry disease, clazosentan for vasospasm associated with aneurysmal subarachnoid hemorrhage, and ACT-541468 for insomnia.

Idorsia became operationally independent in 2018, ending its reliance on transitional services provided by Actelion. Long-term service agreements will last until mid-2020, unless renewed by both parties.

Idorsia secured total additional funding of CHF 505 m by issuing 11.9 million new shares through an accelerated bookbuilding procedure (with gross proceeds of CHF 305 m), and CHF 200 m of senior unsecured convertible bonds.

Idorsia 2018 – Operating performance

Revenue of CHF 61 m comprised of deferred contract revenue of CHF 26 m (Janssen, Roche) and a consideration of CHF 34 m relating to an option and sublicensing agreement with Santhera.

US GAAP operating expenses amounted to CHF 432 m with non-GAAP operating expenses of CHF 399 m, depreciation and amortization of CHF 20 m and share-based compensation of CHF 13 m.

Non-GAAP operating expenses, excluding a milestone payment of CHF 15 m, amounted to CHF 384 m, in line with the full-year guidance of CHF 390 m.

Idorsia 2018 – Liquidity

Idorsia closed 2018 with CHF 1.2 billion of liquidity, consisting of cash (CHF 799 m) and deposits (CHF 421 m).

The CHF 129 m increase in liquidity was mainly driven by the additional funding of CHF 505 m and non-GAAP operating expenses of CHF 399 m.

Due to its strong cash position, Idorsia did not use the credit facility of CHF 243 m committed by Cilag subject to certain conditions (see Note 13. Borrowings in the Consolidated Financial Statements).

Idorsia 2018 – Indebtedness

Idorsia's indebtedness of CHF 571 m corresponds to the carrying amount of the convertible loan underwritten by Cilag (CHF 372 m) and the convertible bonds (CHF 198 m).
For further information please see Note 13. Borrowings in the Consolidated Financial Statements.

Idorsia 2018 – Share count

Idorsia's issued share capital at year-end consisted of 131.1 million shares, corresponding to 119.1 million shares outstanding at the beginning of the year and 11.9 million shares issued in July 2018.

Potential dilutive instruments at year-end consisted of 50.4 million shares. Hence, potential issued shares totaled 181.5 million.

Disclaimer and notes to this financial report:

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 to investors. These non-GAAP measures are reported in addition to, not as a substitute for, US GAAP financial performance.

Idorsia was incorporated on March 3, 2017 and became fully operational on June 15, 2017. All amounts related to the comparison period 2017 relate to these 6.5 months of operations.

For further information on transactions relating to licensing and collaborations please refer to the respective notes to the Consolidated Financial Statements.

Rounding differences may occur
nm = not meaningful

Financial Review

Idorsia's key numbers

Profit and loss

(in CHF millions, except EPS)	Period ended Dec 31, 2018 US GAAP	Period ended Dec 31, 2018 Non-GAAP	Fourth quarter 2018 US GAAP	Fourth quarter 2018 Non-GAAP
Net revenue				
Product sales	-	-	-	-
Contract revenue – royalties	-	-	-	-
Contract revenue – milestones	61	61	41	41
Contract revenue – others	-	-	-	-
Operating expenses				
Research and development	(370)	(345)	(125)	(118)
General and administration	(61)	(54)	(17)	(15)
Net results				
Operating income (loss)	(371)	(339)	(101)	(92)
Net income (loss)	(386)	(340)	(108)	(91)
Basic EPS	(3.10)	(2.72)	(0.83)	(0.70)
Diluted EPS	(3.10)	(2.72)	(0.83)	(0.70)

Cash flow

(in CHF millions)	Period ended Dec 31, 2018	Fourth quarter 2018
Cash flow		
Operating free cash flow	(370)	(132)
Cash raise / Issuance of convertible bonds (net)	498	-
Free cash flow	129	(132)

Shares

(in millions)	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Share count			
Issued common shares	131.1	131.0	119.1
Equity derivatives	44.6	44.6	38.7
Equity instruments	5.8	5.7	4.8
Total potential issued shares	**181.5**	**181.4**	**162.6**

Liquidity and indebtedness

(in CHF millions)	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Liquidity			
Cash and cash equivalents	799	671	622
Short-term deposits	123	132	218
Long-term deposits	298	548	250
Total liquidity	**1,220**	**1,351**	**1,091**
Indebtedness			
Convertible loan	372	370	365
Convertible bonds	198	198	-
Other financial debt	-	-	-
Total indebtedness	**571**	**569**	**365**

Revenue

Revenue

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Revenue				
Product sales	-	-	-	-
Contract revenue - royalties	-	-	-	-
Contract revenue - milestones	61	158	41	158
Contract revenue - others	-	-	-	-
US GAAP revenue	**61**	**158**	**41**	**158**

Revenue of CHF 61 m in 2018 comprised of deferred contract revenue in connection with the collaboration agreements with Janssen (aprocitentan: CHF 21 m) and Roche (research collaboration: CHF 5 m), as well as the option and sublicensing agreement with Santhera (vamorolone: CHF 20 m upfront cash payment and 1,000,000 shares from Santhera Pharmaceuticals Holding Ltd for a value at issuance of CHF 15 m).

Revenue of CHF 158 m in 2017 comprised of the recognized portion of the up-front milestone payment of USD 230 m received from Janssen in connection with the collaboration agreement on aprocitentan.

Operating expenses

Operating expenses

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Operating expenses				
Research	115	75	33	41
Development	215	48	71	24
General and administrative	54	27	15	14
Milestones paid	15	-	15	-
Non-GAAP operating expenses	**399**	**150**	**133**	**79**
Depreciation and amortization	20	10	5	5
Share-based compensation	13	6	3	3
Other	-	-	-	-
Other operating expenses	**33**	**16**	**9**	**8**
US GAAP operating expenses	**432**	**166**	**141**	**87**

US GAAP operating expenses of CHF 432 m comprised of non-GAAP operating expenses of CHF 399 m, depreciation and amortization of CHF 20 m and share-based compensation of CHF 13 m.

Research and development ("R&D") expenses

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
R&D expenses				
Research	115	75	33	41
Development	215	48	71	24
Milestones paid	15	-	15	-
Non-GAAP R&D expenses	**345**	**123**	**118**	**65**
Depreciation and amortization	17	9	4	4
Share-based compensation	8	3	2	2
Other	-	-	-	-
US GAAP R&D expenses	**370**	**135**	**125**	**71**

Non-GAAP research expenses amounted to CHF 115 m for biology (CHF 28 m), chemistry (CHF 41 m) and preclinical activities (CHF 46 m), and a CHF 15 m milestone payment to ReveraGen.

Non-GAAP development expenses amounted to CHF 215 m, comprising of CHF 148 m for clinical activities (including CHF 118 m study costs, mainly driven by Phase 3 studies for ACT-541468, aprocitentan, clazosentan and lucerastat) and CHF 67 m for pharmaceutical development activities (including CHF 51 m for drug substance and drug product).

General and administrative ("G&A") expenses

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Non-GAAP G&A expenses	**54**	**27**	**15**	**14**
Depreciation and amortization	3	1	1	0
Share-based compensation	5	3	1	1
Other	-	-	-	-
US GAAP G&A expenses	**61**	**31**	**17**	**16**

Non-GAAP G&A expenses amounted to CHF 54 m comprising of CHF 25 m for global information systems and CHF 29 m for other support functions.

Operating results

Non-GAAP and US GAAP operating results

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Operating results				
Contract revenues	61	158	41	158
Operating expenses	(399)	(150)	(133)	(79)
Non-GAAP operating income (loss)	**(339)**	**8**	**(92)**	**79**
Operating results				
Contract revenues	61	158	41	158
Operating expenses	(432)	(166)	(141)	(87)
US GAAP operating income (loss)	**(371)**	**(8)**	**(101)**	**71**

The CHF 33 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 13 m.

Financial results

Financial results

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Financial results				
Interest income (expense), net	(2)	(2)	(0)	(1)
Other financial income (expense), net	1	(1)	2	(1)
Non-GAAP financial income (expense)	**(1)**	**(3)**	**2**	**(1)**
Accretion expense	(8)	(4)	(2)	(2)
Loss on marketable securities	(8)	-	(8)	-
US GAAP financial income (expense)	**(17)**	**(7)**	**(9)**	**(3)**

Non-GAAP financial expense comprised of interest expense of CHF 1.6 m (mainly on Swiss franc deposits due to the negative interest environment), net pension gains of CHF 1.6 m and a net currency loss of CHF 0.9 m.

