Financial Report

2017
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.

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Finance in Brief

Idorsia is off to a good start

Idorsia was legally incorporated on March 3, 2017 but became fully operational on June 15, 2017 when it was demerged from Actelion Ltd ("Actelion") as part of the transaction ("Transaction") by Johnson & Johnson ("J&J") to acquire all publicly held registered shares of Actelion: Idorsia shares were distributed to Actelion shareholders and concomitantly listed on the SIX Swiss exchange (ticker: IDIA).

Further information on the demerger process is available on the Idorsia website at: https://www.idorsia.com/investors/financial-information/financial-archive

Idorsia commenced operations with a rich clinical development pipeline comprising 10 assets in Phase 1 and 2, an established drug discovery engine, state-of-the-art facilities, almost 650 employees, a cash balance of CHF 1 billion and a CHF 243 m credit facility provided by an affiliate of J&J.

Idorsia achieved key milestones in clinical development

Idorsia announced key results for some clinical compounds.

Janssen Biotech Inc. ("Janssen") exercised its option to enter into a collaboration agreement on aprocitentan (ACT-132577), an orally active dual endothelin receptor antagonist. Idorsia received a USD 230 m one-time milestone payment which was recognized as contract revenue of CHF 158 m in the fourth quarter of 2017; the remaining CHF 69 m is expected to be recognized over the next 39 months. For further information regarding this collaboration please see Note 5 in the Consolidated Financial Statements.

All clinical assets advanced, with four compounds moving to Phase 3 during 2018, with aprocitentan in the management of resistant hypertension, Lucerastat in Fabry disease, Clazosentan in vasospasm associated with aneurysmal subarachnoid hemorrhage and ACT-541468 in insomnia.

For further information please refer to the Business Report.

Idorsia achieved key milestones in preclinical development

On December 20, 2017 Idorsia announced that it has entered into a research collaboration with Roche providing Roche with an exclusive option to develop and market first-in-class compounds for a promising new approach the field of cancer immunotherapy and other potential indications.

Roche will pay an upfront milestone payment of CHF 15 m which is expected to be recognized as contract revenue over the next three years unless a clinical candidate is selected by Roche before the end of the planned term of this collaboration which would then trigger accelerated recognition of the milestone.

For further information regarding this collaboration please see Note 5 in the Consolidated Financial Statements.

Idorsia made significant progress towards operational independence

At demerger, Idorsia and Actelion entered into a series of transitional and long-term service agreements, mainly relating to the facilities in Allschwil and IT systems, to ensure uninterrupted operations.

Idorsia is on track to exit all transitional services by the end of 2018 as planned. Long-term service agreements will last until mid-2020, unless renewed by both parties.

Idorsia's strong investor base should allow the Group to deliver on its strategy

Cilag Holding AG ("Cilag"), an affiliate of J&J, owned 9.9% of Idorsia's share capital at year-end 2017, following the conversion of the first tranche (CHF 135 m) of a convertible loan of CHF 580 m. The remaining portion (CHF 445 m) allows Cilag to increase its equity stake in Idorsia up to 32%, subject to certain conditions.
For further information please see Note 14 in the Consolidated Financial Statements.

Jean-Paul and Martine Clozel significantly increased their equity stake in Idorsia just after the IPO, jointly owning 28.4% of Idorsia's share capital at year-end 2017.

Idorsia 2017 – Operating performance

All amounts relating to the full-year 2017 represent 6 ½ months of activity since the demerger on June 15, 2017.

Idorsia almost reached break-even thanks to the recognition of CHF 158 m of the one-time USD 230 m milestone received from Janssen as contract revenue in connection with the collaboration agreement on aprocitentan. No contract revenue was recognized in 2017 relating to the one-time CHF 15 m milestone for the research collaboration with Roche in the field of cancer immunotherapy.

US GAAP operating expenses amounted to CHF 166 m including non-GAAP operating expenses of CHF 150 m, depreciation and amortization of CHF 10 m and stock-based compensation of CHF 6 m relating to the initial grant of 4.9 million share options to all employees and members of the Board of Directors of Idorsia.

Non-GAAP operating expenses of CHF 150 m were below the guidance of CHF 160/170 m mainly due to delayed phasing of some clinical trials, with Research & Development expenditure of CHF 123 m and G&A of CHF 27 m.

US GAAP operating loss was CHF 8 m.

Non-GAAP operating income amounted to CHF 8 m.

US GAAP net loss was CHF 14 m.

Idorsia 2017 – Liquidity

Idorsia started with CHF 1 billion in cash at the demerger with CHF 420 m from the spin-off from Actelion and CHF 580 m from the convertible loan provided by Cilag.

Idorsia closed 2017 with CHF 1.091 billion of liquidity, consisting of cash (CHF 622 m) and deposits (CHF 469 m).

The CHF 91 m increase in liquidity was mainly driven by the upfront milestone of CHF 227 m received from Janssen and operating expenses of CHF 150 m.

Idorsia can use a credit facility of CHF 243 m committed by Cilag under certain conditions (see Note 14 in the Consolidated Financial Statements). Idorsia did not use this credit facility in 2017, due to its strong cash position.

Idorsia 2017 – Indebtedness

Idorsia's indebtedness of CHF 365 m corresponds to the remaining carrying amount of the convertible loan underwritten by Cilag.
For further information please see Note 14 in the Consolidated Financial Statements.