US GAAP financial expense comprised of the non-cash accretion expense of CHF 8 m relating to the convertible debt and a loss of CHF 8 m mainly on marketable securities (Santhera shares, which fell from CHF 14.54 at issuance to CHF 6.54 at closing).

Income tax

Income tax

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Income tax				
Income tax benefit (expense)	(0)	(0)	(1)	(0)
Non-GAAP tax benefit (expense)	**(0)**	**(0)**	**(1)**	**(0)**
Other tax benefit (expense)	1	(0)	1	0
US GAAP income tax benefit (expense)	**0**	**(0)**	**0**	**(0)**

Non-GAAP tax expense included a valuation allowance against the deferred tax asset arising from the operating losses which can be carried forward and utilized up to 7 years.

Net results, EPS and shares

Net results

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Non-GAAP operating income (loss)	**(339)**	**8**	**(92)**	**79**
Financial income (expense)	(1)	(3)	2	(1)
Income tax benefit (expense)	(0)	0	(1)	0
Non-GAAP net income (loss)	**(340)**	**5**	**(91)**	**77**
US GAAP operating income (loss)	**(371)**	**(8)**	**(101)**	**71**
Financial income (expense)	(17)	(7)	(9)	(3)
Income tax benefit (expense)	0	(0)	0	(0)
US GAAP net income (loss)	**(388)**	**(15)**	**(109)**	**67**
Net loss attributable to noncontrolling interests	1	1	0	0
US GAAP net income (loss) attributable to Idorsia's shareholders	**(386)**	**(14)**	**(108)**	**68**

The CHF 47 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 13 m, the financial accretion expense of CHF 8 m relating to the convertible debt and a loss of CHF 8 m on the Santhera shares received as consideration in respect of the option and sublicensing agreement on vamorolone.

Shares

(in millions)	Issued	Equity derivatives	Equity awards	Total
Outstanding dilutive shares Dec 31, 2017	**119.1**	**38.7**	**4.8**	**162.6**
Equity instruments – issuance	0.0	-	1.2	1.2
Equity instruments – forfeitures	-	-	(0.2)	(0.2)
Issuance of new shares	11.9	5.9	-	17.8
Outstanding dilutive shares Dec 31, 2018	**131.1**	**44.6**	**5.8**	**181.5**

Issued shares of 131.1 million at year-end 2018 included 11.9 million shares issued in connection with the CHF 505 m cash raise in July 2018.

Equity derivatives of 44.6 million at year-end 2018 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 5.8 million at year-end 2018 consisted of 5.5 million share options (mainly including 4.8 million issued just after demerger from Actelion with a strike price of CHF 17.73 and 1 million issued during 2018 with an average strike price of CHF 24.64) and 0.3 million restricted share units issued to eligible employees and blocked shares to the non-executive directors of the Board in 2018.

Earnings per share (EPS)

(in CHF millions,unless otherwise indicated)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Non-GAAP net income (loss)	**(340)**	**5**	**(91)**	**77**
Weighted-average number of basic shares (in millions)	124.8	114.0	131.1	119.1
Non-GAAP basic EPS (in CHF)	**(2.72)**	**0.04**	**(0.70)**	**0.65**
Weighted-average number of dilutive shares (in millions)	124.8	139.5	131.1	157.9
Non-GAAP diluted EPS (in CHF)	**(2.72)**	**0.03**	**(0.70)**	**0.49**
US GAAP net income (loss)	**(386)**	**(14)**	**(108)**	**68**
Weighted-average number of basic shares (in millions)	124.8	114.0	131.1	119.1
US GAAP basic EPS (in CHF)	**(3.10)**	**(0.13)**	**(0.83)**	**0.57**
Weighted-average number of dilutive shares (in millions)	124.8	114.0	131.1	157.9
US GAAP diluted EPS (in CHF)	**(3.10)**	**(0.13)**	**(0.83)**	**0.43**

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)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Operating cash flow				
US GAAP net income (loss)	(388)	(15)	(109)	67
Deferred contract revenue	(26)	69	(21)	69
Depreciation and amortization	20	10	5	5
Accretion of convertible loan discount	8	4	2	2
Share-based compensation	13	6	3	3
Other non cash items	8	-	8	-
Funds from operations	**(365)**	**74**	**(111)**	**146**
Net change in receivables	(0)	(5)	(1)	(3)
Net change in trade and other payables	2	21	(1)	14
Net change in other operating assets and liabilities	12	5	(9)	(12)
Decrease (increase) in net working capital	**14**	**22**	**(12)**	**(1)**
Decrease (increase) in deferred taxes	**(2)**	**0**	**(2)**	**0**
Operating cash flow	**(353)**	**95**	**(125)**	**146**

Operating cash flow for the full-year 2018 was negative at CHF 353 m, mainly driven by the non-GAAP operating expenses of CHF 399 m, cash of CHF 20 m received from Santhera, and a decrease of CHF 14 m in net working capital requirements.

Operating cash flow for the 6.5 months of operations in 2017 was positive at CHF 95 m, mainly driven by the upfront milestone of USD 230 m received from Janssen, non-GAAP operating expenses of CHF 150 m, and a decrease of CHF 22 m in net working capital requirements.

Free cash flow

(in CHF millions)	Period ended Dec 31, 2018	2017	Fourth quarter 2018	2017
Free cash flow				
Operating cash flow	(353)	95	(125)	146
Acquisition of tangible, intangible and other assets	(17)	(8)	(7)	(7)
Operating free cash flow	**(370)**	**88**	**(132)**	**139**
Equity raise	305	-	-	-
Issuance of convertible bonds	200	-	-	-
Cash received at demerger from Actelion	-	1,000	-	-
Other items	(6)	3	-	-
Free cash flow	**129**	**1,091**	**(132)**	**139**

Free cash flow reconciled with liquidity of CHF 1,220 m at year-end 2018. Liquidity in 2018 increased in 2018 by CHF 129 m mainly driven by a negative operating cash flow of CHF 353 m and a cash raise with gross proceeds of CHF 505 m.

Liquidity

(in CHF millions)	Liquidity
Liquidity Dec 31, 2017	**1,091**
Liquidity movements	(75)
Liquidity Mar 31, 2018	**1,016**
Liquidity movements	(67)
Liquidity Jun 30, 2018	**949**
Liquidity movements	402
Liquidity Sep 30, 2018	**1,351**
Liquidity movements	(131)
Liquidity Dec 31, 2018	**1,220**

As of December 31, 2018, liquidity consisted of cash and cash equivalents of CHF 799 m, short-term deposits of CHF 123 m and long-term deposits of CHF 298 m.

Liquidity of CHF 1,220 m at year-end 2018 was mainly held in Swiss francs (CHF 1,009 m) and in US dollars (equivalent of CHF 205 m).

Balance sheet

(in CHF millions)	Dec 31, 2018	Sep 30, 2018	Dec 31, 2017
Assets			
Liquidity[1]	1,220	1,351	1,091
Tangible assets	151	150	157
Other assets	36	26	44
Total assets	**1,407**	**1,527**	**1,292**
Liabilities and equity			
Financial debt	571	569	365
Deferred revenue	58	64	69
Other liabilities	121	124	119
Total liabilities	**749**	**758**	**552**
Total equity	**658**	**770**	**740**
Total liabilities and equity	**1,407**	**1,527**	**1,292**

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

Tangible assets (CHF 151 m) mainly consisted of the building and R&D equipment.

Other assets (CHF 36 m) comprised of prepayments of CHF 18 m, noncurrent assets of CHF 9 m, marketable securities of CHF 7 m and receivables of CHF 2 m.

Financial debt (CHF 571 m) comprised of the debt component (CHF 372 m) of the outstanding convertible loan (nominal amount of CHF 445 m) and CHF 198 m relating to the convertible bonds (nominal amount of CHF 200 m).

Other liabilities (CHF 121 m) included current and noncurrent liabilities of CHF 79 m and CHF 42 m respectively. Current liabilities mainly comprised accrued expenses of CHF 68 m and payables of CHF 11 m. Noncurrent liabilities mainly comprised pension obligations of CHF 18 m, subordinated liability (Vaxxilon) of CHF 13 m, deferred tax liabilities of CHF 6 m and other noncurrent liabilities of CHF 5 m.

Reconciliation of US GAAP to non-GAAP results

Reconciliation of US GAAP to non-GAAP results for the period ended December 31, 2018

(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	61	-	-	-	61
Contract revenue – others	-	-	-	-	-
Total net revenue	**61**	-	-	-	**61**
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(370)	17	8	-	(345)
General and administrative	(61)	2	5	-	(54)
Amortization of intangible assets	(1)	1	-	-	-
Total operating expenses	**(432)**	20	13	-	**(399)**
Operating results	**(371)**	20	13	-	**(339)**
Total financial income (expense)	(17)	-	-	16	(1)
Income before income tax benefit (expense)	**(388)**	20	13	16	**(339)**
Income tax benefit (expense)	0	(0)	-	(1)	(0)
Noncontrolling interest	1	-	-	(1)	-
Net income (loss)	**(386)**	19	13	14	**(340)**
Basic net income (loss) per share (CHF)	**(3.10)**	0.16	0.10	0.11	**(2.72)**
Weighted-average number of basic shares (in millions)	124.8	-	-	-	124.8
Diluted net income (loss) per share (CHF)	**(3.10)**	0.16	0.10	0.11	**(2.72)**
Weighted-average number of dilutive shares (in millions)	124.8	-	-	-	124.8

Reconciliation of US GAAP to non-GAAP results for the fourth quarter 2018

(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	41	-	-	-	41
Contract revenue – others	-	-	-	-	-
Total net revenue	**41**	-	-	-	**41**
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(125)	4	2	-	(118)
General and administrative	(16)	1	1	-	(15)
Amortization of intangible assets	(1)	1	-	-	-
Total operating expenses	**(141)**	5	3	-	**(133)**
Operating results	**(101)**	5	3	-	**(92)**
Total financial income (expense)	(9)	-	-	10	2
Income before income tax benefit (expense)	**(109)**	5	3	10	**(90)**
Income tax benefit (expense)	0	(0)	(1)	(0)	(1)
Noncontrolling interest	0	-	-	(0)	-
Net income (loss)	**(108)**	5	2	10	**(91)**
Basic net income (loss) per share (CHF)	**(0.83)**	0.04	0.02	0.07	**(0.70)**
Weighted-average number of basic shares (in millions)	131.1	-	-	-	131.1
Diluted net income (loss) per share (CHF)	**(0.83)**	0.04	0.02	0.07	**(0.70)**
Weighted-average number of dilutive shares (in millions)	131.1	-	-	-	131.1

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	Period ended December 31, 2018	2017
Net revenue			
Product sales		-	-
Contract revenue	4	60,618	158,085
Total net revenue		**60,618**	**158,085**
Operating (expenses) [1]			
Research and development		(370,083)	(134,911)
General and administrative		(60,641)	(30,951)
Amortization of intangible assets	10	(970)	(107)
Total operating (expenses)		**(431,694)**	**(165,969)**
Operating income (loss)		**(371,075)**	**(7,885)**
Interest income (expense), net		(1,581)	(1,867)
Accretion of convertible debt	13	(7,845)	(4,119)
Other financial income (expense), net		(7,324)	(1,228)
Total financial income (expense)		**(16,750)**	**(7,214)**
Income (loss) before income tax benefit (expense)		(387,826)	(15,098)
Income tax benefit (expense)	5	314	(185)
Net income (loss)		**(387,511)**	**(15,284)**
Less: Net (gain) loss attributable to the noncontrolling interests	2	1,121	1,015
Net income (loss) attributable to Idorsia's shareholders		**(386,390)**	**(14,269)**
Basic net income (loss) per share attributable to Idorsia's shareholders	6	**(3.10)**	**(0.13)**
Weighted-average number of common shares (in thousands)		124,775	114,003
Diluted net income (loss) per share attributable to Idorsia's shareholders	6	**(3.10)**	**(0.13)**
Weighted-average number of common shares (in thousands)		124,775	114,003

[1] Includes share-based compensation as follows:		
Research and development	8,051	3,153
General and administrative	4,941	2,708
Total share-based compensation	**12,992**	**5,861**

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

Consolidated Statement of Comprehensive Income

(in CHF thousands)	Period ended December 31, 2018	2017
Net income (loss)	**(387,511)**	**(15,284)**
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments	39	6
Change of unrecognized components of net periodic benefit costs	(488)	(5,996)
Other comprehensive income (loss), net of tax	**(448)**	**(5,990)**
Comprehensive income (loss)	**(387,959)**	**(21,274)**
Less: Comprehensive (gain) loss attributable to noncontrolling interests	1,121	1,015
Comprehensive income (loss) attributable to Idorsia's shareholders	**(386,839)**	**(20,259)**

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	Dec 31, 2018	Dec 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	7/8	798,557	622,452
Short-term deposits	8	122,865	218,302
Receivables from related parties	21	2,110	20,198
Other current assets	9	17,890	20,347
Total current assets		**941,422**	**881,299**
Noncurrent assets			
Long-term deposits	8	298,415	250,000
Marketable securities	8	6,796	-
Property, plant and equipment, net	11	150,697	156,738
Intangible assets, net	10	2,807	1,815
Other noncurrent assets		6,633	2,025
Total noncurrent assets		**465,347**	**410,578**
TOTAL ASSETS		**1,406,770**	**1,291,877**
LIABILITIES			
Current liabilities			
Trade and other payables		7,131	4,252
Payables and accrued payables to related parties	21	3,914	20,465
Deferred revenue	4	26,232	21,232
Accrued expenses	12	67,576	47,253
Total current liabilities		**104,853**	**93,202**
Noncurrent liabilities			
Convertible loan	13	372,399	364,683
Convertible bonds	13	198,443	-
Deferred revenue	4	31,540	47,772
Pension liability	14	18,182	21,770
Deferred tax liability	5	6,018	7,329
Other noncurrent liabilities		17,710	17,615
Total noncurrent liabilities		**644,292**	**459,168**
Total liabilities		**749,145**	**552,371**

Consolidated Balance Sheet (2/2)

(in CHF thousands, except number of shares)	Notes	Dec 31, 2018	Dec 31, 2017
EQUITY			
Idorsia's shareholders' equity			
Common shares (par value CHF 0.05 per share, issued and outstanding 131,060,423 and 119,123,430 in 2018 and 2017 respectively; total number of authorized shares, including issued, authorized and conditional, 225,123,430 and 213,330,210 in 2018 and 2017 respectively)	16	6,553	5,956
Additional paid in capital		1,065,228	759,747
Accumulated profit (loss)		(400,659)	(14,269)
Accumulated other comprehensive income (loss)	17	(6,439)	(5,990)
Total Idorsia's shareholders' equity		**664,683**	**745,444**
Equity attributable to noncontrolling interests	2	(7,058)	(5,937)
Total equity		**657,625**	**739,506**
TOTAL LIABILITIES AND EQUITY		**1,406,770**	**1,291,877**

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

Consolidated Statement of Cash Flows (1/2)

(in CHF thousands)	Period ended December 31, 2018	2017
Cash flow from operating activities		
Net income (loss)	(387,511)	(15,284)
Adjustments to reconcile net income (loss) to net cash provided from operating activities:		
Depreciation and amortization	19,563	10,053
Share-based compensation	12,992	5,861
Accretion of convertible debt	7,845	4,119
Unrealized losses on marketable securities	8,053	-
Deferred revenue	(25,827)	69,004
Deferred taxes	(1,933)	4
Changes in operating assets and liabilities:		
Other receivables	(126)	(5,029)
Trade and other payables	2,425	21,283
Accrued expenses	20,055	29,138
Changes in other operating cash flow items	(8,353)	(23,654)
Net cash flow provided by (used in) operating activities	**(352,817)**	**95,495**
Cash flow from investing activities		
Purchase of marketable securities	(2,500)	-
Purchase of short-term deposits	(216,840)	(218,302)
Proceeds from short-term deposits	313,848	-
Purchase of long-term deposits	(299,050)	(250,000)
Proceeds from long-term deposits	250,000	-
Purchase of property, plant and equipment	(11,616)	(7,371)
Purchase of intangible assets	(2,650)	(285)
Net cash flow provided by (used in) investing activities	**31,193**	**(475,957)**
Cash flow from financing activities		
Issuance of new shares, net	299,449	5,367
Proceeds from issuance of convertible bonds, net	198,315	-
Proceeds from demerger agreement	-	418,873
Proceeds from issuance of convertible loan, net	-	578,644
Net cash flow provided by (used in) financing activities	**497,764**	**1,002,884**

Consolidated Statement of Cash Flows (2/2)

(in CHF thousands)	Period ended December 31, 2018	2017
Net effect of exchange rates on cash and cash equivalents	(35)	31
Net change in cash and cash equivalents	**176,105**	**622,452**
Cash and cash equivalents at beginning of period	622,452	-
Cash and cash equivalents at end of period	**798,557**	**622,452**
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	(3,485)	(1,858)
Tax	(146)	(98)

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: Common shares: Shares	Amount	Additional paid-in capital	Accum. profit (loss)	Accum. other comprehensive income (loss)	Noncontrolling interests: Equity attrib. to noncontrolling interests	Total equity
Incorporation March 3, 2017	**104,000,000**	**5,200**	**-**	**-**	**-**	**-**	**5,200**
Comprehensive income (loss):							
Net income (loss)				(14,269)		(1,015)	(15,284)
Other comprehensive income (loss)					(5,990)		(5,990)
Comprehensive income (loss)							**(21,274)**
Issuance of new shares	3,330,210	166					166
Convertible equity, net[1]	11,793,220	590	133,558				134,148
Capitalization from demerger			542,869			(4,923)	537,946
Intrinsic value of beneficial conversion feature[2]			77,459				77,459
Share-based compensation expense			5,861				5,861
At December 31, 2017	**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[3]	11,912,000	596	299,300				299,896
Share-based compensation	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**

[1]Conversion of convertible loan of nominal CHF 135 m minus CHF 1 m stamp duty
[2]Instrinsic value of CHF 84 m less a deferred tax liability of CHF 7 m
[3]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.