Idorsia 2017 – Share count

Idorsia's issued share capital at year-end consisted of 119.1 million shares corresponding to 107.4 million shares at demerger and 11.7 million shares following the conversion by Cilag of the first tranche of the convertible loan. The share count for US GAAP basic EPS calculation is based on the weighted-average share count since incorporation of Idorsia. Potential dilutive instruments at year-end consisted of 38.7 million shares in connection with the remaining convertible loan issued to Cilag and 4.8 million share-options granted to all employees and Board members of Idorsia. Hence, potential issued shares total 162.6 million. No dilutive shares were considered for the US GAAP diluted EPS calculation due to the net loss incurred in 2017.

Idorsia 2017 – TSR

Idorsia's Total Shareholder Return for the 6 ½ months since IPO was 255%, taking into account the first listing price of CHF 10.00 on June 16, 2017 and the closing price of CHF 25.45 at year-end.

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.

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, 2017 US GAAP	Period ended Dec 31, 2017 Non-GAAP	Fourth quarter 2017 US GAAP	Fourth quarter 2017 Non-GAAP
Net revenue				
Product sales	-	-	-	-
Contract revenue - royalties	-	-	-	-
Contract revenue - milestones	158	158	158	158
Contract revenue - others	-	-	-	-
Operating expenses				
Research and development	(135)	(123)	(71)	(65)
General and administration	(31)	(27)	(16)	(14)
Net results				
Operating income (loss)	(8)	8	71	79
Net income (loss)	(14)	5	68	77
Basic EPS	(0.13)	0.04	0.57	0.65
Diluted EPS	(0.13)	0.03	0.43	0.49

Cash flow

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Cash flow		
Operating cash flow	95	146
Capital expenditure	(8)	(7)
Free cash flow	88	139

Shares

(in millions)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Share count			
Issued common shares	119.1	119.1	119.1
Equity derivatives	38.7	38.7	38.7
Equity instruments	4.8	4.9	-
Total potential issued shares	**162.6**	**162.7**	**157.8**

Liquidity and indebtedness

(in CHF millions)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Liquidity			
Cash and cash equivalents	622	552	607
Short-term deposits	218	150	150
Long-term deposits	250	250	250
Total Liquidity	**1,091**	**952**	**1,007**
Indebtedness			
Convertible loan	365	363	361
Other financial debt	-	-	-
Total indebtedness	**365**	**363**	**361**

Revenue

Revenue

Revenue of CHF 158 m consisted of contract revenue in connection with the USD 230 m milestone received after Janssen exercised its option to enter into a collaboration agreement on aprocitentan.

No contract revenue was recorded regarding the CHF 15 m milestone relating to the research collaboration with Roche.

Operating expenses

Operating expenses

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Operating expenses		
Non-GAAP research	75	41
Non-GAAP development	48	24
Non-GAAP general and administrative	27	14
Non-GAAP milestones paid	-	-
Non-GAAP operating expenses	**150**	**79**
Depreciation and amortization	10	5
Stock-based compensation	6	3
Other	-	-
Other operating expenses	**16**	**8**
US GAAP operating expenses	**166**	**87**

US GAAP operating expenses of CHF 166 m included non-GAAP operating expenses of CHF 150 m, depreciation and amortization of CHF 10 m, and stock-based compensation of CHF 6 m relating to the initial grant of 4.9 million share options to all employees and members of the Board of Directors.

Research and development ("R&D") expenses

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
R&D expenses		
Research	75	41
Development	48	24
Milestones paid	-	-
Non-GAAP R&D expenses	**123**	**65**
Depreciation and amortization	9	4
Stock-based compensation	3	2
Other	-	-
US GAAP R&D expenses	**135**	**71**

Research expenses amounted to CHF 75 m for biology, chemistry and preclinical activities.

Development expenses amounted to CHF 48 m, for activities including clinical and CMC (chemistry, manufacturing and controls) mainly driven by four compounds which should enter Phase 3 in the coming months.

General and administrative ("G&A") expenses

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

Operating results

Non-GAAP and US GAAP operating results

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Non-GAAP operating results		
Contract revenues	158	158
Operating expenses	(150)	(79)
Non-GAAP operating income (loss)	**8**	**79**
US GAAP operating results		
Contract revenues	158	158
Operating expenses	(166)	(87)
US GAAP operating income (loss)	**(8)**	**71**

The CHF 16 m difference between the non-GAAP operating income of CHF 8 m and the US GAAP operating loss of CHF 8 m was mainly due to depreciation and amortization (CHF 10 m) and stock-based compensation (CHF 6 m).

Financial results

Financial results

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Financial results		
Interest income (expense), net	(2)	(1)
Other financial income (expense), net	(1)	(1)
Non-GAAP financial income (expense)	**(3)**	**(1)**
Accretion expense	(4)	(2)
US GAAP financial income (expense)	**(7)**	**(3)**

Non-GAAP financial expense was mainly driven by interest of CHF 2 m for negative interest charges on cash and cash deposits.

Other non-cash financial expenses related to the accretion of the convertible loan discount of CHF 4 m.

Income tax

Income tax

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

US GAAP income tax amounted to CHF 0.2 m. The Group recorded a valuation allowance against the deferred tax asset arising from the operating losses which can be carried forward and utilized in the coming 7 years.

Net results, EPS and shares

Net results

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Non-GAAP operating income (loss)	**8**	**79**
Financial income (expense)	(3)	(1)
Income tax benefit (expense)	(0)	(0)
Non-GAAP net income (loss)	**5**	**77**
US GAAP operating income (loss)	**(8)**	**71**
Financial income (expense)	(7)	(3)
Income tax benefit (expense)	(0)	(0)
US GAAP net income (loss)	**(15)**	**67**
Net loss attributable to non controlling interests	1	0
US GAAP net income (loss) attributable to Idorsia's shareholders	**(14)**	**68**

The CHF 20 m difference between the non-GAAP net income of CHF 5 m and the US GAAP net loss of CHF 15 m was mainly due to depreciation and amortization (CHF 10 m), stock-based compensation (CHF 6 m) and the financial accretion expense relating to the convertible loan (CHF 4 m).