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. Idorsia 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 Idorsia (the "Demerger").

Basis of presentation

The Group's consolidated financial statements ("Consolidated Financial Statements") have been prepared under Generally Accepted Accounting Principles in the United States ("US GAAP"). All US GAAP references relate to the Accounting Standards Codification ("ASC" or "Codification") established by the Financial Accounting Standards Board ("FASB") as the single authoritative source of US GAAP to be applied by non-governmental entities. All amounts are presented in Swiss francs ("CHF"), unless otherwise indicated. The period ended December 31, 2018 includes the twelve months period for 2018. The period ended December 31, 2017 includes the period from the incorporation on March 3, 2017 until December 31, 2017. All amounts relating to the reporting period from March 3, 2017 to December 31, 2017 represent mostly the activity since the Demerger on June 15, 2017. Rounding differences may occur.

Changes in accounting policies

The Group adopted the requirements of *ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities*. The adoption of ASU 2016-01 did not have a material impact on the Group's financial position or results of operations.

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 interests' 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 interests' 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 the *Business Combinations* Topic of the FASB ASC ("ASC 805"). 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 the *Collaborative Arrangements* Topic of FASB ASC ("ASC 808").

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 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.

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 the *Research and Development* Topic of FASB ASC ("ASC 730").

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

Legal fees

Legal fees related to loss contingencies are expensed as incurred and included in 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 the *Compensation – Stock Compensation* Topic of FASB ASC ("ASC 718"). 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 commensurating 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 the *Income Taxes* Topic of FASB ASC (primarily codified in "ASC 740"). Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and are measured using enacted tax rules and laws that will be in effect when differences are expected to reverse. The Group performs periodic evaluations of recorded tax assets and liabilities and maintains a valuation allowance if deemed necessary. Uncertain tax positions are evaluated for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on tax audit, including resolution of related appeals or litigation processes, if any. The recognized tax benefits are measured 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 the *Earnings per Share* Topic of FASB ASC ("ASC 260"), basic EPS are computed by dividing net income available to common shareholders by the weighted-average common shares outstanding for the 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 shares equivalents that would have had an anti-dilutive effect would they have 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 if 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 the *Fair Value Measurements and Disclosures* Topic of FASB ASC ("ASC 820"). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs. 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 Level 1, 2 or 3 within the fair value hierarchy are recognized at the end of the reporting period when the respective transaction occurred.

The Group elected to early adopt the requirements of ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*.

Financial instruments indexed to own shares

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

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

Intangible assets

Intangible assets with definite lives consist primarily of internally used software, which is amortized on a straight-line basis over the useful live 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 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 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 the *Debt with Conversion and Other Options* Topic of FASB ASC ("ASC 470-20").

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 the provisions of the *Compensation – Retirement Benefits* Topic of FASB ASC ("ASC 715"), which requires the recognition of the funded status of pension plans in the Group's balance sheet. The liability in respect to defined benefit pension plans is the projected benefit obligation calculated annually by independent actuaries using the projected unit credit method. The projected benefit obligation ("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 14. Pension plans) by applying the corridor approach.

Service cost component are 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 17. Accumulated other comprehensive income (loss)).

Foreign currencies

The Group follows the guidance included in the *Foreign Currency Matters* Topic of FASB ASC ("ASC 830"). The reporting currency of the Group is the Swiss franc. 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 the *Segment Reporting* Topic of FASB ASC ("ASC 280") for reporting information on operating segments in interim and annual financial statements. The Group operates in one segment, which primarily focuses on discovery, development and commercialization of innovative medicines for unmet medical needs. The 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 the *Subsequent Events* Topic of FASB ASC ("ASC 855") through the date the financial statements are available to be issued (see Note 22. 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 ("ASU 2018-18"), an update to the *Collaborative Arrangements* Topic of FASB ASC ("ASC 808"). 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 is currently evaluating the expected impact on its financial position, results of operations and 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 ("ASU 2018-15"), an update to the *Intangibles - Goodwill and Other* Topic of FASB ASC ("ASC

350”). ASU 2018-15 aligns the following 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* (“ASU 2018-14”), an update to the *Compensation - Retirement Benefits* Topic of FASB ASC (“ASC 715”). 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* (“ASU 2016-13”), an update to the *Financial Instruments – Credit Losses* Topic of FASB ASC (“ASC 326”). 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.

ASU 2016-02, Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), an update to FASB ASC resulting from a joint convergence project with the International Accounting Standards Board (“the IASB”). ASU 2016-02 introduced a new *Leases* Topic (“ASC 842”), superseding the current *Leases* Topic (“ASC 840”). The new guidance requires lessees to recognize on the balance sheet a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, for both finance and operating leases. For finance leases, interest on the lease liability is to be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income; for operating leases, the lease costs are to be allocated over the lease term on a straight-line basis. ASU 2016-02 is effective for public entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The updated guidance will be adopted at the beginning of the earliest period presented using a modified retrospective approach (see Note 18. Commitments and guarantees for the expected effect on the financial position). The Group does not expect a material impact on the 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 (“Actelion”) 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, 2018 and 2017, losses of CHF 1.1 m and CHF 1.0 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 March 3, 2017	**5,200**	**-**	**5,200**
Net income (loss) of the Group	(11,397)	-	(11,397)
Net income(loss) from noncontrolling interests	(2,872)	(1,015)	(3,887)
Change from net income (loss)	**(14,269)**	**(1,015)**	**(15,284)**
Capitalization from demerger[1]	542,869	(4,923)	537,946
Other change in equity	211,644	-	211,644
At December 31, 2017	**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[2]	305,629	-	305,629
At December 31, 2018	**664,683**	**(7,058)**	**657,625**

[1]Details on changes in equity are provided in the consolidated statement of changes in equity

[2]Other changes in equity consists of the following: issuance new shares, net of CHF 300 m; share-based compensation expense of CHF 13 m, movements in OCI of CHF (0.5 m) and demerger adjustment of ChF (6.8 m)

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.

Axovan Ltd ("Axovan") / F. Hoffman-La Roche Ltd ("Roche")
The business responsibilities of the share purchase agreement between Actelion and Axovan executed in 2003 and its amendments were transferred to Idorsia as part of the Demerger. Consequently, the Group is liable to pay to former Axovan shareholders milestones of up to CHF 132 m in connection with the filing (CHF 30 m), approval (CHF 80 m) and commercialization (CHF 15 m) of clazosentan and for another compound patented by Axovan (CHF 7 m). Furthermore, by virtue of the acquisition of Axovan, the Group is also liable to pay to Roche milestones for commercialization of up to CHF 12 m as well as high- single-digit royalties on annual sales of clazosentan.

A representative of former Axovan shareholders claims that the Demerger would trigger the acceleration of all outstanding milestone payments and has filed a complaint with the arbitrator in Switzerland; the Group believes that this claim has no merit.

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.

Midnight had claimed that Actelion did not disclose that it was developing another dual orexin receptor antagonist and consequently requested an indemnification. In the first half of 2018 Midnight withdrew this claim from the arbitration court and the case is therefore closed.

Following the withdrawal of the claim by Midnight in the arbitration court, the Group agreed to the novation of the license agreement from Midnight to Neuro. The main terms of the license agreement as set out above remained unchanged.