Earnings per share (EPS)

	Period ended Dec 31, 2017		Fourth quarter 2017	
(in CHF millions, unless otherwise indicated)	US GAAP	Non-GAAP	US GAAP	Non-GAAP
Net income (loss)	(14)	5	68	77
Weighted average number of basic shares (in millions)	114.0	114.0	119.1	119.1
Basic EPS (in CHF)	**(0.13)**	**0.04**	**0.57**	**0.65**
Weighted average number of dilutive shares (in millions)	114.0	139.5	157.9	157.9
Diluted EPS (in CHF)	**(0.13)**	**0.03**	**0.43**	**0.49**

The weighting of the shares in the EPS calculation is based on the period starting from the incorporation of Idorsia, March 3, 2017. For the full year, no shares were considered dilutive due to the US GAAP net loss. For the fourth quarter, 38 million shares were considered dilutive due to the profit in the quarter.

Shares

(in millions)	Issued	Equity derivatives	ESOP	Total
Outstanding dilutive shares Mar 3, 2017	104.0	-	-	104.0
Demerger - share issuance[1]	3.3	-	-	3.3
Convertible loan - issuance	-	50.5	-	50.5
Convertible loan - conversion first tranche	11.8	(11.8)	-	-
Outstanding dilutive shares Jun 30, 2017	119.1	38.7	-	157.8
Equity instruments - issuance	-	-	4.9	4.9
Outstanding dilutive shares Sep 30, 2017	119.1	38.7	4.9	162.7
Equity instruments - forfeitures	-	-	(0.0)	(0.0)
Outstanding dilutive shares Dec 31, 2017	**119.1**	**38.7**	**4.8**	**162.6**

[1] Prior to the demerger on June 15, 2017, and subsequent distribution, where every Actelion shareholder received one Idorsia share for one Actelion share, Idorsia created 3,330,210 additional shares in order to have exactly the same number of outstanding shares as Actelion (107,330,210 shares)

On July 1, 2017 Idorsia granted 4.9 million share options to all employees and Board members at an exercise price of CHF 17.73 with a vesting period of three years for employees and the term of the mandate for Board members.

Cash flow and cash position

Operating cash flow

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Operating cash flow		
US GAAP net income (loss)	(15)	67
Deferred revenue	69	69
Depreciation and amortization	10	5
Accretion of convertible loan discount	4	2
Stock-based compensation	6	3
Funds from operations	**74**	**146**
Net change in receivables	(5)	(3)
Net change in trade and other payables	21	14
Net change in other operating assets and liabilities	5	(12)
Decrease (increase) in net working capital	**22**	**(1)**
Decrease (increase) in deferred taxes	**0**	**0**
Operating cash flow	**95**	**146**

Free cash flow

(in CHF millions)	Period ended Dec 31, 2017	Fourth quarter 2017
Free cash flow		
Operating cash flow	95	146
Acquisition of tangible, intangible and other assets	(8)	(7)
Operating free cash flow	**88**	**139**

Balance sheet

Balance sheet

(in CHF millions)	Dec 31, 2017	Sep 30, 2017	Jun 30, 2017
Assets			
Liquidity[1]	1,091	952	1,007
Tangible assets	157	155	159
Other assets	44	29	27
Total assets	**1,292**	**1,135**	**1,193**
Liabilities and equity			
Financial debt	365	363	361
Deferred revenue	69	-	-
Other liabilities	119	98	88
Total liabilities	**552**	**460**	**449**
Total equity	**740**	**675**	**743**
Total liabilities and equity	**1,292**	**1,135**	**1,193**

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

Tangible assets of CHF 157 m mainly included the building and R&D equipment.

Other assets of CHF 44 m comprised receivables of CHF 23 m (including CHF 20 m from Actelion in connection with the demerger), prepayments of CHF 17 m and non-current assets of CHF 4 m.

Financial debt of CHF 365 m related to the debt component of the outstanding CHF 445 m convertible loan.

Other liabilities of CHF 119 m included current and non-current liabilities of CHF 72 m and CHF 47 m respectively. Current liabilities mainly comprised accrued expenses of CHF 47 m (CHF 26 m personnel related and CHF 22 m operational) and payables of CHF 25 m (CHF 20 m to Actelion in connection with the demerger and CHF 4 m other payables). Non-current liabilities mainly comprised pension obligations of CHF 22 m, a subordinated liability (Vaxxilon) of CHF 13 m, deferred tax liabilities of CHF 7 m and other non-current 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, 2017