Allergan plc ("Allergan")
As part of the Demerger, the Group holds a worldwide exclusive license agreement with Kythera Biopharmaceuticals, Inc. ("KBI") for the development and commercialization of setipiprant, a clinical-stage selective oral CRTH2 receptor antagonist, which was discontinued by Actelion prior to the Demerger. In 2015, Allergan acquired KBI and correspondingly assumed KBI's rights and obligations in connection with the license contract. Under the terms of the agreement, Allergan will be responsible for the research, development, manufacturing and commercialization of any potential compounds and products developed under the licensed

intellectual property. The Group is eligible to receive potential milestone payments of up to USD 25.5 m upon the successful development and approval of setipiprant in two indications. The Group will also receive tiered 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 March 2021, with CHF 21 m being recognized in 2018.

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 2018 the Group recognized net CHF 11 m of cost sharing reimbursements for the initial indication Phase 3 studies as 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 and cadazolid, two late-stage pipeline products that remained with Actelion. If market authorization is obtained, the Group is entitled to receive 8% of the aggregate net sales of ponesimod and cadazolid. In 2018 J&J has informed Idorsia that it has decided to discontinue the development of cadazolid.

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"). In 2018, both parties have agreed to a new structure of the agreement which makes milestone payments more dependent on commercial success.

Under the renegotiated terms, 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 (previously USD 30 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 (previously USD 120 m) and three new 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.

Under the existing terms, the Group made a CHF 15 m milestone payment to ReverGen that related to the first dosing of the first patient in the first Phase 2b clinical trial and was recorded as R&D expense. The Group will also support R&D activities up to a maximum amount of USD 1 m per annum until April 2019 unless earlier terminated or extended. 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")

On November 20, 2018 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.

The Group received as non-refundable consideration for entering into the agreement 1,000,000 new registered shares from Santhera Pharmaceutical Holding Ltd's ("Santhera Holding") existing authorized share capital (SIX: SANN) at fair market value of CHF 14.5 m (see Note 8. Financial assets and liabilities) and an upfront cash component of USD 20 m. The consideration has been recorded as contract revenue in 2018.

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.

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.

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 pre-determined 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 2018.

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.

Other

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

Note 5.
Income taxes

	Period ended December 31,	
	2018	**2017**
Current tax (expense)	(1,619)	(181)
Deferred tax benefit (expense)	1,933	(4)
Total income tax benefit (expense)	**314**	**(185)**

Income taxes payable and accrued as of December 31, 2018, amounted to CHF 1.5 m (December 31, 2017: CHF 0.0 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	**2018**	**2017**
Net benefit from operating loss carryforwards	82,884	6,139
Pension liability	7,594	6,201
Other temporary differences	1,380	21
Deferred tax assets	**91,858**	**12,361**
Valuation allowance for deferred tax assets	(88,443)	(11,301)
Total deferred tax assets	**3,415**	**1,060**

Deferred tax liabilities	**2018**	**2017**
Convertible loan	5,630	6,232
Convertible bonds	121	-
Intercompany loans	1,706	1,687
Share-based compensation	596	449
Other	286	-
Total deferred tax liabilities	**8,339**	**8,368**

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 13. Borrowings).

As of December 31, 2018, the gross value of unused tax loss carryforwards, with their expiry dates is as follows:

	Total
One year	-
Two years	-
Three years	-
Four years	-
Five years	16,666
Six years	19,466
Seven years	381,237
More than seven years	-
Total tax losses	**417,369**

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%.

	Period ended December 31,	
	2018	**2017**
Tax at net Swiss statutory tax rate	79,892	3,110
Tax rates different from the net Swiss statutory rate	(1,794)	(1,003)
Change in valuation allowance	(77,969)	(2,101)
Other items	185	(191)
Effective income tax benefit (expense)	**314**	**(185)**

In 2018, the Canton of Basel-Landschaft granted the Group a ten-year tax holiday that provides for reduced income and capital tax rates at the communal and cantonal level. The tax holiday commenced in fiscal year 2018 and is valid until fiscal year 2027. The current and deferred taxes have been adjusted accordingly without any material impact on the financial results of operations and financial position.

Note 6.
Earnings per share

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

	2018		2017	
	Basic	Diluted	Basic	Diluted
Numerator				
Net income (loss) attributable to Idorsia's shareholders	(386,390)	(386,390)	(14,269)	(14,269)
Net income (loss) available for EPS calculation	**(386,390)**	**(386,390)**	**(14,269)**	**(14,269)**
Denominator				
Weighted-average number of common shares	124,775,273	124,775,273	114,003,452	114,003,452
Total average equivalent shares	**124,775,273**	**124,775,273**	**114,003,452**	**114,003,452**
Earnings (loss) per share attributable to Idorsia's shareholders	**(3.10)**	**(3.10)**	**(0.13)**	**(0.13)**

For the period ended December 31, 2018, 50,403,390 shares that would have had an anti-dilutive effect were excluded from the diluted EPS calculation (December 31, 2017: 43,563,244 shares).

Note 7.
Cash and cash equivalents

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

	2018	2017
Cash	69,500	84,664
Cash equivalents	729,057	537,788
Total	**798,557**	**622,452**

Note 8.
Financial assets and liabilities

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

	December 31, 2018			December 31, 2017		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Financial assets carried at fair value						
Cash and cash equivalents	798,557	798,557	-	622,452	622,452	-
Derivative financial instruments[1]	-	-	-	678	-	678
Short-term marketable securities[1]	2,247	2,247				
Long-term marketable securities	6,796	6,796	-	-	-	-
Total	**807,600**	**807,600**	**-**	**623,130**	**622,452**	**678**

[1] Included in other current assets

As of December 31, 2018, short- and long-term deposits of a total of CHF 421 m (December 31, 2017: CHF 468 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 exceeding three months and up to twelve months, 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 by the Derivatives and Hedging Topic of FASB ASC ("ASC 815"). The Group does not use derivative financial instruments for speculative purposes.

The following tables reflect the contract or underlying principal amounts and fair values of derivative financial instruments, analyzed by type of contract. The underlying principal amount indicates the volume of outstanding positions at the balance sheet date and does not represent an amount at risk.

	Location of gain or loss recognized in income on derivatives	December 31, 2018	December 31, 2017
Income Statement			
Forward rate contracts			
Amount of gain recognized in income on derivatives	Other financial income (expense), net	4,445	678
Amount of loss recognized in income on derivatives	Other financial income (expense), net	(3,532)	-
Total		**913**	**678**

	Balance Sheet location	December 31, 2018	December 31, 2017
Balance Sheet			
Forward rate contracts	Other current assets	-	678
Forward rate contracts	Other current liabilities	-	-
Total		**-**	**678**

	December 31, 2018	December 31, 2017
Underlying principal amount		
Forward rate contracts	-	83,050

As at December 31, 2018, the Group holds no foreign currency forwards. As at December 31, 2017 all foreign currency forwards consisted of privately negotiated over-the-counter contracts with maturities of six months or less at inception. The contracts were negotiated with one counterparty with a Standard & Poor's ("S&P") credit rating of A.

For the period ended December 31, 2018, the realized net gain recognized on derivative financial instruments amounts to CHF 1.6 m (December 31, 2017: none). For the period ended December 31, 2018, there was a reversal of prior periods unrealized gain on the forward rate contracts of CHF 0.7 m (December 31, 2017: gross unrealized gain of CHF 0.7 m) as all outstanding contracts were settled.

On December 31, 2018 and on December 31, 2017, the Group did not have any derivatives which were offset in accordance with ASC 210-20-45 or ASC 815-10-45. The following table shows the derivatives subject to enforceable master netting arrangements:

	Derivative assets			Derivative liabilities		
Derivative financial instruments subject to a master netting arrangement	Gross amount disclosed	Netting adjustment	Net amount	Gross amount disclosed	Netting adjustment	Net amount
December 31, 2018						
Forward rate contracts	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
December 31, 2017						
Forward rate contracts	678	-	678	-	-	-
Total	**678**	**-**	**678**	**-**	**-**	**-**

The right to offset derivative assets and liabilities is provided to both the Group and the financial institution in case of predefined default and termination events including, among others, bankruptcy and change of control. None of these events had occurred as of December 31, 2018, and December 31, 2017.

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).

The Group received as non-refundable consideration for entering into the agreement 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 DMD in the United States 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, which represents 12.5% of the ordinary share capital of Santhera Holding as of December 31, 2018.