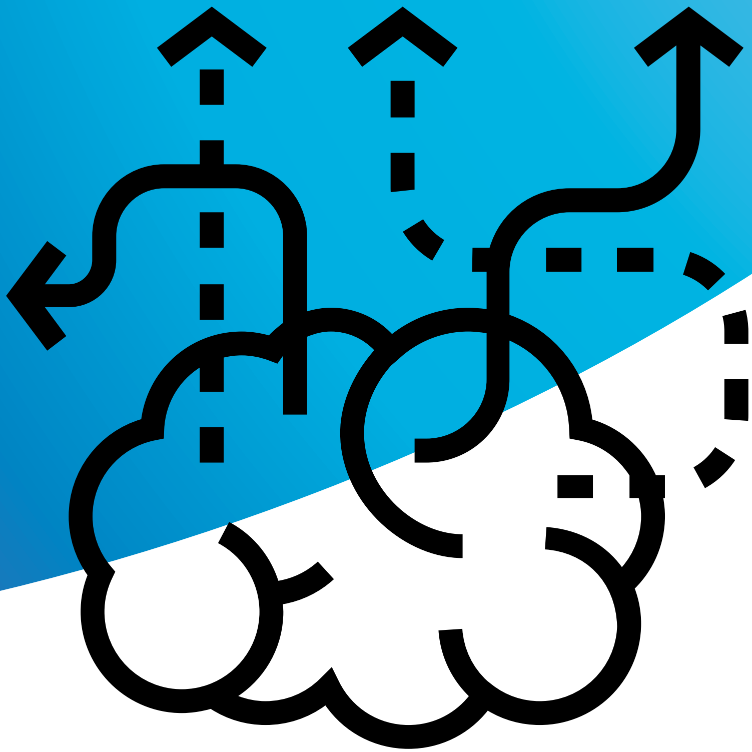
(in CHF millions, except per share amounts and EPS)	**US GAAP results**	Depreciation, amortization, impairment	Stock-based compensation	Other items	**Non-GAAP results**
Net revenue					
Product sales	-	-	-	-	-
Contract revenue - royalties	-	-	-	-	-
Contract revenue - milestones	158	-	-	-	158
Contract revenue - others	-	-	-	-	-
Total net revenue	**158**	-	-	-	**158**
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(135)	9	3	-	(123)
General and administrative	(31)	1	3	-	(27)
Amortization of intangible assets	(0)	0	-	-	-
Total operating expenses	(166)	10	6	-	(150)
Operating results	**(8)**	10	6	-	**8**
Total financial income (expense)	(7)	-	-	4	(3)
Income before income tax benefit (expense)	(15)	10	6	4	5
Income tax benefit (expense)	(0)	(0)	0	(0)	(0)
Noncontrolling interest	1	-	-	(1)	-
Net income (loss)	**(14)**	10	6	3	**5**
Basic net income (loss) per share (CHF)	**(0.13)**	0.09	0.06	0.02	**0.04**
Weighted-average number of shares (millions)	114.0	-	-	-	114.0
Diluted net income (loss) per share (CHF)	**(0.13)**	0.08	0.06	0.02	**0.03**
Weighted-average number of shares (millions)	114.0	-	-	-	139.5

Reconciliation of US GAAP to non-GAAP results for the fourth quarter 2017

(in CHF millions, except per share amounts and EPS)	**US GAAP results**	Depreciation, amortization, impairment	Stock-based compensation	Other items	**Non-GAAP results**
Net revenue					
Product sales	-	-	-	-	-
Contract revenue - royalties	-	-	-	-	-
Contract revenue - milestones	158	-	-	-	158
Contract revenue - others	-	-	-	-	-
Total net revenue	**158**	-	-	-	**158**
Operating expenses					
Cost of sales	-	-	-	-	-
Research and development	(71)	4	2	-	(65)
General and administrative	(16)	0	1	-	(14)
Amortization of intangible assets	(0)	0	-	-	-
Total operating expenses	(87)	5	3	-	(79)
Operating results	**71**	5	3	-	**79**
Total financial income (expense)	(3)	-	-	2	(1)
Income before income tax benefit (expense)	68	5	3	2	78
Income tax benefit (expense)	(0)	(0)	0	(0)	(0)
Noncontrolling interest	0	-	-	(0)	-
Net income (loss)	**68**	5	3	1	**77**
Basic net income (loss) per share (CHF)	**0.57**	0.04	0.03	0.01	**0.65**
Weighted-average number of shares (millions)	119.1	-	-	-	119.1
Diluted net income (loss) per share (CHF)	**0.43**	0.03	0.02	0.01	**0.49**
Weighted-average number of shares (millions)	157.9	-	-	-	157.9

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, 2017
Net revenue		
Product sales		-
Contract revenue	5	158,085
Total net revenue		**158,085**
Operating (expenses)		
Research and development		(134,911)
General and administrative		(30,951)
Amortization of intangible assets	11	(107)
Total operating (expenses)		**(165,969)**
Operating income (loss)		**(7,885)**
Interest income (expense), net		(1,867)
Accretion of convertible loan discount	14	(4,119)
Other financial income (expense), net		(1,228)
Total financial income (expense)		**(7,214)**
Income (loss) before income tax benefit (expense)		**(15,098)**
Income tax benefit (expense)	6	(185)
Net income (loss)		**(15,284)**
Less: Net loss attributable to the noncontrolling interests	3	1,015
Net income (loss) attributable to Idorsia's shareholders		**(14,269)**
Basic net income (loss) per share attributable to Idorsia's shareholders	7	**(0.13)**
Weighted-average number of common shares (in thousands)		114,003
Diluted net income per share attributable to Idorsia's shareholders	7	**(0.13)**
Weighted-average number of common shares (in thousands)		114,003