Financial liabilities carried at amortized cost

The Group's financial liabilities carried at amortized cost relate to its convertible debt (see Note 13. Borrowings) and are stated in the following table:

	2018	2017
Long-term financial debt	570,842	364,683
Total	**570,842**	**364,683**

Interest income (expense), net in the Consolidated Financial Statements for the period ended December 31, 2018, includes interest expense of CHF 0.7 m (December 31, 2017: none) related to accrued interest, which is paid to the bondholders on a yearly basis and other interest expenses of CHF 0.2 m (December 31, 2017: CHF 0.1 m). Additionally, negative interest income of CHF 0.7 m (December 31, 2017: CHF 1.8 m), which are mainly related to interest paid or received on the various cash accounts of the Group are recorded in interest income (expense), net.

The aggregate foreign currency transaction loss included in the other financial income (expense), net in 2018 amounts to CHF 1.8 m (December 31, 2017: CHF 2.8 m). The Group recognized a gain on forward rate contracts of CHF 0.9 m (December 31, 2017: CHF 0.7 m).

For the period ended December 31, 2018 the Group experienced an unrealized loss on marketable securities of CHF 8.1 m (December 31, 2017: none) and a gain on other components of net periodic pension cost of CHF 1.7 m (December 31, 2017: CHF 0.9 m).

Note 9. Other current assets

Other current assets consisted of the following at December 31:

	2018	2017
VAT and withholding tax receivables	4,684	1,680
Derivative instruments	-	678
Prepaid expenses and deferred income	10,631	16,628
Marketable securities	2,247	-
Other current assets	329	1,361
Other current assets	**17,890**	**20,347**

Note 10.
Intangible assets

Intangible assets consisted of the following at December 31:

	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**

	2017		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired software and other	1,922	(107)	1,815
Total	**1,922**	**(107)**	**1,815**

The aggregate amortization expense of intangible assets amounted to CHF 1.0 m (2017: CHF 0.1 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
2019	1,260
2020	1,136
2021	412
2022	-
2023	-
Thereafter	-
Total expected future amortization	**2,807**

Note 11.
Property, plant and equipment

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

	2018	2017
At cost:		
Land	6,092	6,092
Buildings	117,830	117,739
Furniture, fixtures and lab equipment	45,765	33,605
Computers	1,166	326
Construction in progress	8,436	8,818
Less: Accumulated depreciation	(28,592)	(9,842)
Property, plant and equipment, net	**150,697**	**156,738**

For the period ended December 31, 2018, the Group invested CHF 12.5 m (2017: CHF 8.1 m) in tangible assets. As of December 31, 2018, CHF 1.2 m (December 31, 2017: CHF 0.7 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 18.6 m in 2018 (2017: CHF 9.9 m).

Note 12.
Accrued expenses

Accrued expenses consisted of the following at December 31:

	2018	2017
Personnel and compensation costs	29,655	25,648
Research and development goods and services	29,531	17,154
Site running costs	1,089	1,021
Professional and IT services	2,024	1,386
Fixed assets	1,017	1,420
Other accruals	4,260	624
Total	**67,576**	**47,253**

Note 13.
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 17, 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, 2018).

The remaining amount of CHF 445 m outstanding as of December 31, 2018 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, 2018) 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 anti-dilution 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, 2018 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, 2018 is 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 period ended December 31, 2018 the Group recognized an accretion expense of CHF 8 m (2017: CHF 4 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 anti-dilution provisions and dividend protection. Interest is payable annually in arrears.

The bonds have a term of six years, mature 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 Company 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, 2018, are as follows:

	Type of payment	**Amount**
Payable on July 17,		
2019	Annual interest	1,500
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, 2018, the fair market value of the bonds amounts to 85,25% 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, 2018, the total book value of the bonds was CHF 198.4 m. For the year ended December 31, 2018, the Group recognized of CHF 0.7 m interest cost and CHF 0.1 m related to the amortization of debt issuance costs.

Credit facilities

On December 31, 2018, 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 14. 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 846,000. 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 period ended December 31, 2018 the Group made contributions of CHF 13.4 m. Interest is credited to the employees' accounts at the minimum rate provided for in the Basic Plan. In 2018, 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:

	Period ended December 31,	
	2018	**2017**
Service cost	11,011	6,036
Interest cost	1,740	914
Expected return on plan assets	(3,394)	(1,782)
Prior year service costs (benefit)	-	-
Amortization of net actuarial (gain) loss	-	-
Net periodic benefit cost	**9,357**	**5,168**

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:

	2018	2017
Weighted-average assumptions used in calculation		
Mortality and disability assumptions	BVG[1] 2015	BVG[1] 2015
Discount rate	0.90%	0.70%
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, 2018 is 0.90%. A decrease of the discount rate by 0.25% would increase the PBO by CHF 11.7 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 benefits 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 pensions plans:

	2018	2017
Projected benefit obligation, beginning of period	**236,171**	**-**
Effect of demerger	-	217,144
Service cost	11,011	6,036
Interest cost	1,740	914
Plan participants' contributions	7,049	3,540
Benefits (paid) / deposited	3,292	3,890
Actuarial loss (gain)	(274)	4,647
Foreign currency exchange rate changes	-	-
Projected benefit obligation at December 31,	**258,989**	**236,171**

	2018	2017
Fair value of plan assets, beginning of period	**214,401**	**-**
Effect of demerger	-	193,263
Actual return on plan assets	2,632	433
Employer contributions	13,433	13,275
Plan participants' contributions	7,049	3,540
Benefits (paid) / deposited	3,292	3,890
Foreign currency exchange rate changes	-	-
Fair value of plan assets at December 31,	**240,807**	**214,401**
Accumulated benefit obligation	**250,813**	**228,189**

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

	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**

	2017		
Asset category	**in CHF**	**as % of total plan assets**	**Level 2 in CHF**
Assets from insurance contract	214,401	100.00%	214,401
Total plan assets	**214,401**	**100%**	**214,401**

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 10.5 m (2017: CHF 8.4 m) and premiums paid in excess to premiums owed by the Group of CHF 19.7 m (2017: CHF 16.0 m).

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

	2018	**2017**
Present value of obligations	(258,989)	(236,171)
Fair value of plan assets	240,807	214,401
Funded status	**(18,182)**	**(21,770)**

As of December 31, 2018, CHF 6.5 m (December 31, 2017: CHF 6.0 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 2019 there will be no amortization as the amount is in the "corridor".

	2018	**2017**
Components of net periodic benefit costs, beginning of period	**(5,996)**	**-**
Net gain (loss) arising during the period	(488)	(5,996)
Taxes	-	-
Total included in other comprehensive income (loss) at December 31,	**(6,484)**	**(5,996)**

The expected future cash flows to be paid by the Group in respect of the pension plans as of December 31, 2018, were as follows:

Expected employer contributions	
2019[1]	9,882
Expected future payments to beneficiaries	
2019	4,183
2020	5,174
2021	5,255
2022	4,373
2023	2,930
Thereafter	21,008

[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 15. 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. As a result of these reviews, in 2018, the conditions for new grants under certain plans have been adjusted and new plans have been implemented as outlined further below.

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

	2018	2017
Outstanding nonvested share equivalents under SBPA		
Restricted share units granted under the RSP	263,700	-
Share options granted under the ESOP	5,033,560	4,348,130
Share options granted under the DSOP	500,000	500,000
Total outstanding nonvested share equivalents under SBPA	**5,797,260**	**4,848,130**
Thereof exercisable	500,000	-

Total compensation costs recognized in the Consolidated Financial Statements with respect to the Group's SBPA for the period ended December 31, 2018 were CHF 13.0 m (December 31, 2017: CHF 5.9 m). No gross tax benefits were recognized in the period ended December 31, 2018 as the future utilization is uncertain (December 31, 2017: none).

Restricted Stock Plan ("RSP")
During the period ended December 31, 2018, the Group for the first time granted 263,700 restricted share units 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 date.

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

	Period ended December 31, 2018
Expected term	3 years
Interest rate	-
Expected dividend yield	-

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

	2018	
	RSUs	**Weighted-average grant date fair values**
Outstanding beginning of period	**-**	**-**
Granted	263,700	25.23
Forfeited	-	-
Outstanding nonvested ending of period	**263,700**	**25.23**

The Group recorded share-based compensation expense for the RSP of CHF 1.9 m for period ended December 31, 2018 (December 31, 2017: none). As of December 31, 2018, the total unrecognized compensation cost related to non-vested RSPs was CHF 4.8 m which is expected to be recognized over a weighted average period of 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 4.3 m as of December 31, 2018.