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

Consolidated statement of comprehensive income

(in CHF thousands)	Period ended December 31, 2017
Net income (loss)	**(15,284)**
Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	6
Change of unrecognized components of net periodic benefit costs	(5,996)
Other comprehensive income (loss), net of tax	**(5,990)**
Comprehensive income (loss)	**(21,274)**
Less: Comprehensive loss attributable to noncontrolling interests	1,015
Comprehensive income (loss) attributable to Idorsia's shareholders	**(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	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	8/9	622,452
Short-term deposits	9	218,302
Receivables from related parties	22	20,198
Other current assets	10	20,347
Total current assets		**881,299**
Noncurrent assets		
Long-term deposits	9	250,000
Property, plant and equipment, net	12	156,738
Intangible assets, net	11	1,815
Other noncurrent assets		2,025
Total noncurrent assets		**410,578**
TOTAL ASSETS		**1,291,877**
LIABILITIES		
Current liabilities		
Trade and other payables		4,252
Payables to related parties	22	20,465
Deferred revenue	5	21,232
Accrued expenses	13	47,253
Total current liabilities		**93,202**
Noncurrent liabilities		
Convertible loan	14	364,683
Deferred revenue	5	47,772
Pension liability	15	21,770
Deferred tax liability	6	7,329
Other noncurrent liabilities		17,615
Total noncurrent liabilities		**459,168**
Total liabilities		**552,371**

Consolidated Balance Sheet (2/2)

(in CHF thousands, except number of shares)	Notes	December 31, 2017
EQUITY		
Idorsia's shareholders' equity		
Common shares (par value CHF 0.05 per share, issued and outstanding 119,123,430; authorized 213,330,210)	17	5,956
Additional paid in capital		759,747
Accumulated profit (loss)		(14,269)
Accumulated other comprehensive income (loss)	18	(5,990)
Total Idorsia's shareholders' equity		**745,444**
Equity attributable to noncontrolling interests	3	(5,937)
Total equity		**739,506**
TOTAL LIABILITIES AND EQUITY		**1,291,877**

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

Consolidated Statement of Cash Flows

(in CHF thousands)	Period ended December 31, 2017
Cash flow from operating activities	
Net income (loss)	(15,284)
Adjustments to reconcile net income to net cash provided from operating activities:	
Depreciation and amortization	10,053
Stock-based compensation	5,861
Accretion of convertible loan	4,119
Deferred revenue	69,004
Deferred taxes	4
Changes in operating assets and liabilities:	
Other receivables	(5,029)
Trade and other payables	21,283
Accrued expenses	29,138
Changes in other operating cash flow items	(23,654)
Net cash flow provided by (used in) operating activities	**95,495**
Cash flow from investing activities	
Purchase of short-term deposits	(218,302)
Purchase of long-term deposits	(250,000)
Purchase of property, plant and equipment	(7,371)
Purchase of intangible assets	(285)
Net cash flow provided by (used in) investing activities	**(475,957)**
Cash flow from financing activities	
Issuance of new shares	5,367
Proceeds from demerger	418,873
Proceeds from issuance of convertible loan, net of costs	578,644
Net cash flow provided by (used in) financing activities	**1,002,884**
Net effect of exchange rates on cash and cash equivalents	31
Net change in cash and cash equivalents	**622,452**
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	**622,452**

Supplemental disclosures of cash flow information	
Cash paid during the year for:	
Interest	(1,858)
Tax	(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)**
Increase due to share issuance	3,330,210	166					166
Conversion of convertible loan to common shares[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
Stock-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**

[1]Conversion of convertible loan of nominal CHF 135 m minus CHF 1 m stamp tax

[2]Instrinsic value of CHF 84 m less a deferred tax liability of CHF 7 m

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

Notes to the Consolidated Financial Statements

(CHF thousands, except share and per share amounts)

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

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

Basis of presentation

The Group's consolidated financial statements 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. Rounding differences may occur.

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 year are included in the consolidated financial statements from the date of acquisition or until the date of disposal. The acquisition method of accounting follows the guidance codified in the *Business Combinations* Topic of the FASB ASC ("ASC 805"). Intercompany transactions and balances are eliminated.

The Group elected to early adopt the requirements of ASU 2017-01, *Clarifying the Definition of a Business.*

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 and accompanying notes. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition for contract revenue, stock-based compensation, clinical trial accruals, provisions, loss contingencies and income taxes. The Group bases its estimates on historical experience from its predecessor and on various market-specific and other relevant assumptions that are believed to be reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ significantly from these estimates.

Revenue from contracts with customers (Product sales)

The Group elected to early adopt the requirements of ASC 606 *Revenue from Contracts with Customers*. Together with ASC 606 *Revenue from Contracts with Customers*, the Group elected to early adopt ASU 2017-05, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) - Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.*

General

Revenues are 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 identifyable 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 5. 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.

Stock-based compensation

Stock-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 Group elected to early adopt the requirements of ASU 2017-09, *Scope of Modification Accounting*. ASU 2017-09 changes the requirements on when to apply modification accounting to a stock-based compensation award.

The grant date fair value of awards 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 award is the remaining time from the grant date until awards are expected to be received and, if necessary, exercised by participants. For option awards, where participants are able to exercise in a set period after vesting, the most relevant historical share option exercise experience from the Group's predecessor is used. The risk-free rate used in the model is based on the rate of interest obtainable from Swiss government bonds over a period commensurate with the expected term of the award. 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 awards granted. The Group recognizes stock-based compensation costs considering actual forfeitures.

Compensation costs for the SSOP are recognized on a straight-line basis over the requisite service period for the entire award. Stock 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 stock-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. Significant estimates are required in determining income tax expense and benefits. Various internal and external factors may have favorable or unfavorable effects on the future effective tax rate, which would directly impact the Group's financial position or results of operations. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of capital expenditures, and changes in overall levels of pre-tax earnings. Interest and penalties related to uncertain tax positions are recognized as income tax expense.

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.

The Group elected to early adopt the requirements of ASU 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory*.

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 fiscal year. Diluted EPS reflect the potential dilution that could occur if dilutive securities, such as share options or the convertible loan, 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 7. 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 to be cash equivalents.

The Group elected to early adopt the requirements of ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*.

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.

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 loan

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"). The convertible loan is 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. Debt issuance costs are allocated to the liability and the equity component in proportion to the allocation of the proceeds between the liability and equity. Debt issuance costs are amortized over the life of the debt instrument and presented as a reduction from the carrying amount of the convertible loan in the consolidated balance sheet.

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 for such pension plans, represented by the net periodic benefit cost, is included in the personnel expenses of the various functions where the employees are engaged. The other components of net benefit cost are included in the income statement separately from the service cost component in "Other financial income (expense), net". Plan assets are recorded at their fair value. Unvested prior service costs arising from retroactive amendments to pension plans are originally reflected in "Accumulated other comprehensive income (loss)" ("AOCI") and distributed to income over the employees' remaining service period. Vested prior service costs including those related to retirees are immediately recognized in the consolidated income statement. Gains or losses arising from plan curtailments or settlements are accounted for at the time they occur. Any net pension asset is limited to the present value of the future economic benefits available to the Group in the form of refunds from the plan or expected reductions in future contributions to the plan. In interim periods, a net pension asset reflects the Group's prepayments of annual employee and employer plan contributions. Actuarial gains and losses arising from differences between the actual and the expected return on plan assets are recognized in AOCI and amortized over the requisite service period (see Note 15. Pension plans) by applying the corridor approach.

The Group elected to early adopt the requirements of ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires an employer to report the service cost component 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 must be 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 securities, currency translation adjustments, actuarial gains (losses) and prior service costs resulting from retroactive amendments of defined benefit plans. The components of comprehensive income (loss) are shown net of related taxes where the underlying assets or liabilities are held in jurisdictions that are expected to generate a future tax benefit or liability (see Note 18. Accumulated other comprehensive income (loss)).

Foreign currencies

The Group follows the guidance included in 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 long-term internal financial debt 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 23. Subsequent events).

Recent accounting pronouncements

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 an 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. The Group is currently evaluating the expected impact on its financial position, results of operations and cash flows upon adoption.

ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"), an update to the *Financial Instruments* Topic of FASB ASC ("ASC 825"). ASU 2016-01 requires equity investments to be measured at fair value, with changes in fair value recognized in net income, and simplifies the impairment assessment of equity investments without readily determinable fair values. The guidance also amends certain presentation and disclosure requirements for financial assets and liabilities. ASU 2016-01 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. ASU 2016-01 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments need to be applied with a cumulative catch-up adjustment to the balance sheet as of the beginning of the period of adoption. The Group does not expect a material impact on its financial position, results of operations or cash flows upon adoption.

Note 2. Demerger

Description of the demerger
On January 26, 2017 Johnson & Johnson ("J&J") preannounced its offer to acquire all publicly held registered shares of Actelion Ltd ("Actelion") at a cash price of USD 280 per Actelion share (the "Transaction"). The Transaction became unconditional on June 9, 2017 when J&J announced that all regulatory approvals required to complete the Transaction have been received and settled on June 16, 2017. As part of the Transaction, Actelion spun-off its drug discovery operations and early-stage clinical development assets into Idorsia on June 15, 2017 (the "Demerger"), and Idorsia shares were distributed to Actelion's shareholders as a dividend in kind and listed on the SIX Swiss Exchange on June 16, 2017.

All amounts relating to the full-year 2017 represent 6 ½ months of activity since the Demerger on June 15, 2017.

Financing
The Demerger agreement provided that, on the date of completion of the R&D business transfer, Idorsia would have cash and cash equivalents in the amount of approximately CHF 1,000 m, comprising CHF 420 m in cash from the Demerger and CHF 580 m in funding through a convertible loan from Cilag Holding AG ("Cilag"), a subsidiary of J&J (See Note 14. Borrowings and Note 22. Related party transactions).

Cilag also provided Idorsia with a credit facility of CHF 243 m (See Note 14. Borrowings).

Service Agreements
Actelion Pharmaceuticals Ltd and Idorsia Pharmaceuticals Ltd have entered into transitional and long-term service agreements with each party providing various services to the other after the Demerger mainly relating to clinical development, drug discovery, IT and facilities. The transitional service agreements have a maximum

duration of 18 months while the long-term services are to be provided in most cases until the end of 2020 and in some cases for a longer period.

The following assets and liabilities were transferred to Idorsia in connection with the Demerger:

(in CHF thousands)	Balance sheet at demerger date
	June 15, 2017
Assets	
Cash from common share issuance	5,366
Cash at inception from demerger	414,634
Cash at Vaxxilon	4,102
Receivables	18,104
Prepaid assets	3,393
Tangible fixed assets	159,886
Other long-term assets	96
Total assets	**605,581**
Liabilities	
Accounts payable	(3,388)
Accrued expenses	(18,387)
Pension liability	(23,881)
Deferred tax liability	(863)
Other non-current liabilities	(15,733)
Total liabilities	**(62,252)**
Noncontrolling interest	4,922
Common shares at demerger	**(5,366)**
Total equity from demerger	**542,885**

Note 3. 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 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 orginazation of MPS. Further details of the collaboration between Vaxxilon and MPI are provided in Note 4. Licensing agreements. As part of the Transaction, MPI ensures continued access to licensed intellectual property ("IP") rights for multiple preclinical vaccine candidates and additional technologies.