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:

	Period ended December 31, 2018	2017
Expected term	6.25 years	6.25 years
Interest rate	0.00%	0.00%
Expected volatility	31.26% - 33.46%	31.87%
Expected dividend yield	0.00%	0.00%

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

	Period ended December 31, 2018	2017
Expected term	-	5.92 years
Interest rate	-	0.00%
Expected volatility	-	32.32%
Expected dividend yield	-	0.00%

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

	2018			2017		
	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 beginning of period	**4,348,130**	**5.74**	**17.73**	**-**	**-**	**-**
Granted	887,450	7.47	24.64	4,365,030	5.74	17.73
Forfeited	(202,020)	5.74	17.73	(16,900)	5.74	17.73
Outstanding ending of period	**5,033,560**	**6.05**	**18.95**	**4,348,130**	**5.74**	**17.73**
Exercisable ending of period	-	-	-	-	-	-

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

	2018			2017		
	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 beginning of period	**500,000**	**5.67**	**17.73**	**-**	**-**	**-**
Granted	-	-	-	500,000	5.67	17.73
Outstanding ending of period	**500,000**	**5.67**	**17.73**	**500,000**	**5.67**	**17.73**
Exercisable ending of period	500,000	5.67	17.73	-	-	-

The following is a summary of options outstanding and exercisable under the SSOP at December 31, 2018:

Range of exercise prices	Share options outstanding			Share options exercisable		
	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
17.73 - 18.58	4,146,110	8.37	17.73	500,000	7.27	17.73
18.59 – 24.24	201,370	9.47	21.92	-	-	-
24.25 – 25.45	637,210	9.17	25.41	-	-	-
25.46 – 26.10	48,870	9.25	25.78	-	-	-
Total	**5,033,560**	**8.52**	**18.95**	**500,000**	**7.27**	**17.73**

The Group recorded share-based compensation expense for the SSOP of CHF 10.6 m for the period ended December 31, 2018 (December 31, 2017: CHF 5.9 m). As of December 31, 2018, the total unrecognized compensation cost related to non-vested options was CHF 16.8 m; this is expected to be recognized over a weighted average period of 1.72 years. The aggregate intrinsic value of options outstanding at December 31, 2018 was zero. The aggregate intrinsic value of options exercisable at December 31, 2018 was zero. Zero options expired in 2018 (2017: none).

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

	2018	
	Share options	Weighted-average grant date fair values
Outstanding nonvested beginning of period	**4,848,130**	**5.73**
Granted	887,450	7.47
Forfeited	(202,020)	5.74
Vested	(500,000)	5.67
Outstanding nonvested ending of period	**5,033,560**	**6.04**

During 2018 the Group provided 24,493 newly issued shares from conditional capital with a fair value of CHF 0.5 m to members of the Board of Directors (“BoD”) as compensation. At December 31, 2018, there were 47,177,747 conditional shares 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 16. Share capital).

Note 16.
Share capital

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

(all numbers in thousands)	Shares[1] Issued	Authorized	Conditional	Total
As of March 3, 2017	**104,000**	**-**	**-**	**104,000**
Increase due to share issuance	3,330	-	-	3,300
Change in Idorsia's Articles of Association	-	53,000	53,000	106,000
Conversion of convertible loan	11,793	(11,793)	-	-
At December 31, 2017	**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**

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

Issuance of new registered shares

On June 17, 2017, the Company increased the share capital by issuing 11,793,220 additional fully paid-in registered shares with a nominal value of CHF 0.05 per share from authorized capital in connection with the conversion of the first tranche of the convertible loan.

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 Group's share capital at any time until April 24, 2020 and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or co-operation 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 with 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 17. Accumulated other comprehensive income (loss)

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

	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.

	Accumulated OCI (loss), net of tax			
	Mar 3, 2017	Changes arising during period	Attr. to non-controlling interests	Dec 31, 2017
Foreign currency translation adjustments[1]	-	6	-	6
Actuarial (gains) losses[2]	-	(5,996)	-	(5,996)
Total accumulated OCI (loss)	**-**	**(5,990)**	**-**	**(5,990)**

[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 1.2 m for which a full valuation allowance has been recorded.

Note 18. Commitments and guarantees

Commitments

The Group has entered into capital commitments of CHF 0.9 m related to the maintenance of the Group's own facilities, which are expected to be paid within the next twelve months.

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 a financial institution amounting in total to CHF 40 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 0.3 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.

Operating leases

The Group has several operating leases for its office space, R&D facilities and equipment of various kinds. The leases expire between 2019 and 2026, mostly with options to extend the initial lease period. The aggregate of the minimum annual operating lease payments is expensed on a straight-line basis over the term of the related lease. The amount by which straight-line rent expense differs from actual lease payments is recognized as either prepaid rent or deferred rent liability and is amortized over the lease term.

Future minimum payments under non-cancelable operating leases at December 31, 2018, are as follows:

Period ended December 31,	Operating leases
2019	10,566
2020	10,145
2021	8,827
2022	8,187
2023	6,858
Thereafter	27,572
Total minimum payments	**72,155**

Rent expense under operating leases was CHF 10.4 m for the period ended December 31, 2018.

As of December 31, 2018, the Group expects an impact on its financial position upon implementation of ASU 2016-02. If ASU 2016-02 had already been introduced as of December 31, 2018, the impact on the Consolidated Financial Statements would have been as follows:

	2018 reported	Adjustments	2018 restated
ASSETS			
Current assets			
Other current assets	17,890	(3,052)	14,838
Noncurrent assets			
Right of use assets for operating leases	-	57,036	57,036
LIABILITIES			
Noncurrent liabilities			
Lease liabilities for operating leases	-	53,984	53,984

The Group does not expect a material impact on its results of operations and its cash flow upon adoption of ASU 2016-02.

Note 19. Concentrations

Cash, cash equivalents and short- and long-term deposits, at December 31, 2018 were primarily invested with four financial institutions with an S&P rating of A to A+, and on December 31, 2017 with three 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 20. 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, 2018			
Contract revenue	60,618	-	**60,618**
Property, plant and equipment	146,469	4,228	**150,697**
December 31, 2017			
Contract revenue	158,085	-	**158,085**
Property, plant and equipment	156,184	554	**156,738**

Note 21.
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, 2018 the Group has a convertible loan from Cilag in the nominal amount of CHF 445 m (noncurrent liability of CHF 372 m and a remaining loan discount of CHF 72 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 13. Borrowings).

- During the period ended December 31, 2018, the Group did not draw from the credit facility it has with Cilag and did not pay any commitment fee (see Note 13. 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. During the period ended December 31, 2018, 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 the period ended December 31, 2018, the Group received services from J&J and its affiliates of CHF 18 m and provided services of CHF 13 m. As of December 31, 2018, the Group has receivables and accrued income of CHF 2 m and payables and accruals of CHF 3 m with J&J and its affiliates.

During the 12 months ended December 31, 2018 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 5 m in the period ended December 31, 2018. As of December 31, 2018, the Group has payables and accruals with Charles River Laboratories, of CHF 1 m.

During the 12 months ended December 31, 2018 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 1 m in the period ended December 31, 2018. As of December 31, 2018, the Group has no material payables and accruals with Catalent., Inc.

In 2018, the Group entered into a service contract with Owkin Inc. for the rendering of services related to research & development of USD 0.1 m. The CEO of Owkin Inc. is Thomas Clozel, son of Jean-Paul and Martine Clozel (CEO and Board Member of the Group and CSO respectively), and Jean-Paul Clozel owns 10% of the shares in Owkin Inc. As of December 31, 2018, the Group has no material payables and accruals with Owkin Inc.

During the period ended December 31, 2018, the Group did not enter into any additional material related party transactions.

Note 22.
Subsequent events

The Group has evaluated subsequent events through February 5, 2019, 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 consolidated financial statements of Idorsia Ltd (the "Group"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the related consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the period from March 3, 2017 to December 31, 2017 and the year ended December 31, 2018, and the related notes (pages 17 to 58).

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, 2018 and 2017, the consolidated results of its operations and its consolidated cash flows for the period from March 3, 2017 to December 31, 2017 and the year ended December 31, 2018, in conformity with accounting principles generally accepted in the United States and comply with Swiss law.

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, 2018, the Group's contract revenue from collaborative agreements amounted to CHF 60.6 million, of which CHF 34.4 million related to the payment of a non-refundable consideration which was recognized upfront in its entirety as the Group does not have continuous involvement in the R&D process. 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. 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.

Financing transaction

Area of focus	In the year ended December 31, 2018, the Group issued CHF 200 million of senior unsecured convertible bonds which were recognized net of issuance costs as non-current liability. Refer to notes 8 (financial assets and liabilities) and note 13 (borrowings) in the consolidated financial statements for further details. The financing transaction is considered significant to our audit due to its complexity in particular with regard to the accounting for the convertible bonds.
Our audit response	Our audit procedures included assessing the Group's accounting for the convertible bonds as well as evaluating the Group's related disclosures. Our audit procedures did not lead to any reservations concerning the initial recognition of the convertible bonds and the Group's related disclosures.