As of December 31, 2017, CHF 5.9 m net assets and CHF 1.0 m primarily R&D expenses 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 noncontrolling interests
At March 3, 2017	**-**
Net (loss) from noncontrolling interests	(1,015)
Change from net income (loss)	**(1,015)**
Capitalization from demerger[1]	(4,922)
At December 31, 2017	**(5,937)**

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

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Note 4. 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 have 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. 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 3. Noncontrolling interests. In 2017, the Group provided funding of EUR 9.4 m (CHF 10.2 m). It has committed to provide additional funding of up to EUR 10.0 m.

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 from Actelion 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 CHF 7 m for another compound patented by Axovan. Furthermore, by virtue of the acquisition of Axovan, the Group is also liable to pay to Roche milestones 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; the Group believes that such claim has no merit.

Out-licensing agreements

Midnight Pharma LLC ("Midnight")
As part of the Demerger, the Group holds a worldwide exclusive license agreement granted to 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 claims that Actelion did not disclose that it was developing another dual orexin receptor antagonist and consequently requests an indemnification; the Group believes that such claim has no merit.

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 5.
Collaborative agreements

Janssen Biotech Inc. ("Janssen")

Janssen, an affiliate of 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 milestone payment of USD 230 m (CHF 227 m). This one-time milestone payment will be recognized in two parts: USD 160 m (CHF 158 m) was recognized as contract revenue in December 2017, while the remainder of the milestone payment will be recognized as contract revenue over the next 39 months.

The development costs related to (i) the Phase III program for the initial product for the initial indication (resistant hypertension management); (ii) any Phase III program (or Phase IIb study that the parties agree to conduct) for any additional indications (comprising all other 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.

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 / or 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"). The Group holds an option to obtain the exclusive worldwide license rights on vamorolone at any time but not later than upon receipt of the Phase IIb study results for a consideration of USD 45 m.

If the option is exercised, Reveragen will be entitled to receive milestones of up to USD 120 m for approval (USD 90m) and commercialization (USD 30 m) in the DMD indication; Reveragen is also entitled to receive milestones of up to USD 190 m for approval (USD 140 m) and commercialization (USD 50 m) in three additional indications. Furthermore, the Group will pay increasing tiered double-digit royalties on the net sales of vamorolone. The Group will also support R&D activities up to a maximum amount of USD 1 m p.a. for the next sixteen months unless earlier terminated or extended.

The Group evaluated the contract with Reveragen under the requirements of the VIE model (See Note 1. Description of business and summary of significant accounting policies) and determined that Reveragen is a variable interest entity but the Group is not the primary beneficiary. The Group will not have any additional financial exposure if the option is not exercised.

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 will pay the Group an upfront payment of CHF 15 m and has the option to exclusively license the Group’s compounds and compounds resulting from the collaboration, for a further payment of CHF 35 m, after a pre-determined period. After the exercise of its option right, Roche has the exclusive worldwide right to develop and commercialize the Group’s and collaboration compounds.

The Group will be eligible to receive one-time development and regulatory milestones of up to CHF 410 m. 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

As part of the Demerger, other collaborative agreements were transferred to the Group. Currently none of these agreements are material to the Group.

Note 6. Income taxes

	Period ended December 31, 2017
Current tax (expense)	(181)
Deferred tax benefit (expense)	(4)
Total income tax benefit (expense)	**(185)**

Income taxes payable and accrued as of December 31, 2017, amounted to CHF 0.03 m.

The significant components of the Group’s gross deferred tax assets and deferred tax liabilities as of December 31, 2017, are shown in the tables below:

Deferred tax assets	**2017**
Net benefit from operating loss carryforwards	6,139
Pension liability	6,201
Other temporary differences	21
Deferred tax assets	**12,361**
Valuation allowance for deferred tax assets	(11,301)
Total deferred tax assets	**1,060**

Deferred tax liabilities	**2017**
Convertible loan	6,232
Intercompany loans	1,687
Stock based compensation	449
Total deferred tax liabilities	**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 loan (see Note 14. Borrowings).

As of December 31, 2017, 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	-
Six years	16,565
Seven years	21,512
More than seven years	-
Total tax losses	**38,077**

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%.

	2017
Tax at net Swiss statutory tax rate	3,110
Tax rates different from the net Swiss statutory rate	(1,003)
Change in valuation allowance	(2,101)
Other items	(191)
Effective income tax benefit (expense)	**(185)**

Note 7.
Earnings per share

The following table sets forth the basic and diluted earnings per share (EPS) calculations at December 31, 2017:

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

For the period ended December 31, 2017, 43,563,244 shares that would have had an anti-dilutive effect were excluded from the EPS calculation.

Note 8.
Cash and cash equivalents

Cash and cash equivalents consisted of the following at December 31, 2017:

	2017
Cash	84,664
Cash equivalents	537,788
Total	**622,452**

Note 9.
Financial assets and liabilities

The following table states the Group's financial assets and liabilities carried at fair value at December 31, 2017:

	2017		
	Total	**Level 1**	**Level 2**
Financial assets carried at fair value			
Cash and cash equivalents	622,452	622,452	-
Derivative financial instruments[1]	678		678
Total	**623,130**	**622,452**	**678**

[1] Included in other current assets.

Short- and long-term deposits of a total of CHF 468 m are not included in the table above as they are carried at amortized costs which approximates their fair value. At inception, short-term deposits have a duration between four and twelve months, long-term deposits have a duration exceeding twelve months.

Derivative financial instruments

Derivative financial instruments are deployed to manage foreign currency and interest rate exposures and are not used for speculative purposes (see Note 1. Description of business and summary of significant accounting policies).