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/Robin Errico	/s/Siro Bonetti
Robin Errico Licensed audit expert (Auditor in charge)	**Siro Bonetti** Licensed audit expert

Basle, February 5, 2019

Holding Company Financial Statements

Balance sheet (1/2)

(in CHF thousands)	Notes	Dec 31, 2018	Dec 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		678,244	313,950
Short-term deposits		79,207	-
Other receivables from Group companies		2,515	7,897
Prepayments and accrued income		1,276	150
Total current assets		**761,242**	**321,997**
Noncurrent assets			
Long-term deposits		298,415	250,000
Long-term loans to Group companies (subordinated)	2	-	-
Investments in Group companies	2	267,638	259,810
Total noncurrent assets		**566,053**	**509,810**
TOTAL ASSETS		**1,327,295**	**831,807**
LIABILITIES			
Current liabilities			
Other payables to Group companies	1	159	-
Other current liabilities		1,108	129
Total current liabilities		**1,267**	**129**
Noncurrent liabilities			
Noncurrent financial debt	3	644,575	444,576
Total noncurrent liabilities		**644,575**	**444,576**
Total liabilities		**645,842**	**444,705**

Balance Sheet (2/2)

(in CHF thousands)	Notes	Dec 31, 2018	Dec 31, 2017
Shareholders' equity	4		
Common shares		6,553	5,956
Legal reserves:			
Legal capital contribution reserve		694,731	394,468
Other legal reserves		4,337	-
Legal retained earnings:			
Accumulated profit (loss)		(24,168)	(13,322)
Total shareholders' equity		**681,453**	**387,102**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,327,295**	**831,807**

Income Statement

(in CHF thousands)	Notes	Period ended December 31, 2018	2017
Financial income		7,140	196
Total income		**7,140**	**196**
Financial (expense)		(8,953)	(1,225)
Valuation adjustment on loans to Group companies	2	(243)	(10,356)
Administrative (expense)		(8,790)	(1,937)
Total (expense)		**(17,986)**	**(13,518)**
Income (loss) before taxes		**(10,846)**	**(13,322)**
Income tax benefit (expense)		-	-
Net income (loss)		**(10,846)**	**(13,322)**

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 the 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.

Certain prior period amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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, net unrealized losses are recognized in financial expense.

Investments in Group companies

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

Demerger of Idorsia Ltd

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").

All amounts relating to the reporting period from March 3, 2017 to December 31, 2017 represent mostly the activity since the Demerger on June 15, 2017.

Note 2.
Investments in group companies

The following table shows all direct and the material indirect investments of the Company as of December 31, 2018 and 2017:

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, Patents
Idorsia (Shanghai) Pharmaceuticals Co., Ltd	China	100%	direct	RMB 1,000,000	R&D
Idorsia Pharmaceuticals Japan Ltd[1]	Japan	100%	direct	JPY 95,000,000	R&D
Vaxxilon Ltd	Switzerland	74%	direct	CHF 100,000	R&D

[1]Incorporated in 2018

Vaxxilon Ltd was overindebted as of December 31, 2018. Subordinated loans of CHF 22 m to this Group company are fully provided for.

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 17, 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, 2018 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, 2018) 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, 2018 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 that is subject to customary anti-dilution provisions and dividend protection. Interest is payable annually in arrears.

The bonds have a term of six years and mature 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 VWAP 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 principle amount of the bonds are 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 share capital of the Company:

(all numbers in thousands)	Shares[1] Issued	Authorized	Conditional	Total
As of March 3, 2017	**104,000**	**-**	**-**	**104,000**
Issuance of new registered shares	3,330	-	-	3,300
Change in Idorsia's Articles of Association	-	53,000	53,000	106,000
Conversion of convertible loan	11,793	(11,793)	-	-
At December 31, 2017	**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**

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

Share capital

Idorsia Ltd was incorporated on March 3, 2017 under the laws of Switzerland by issuing 104,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share.

Prior to the demerger distribution on June 15, 2017, where every Actelion shareholder received one Idorsia share for one Actelion share, the Company increased the share capital by issuing 3,330,210 additional fully paid-in registered shares with a nominal value of CHF 0.05 per share in order to have exactly the same number of outstanding shares as Actelion (107,330,210 shares).

Issuance of new registered shares

On June 17, 2017, the Company increased the share capital by issuing 11,793,220 additional fully paid-in registered shares with a nominal value of CHF 0.05 per share from authorized capital in connection with the conversion of the first tranche of the convertible loan.

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 April 24, 2020 and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or co-operation 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 with 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:

	2018				2017			
	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%	>20%	-
Cilag Holding AG[2]	>5%	>5%	>30%	-	>5%	>5%	>30%	>20%
Rudolf Maag[1]	>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 Article 663c of SCO. Only members of the IEC are members of the management within the relevant 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	
Name	Functions	**2018**	**2017**	**2018**	**2017**
Jean-Pierre Garnier	Chairman Member of the Nominating, Governance & Compensation Committee	29,972	21,225	200,000	200,000
Robert Bertolini	Chairman of the Finance & Audit Committee	19,221	15,097	75,000	75,000
John J. Greisch	Chairman of the Nominating, Governance & Compensation Committee	10,242	6,118	75,000	75,000
David Stout	Member of the Finance & Audit Committee Member of the Nominating, Governance & Compensation Committee	5,126	1,377	75,000	75,000
Viviane Monges	Member of the Finance & Audit Committee Member of the Nominating, Governance & Compensation Committee (since 24 April 2018)	3,749	N/A	-	N/A
Herna Verhagen	Member (until 24 April 2018)	N/A	1,279	N/A	75,000
Jean-Paul Clozel	CEO and Delegate of the Board	See table "Investments and options held by the members of the IEC"			
Total		**68,310**	**45,096**	**425,000**	**500,000**

Contents navigation

Contents

Finance in Brief

Financial Review

Consolidated Financial Statements

> **Holding Company Financial Statements**

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:

		Number of shares		Number of options[1]	
Name	Functions	**2018**	**2017**	**2018**	**2017**
Jean-Paul Clozel	Chief Executive Officer	27,472,813	24,975,307	446,860	250,000
Guy Braunstein	Head of Global Clinical Development	162,437	162,437	251,870	160,000
Martine Clozel	Chief Scientific Officer	9,795,691	8,905,182	232,180	160,000
André C. Muller	Chief Financial Officer	52,461	52,461	251,870	160,000
Simon Jose	Chief Commercial Officer (since 1 December 2018)	-	N/A	64,110	N/A
Total		**37,483,402**	**34,095,387**	**1,246,890**	**730,000**

[1]The Company has an employee share option plan ("ESOP"). Note 15. Share-based compensation in 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, 2018, Jean-Paul Clozel held 1,231,222 conversion rights and Martine Clozel held 441,826 conversion rights from the convertible bonds. Note 13. Borrowings in 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 40 m.

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

To date the Company was not 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)

	2018	2017
Accumulated profit (loss) at beginning of period	**(13,322)**	**-**
Net income (loss) for the period	(10,846)	(13,322)
Balance to be carried forward	**(24,168)**	**(13,322)**

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 63 to 74), for the year ended December 31, 2018.

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 about 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, 2018 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 responsibilities section of our report, including in relation to the matter. 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 financial statements.

Valuation of investments in Group companies

Area of focus	As at December 31, 2018, the investment in affiliated companies of Idorsia Ltd amounts to CHF 267.6 million. The investments in Group companies 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 note 1 (Summary of significant accounting policies) in the holding company financial statements for further details. The investments in 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 investments in group companies' impairment testing methodology 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.

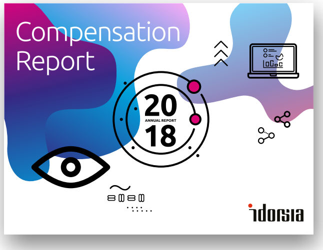
Ernst & Young Ltd

/s/Robin Errico	/s/Siro Bonetti
Robin Errico Licensed audit expert (Auditor in charge)	**Siro Bonetti** Licensed audit expert

Basle, February 5, 2019

Be prepared for more

Further parts of the Idorsia Annual Report 2018



Concept and design: Markenfels AG

Contents navigation

Curious to learn more?
Reach out to us.

Investor Relations
Idorsia Pharmaceuticals Ltd
Hegenheimermattweg 91
4123 Allschwil
Switzerland

Phone +41 58 844 10 10
investor.relations@idorsia.com

www.idorsia.com