The following tables reflect the contract or underlying principal amounts and fair values of derivative financial instruments, analyzed by type of contract as of December 31, 2017. Contract or underlying principal amounts indicate the volume of outstanding positions at the balance sheet date and do not represent amounts at risk.

	Location of gain or loss recognized in income on derivatives	2017
Income Statement		
Forward rate contracts		
Amount of gain recognized in income on derivatives	Other financial income (expense), net	678
Amount of loss recognized in income on derivatives	Other financial income (expense), net	-
Total		**678**

	Balance Sheet location	2017
Balance Sheet		
Forward rate contracts	Other current assets	678
Forward rate contracts	Other current liabilities	-
Total		**678**

	2017
Underlying principal amount	
Forward rate contracts	83,050

As at December 31, 2017, the foreign currency forwards consist of privately negotiated OTC contracts with maturities of six months or less. The contracts have been negotiated with one counterparty with a Standard & Poor's ("S&P") credit rating of A. The total net gain recognized on derivative financial instruments amounts to CHF 0.7 m for the period ended 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 for the period ended December 31, 2017:

	Derivatives assets			Derivatives 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, 2017						
Forward rate contracts	678	-	678	-	-	-
Total	**678**	**-**	**678**	**-**	**-**	**-**

The right to set-off derivatives assets and liabilities is provided to both the Group and the financial institutions in case of predefined default and termination events including, among others, bankruptcy and change of control. None of these events occurred during the period ended December 31, 2017.

Note 10.
Other current assets

Other current assets consisted of the following at December 31:

	2017
VAT receivables	1,680
Derivative instruments	678
Prepaid expenses	16,628
Other receivables	1,361
Other current assets	**20,347**

Note 11.
Intangible assets

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

	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 aggregated amortization expense of intangible assets amounted to 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
2018	664
2019	612
2020	538
2021	1
2022	
Thereafter	
Total expected future amortization	**1,815**

Note 12.
Property, plant and equipment

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

	2017
At cost:	
Land	6,092
Buildings	117,739
Furniture, fixtures and lab equipment	33,605
Computers	326
Construction in progress	8,818
Less: Accumulated depreciation	(9,842)
Property, plant and equipment, net	**156,738**

For the period ended December 31, 2017, the Group invested CHF 8.1 m in tangible assets. As of 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 including capital leases was CHF 9.9 m in 2017. In addition, the Group disposed of furniture, IT and lab equipment of CHF 0.1 m and realized a loss of CHF 0.04 m on the disposal in 2017.

Note 13.
Accrued expenses

Accrued expenses consisted of the following at December 31:

	2017
Personnel and compensation costs	25,648
Clinical trial materials	5,676
Research and development goods and services	11,478
Site running costs	1,021
Professional and IT services	1,386
Fixed assets	1,420
Other accruals	624
Total	**47,253**

Note 14. Borrowings

Convertible Loan

In connection with the Transaction, Cilag agreed to provide a convertible loan of CHF 580 m to the Group with a maturity on June 15, 2027, which is convertible into ordinary shares of the Group up to an aggregate of 32% of the share capital.

On June 17, 2017, a first tranche of the convertible loan of CHF 135 m was mandatorily converted and Cilag acquired 9.9% of the shares of the Group.

The remaining amount of CHF 445 m may be converted into 22.1% of the shares of the Group by Cilag 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.

On the date these financial statements were available to be issued, Jean-Paul and Martine Clozel own more than 25% of the Group's issued shares, which allows Cilag to increase its equity stake from 9.9% to 16%.

The Group determined that the convertible loan included a beneficial conversion feature at the commitment date 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 is CHF 365 m. The Group will accrete the discount over the remaining life of the instrument (ten years), using an implied compound interest rate of 2,12% p.a. as interest expense.

Credit facilities

On December 31, 2017, 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% p.a. on drawn amounts. The maturity of the facility is June 19, 2032.

Note 15.
Pension plans

Swiss Employee Pension Plan

The Group maintains a pension plan (the "Basic Plan") covering all of its employees in Switzerland. The 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 June 15 to December 31, 2017 the Group made contributions of CHF 4.6 m. Interest is credited to the employees' accounts at the minimum rate provided in the Basic Plan. In 2017, the guaranteed interest rate for withdrawal benefits amounts to 1.0% for the mandatory portion of the contributions paid 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 as well as a mean 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 un-appropriated foundation reserves as determined by Swiss pension law.

The targeted allocation for the un-appropriated foundation reserves (if any) is as follows:

Asset category	Targeted allocation 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%

[1] Investments in foreign countries are limited up to a maximum of 33% of the total investments in real estate.

The Group uses a measurement date of December 31, 2017 for its pension plans.

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

	Period ended December 31, 2017
Service cost	6,036
Interest cost	914
Expected return on plan assets	(1,782)
Prior year service costs (benefit)	-
Amortization of net actuarial (gain) loss	-
Net periodic benefit cost	**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, 2017:

Weighted-average assumptions used in calculation	2017
Mortality and disability assumptions	BVG[1] 2015
Discount rate	0.70%
Salary increase	1.50%
Long-term rate of return on assets	1.50%

[1] Berufs-Vorsorge-Gesetz - Occupational Pensions Act

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, 2017 is 0.70%. A decrease of the discount rate by 0.25% would increase the PBO by CHF 11.0 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 following tables set forth the change in present value of obligations and changes in fair value of plan assets for the Group's pension plans:

	2017
Projected benefit obligation at March 3,	**-**
Effect of demerger	217,144
Service cost	6,036
Interest cost	914
Plan participants' contributions	3,540
Benefits (paid) / deposited	3,890
Actuarial loss (gain)	4,647
Foreign currency exchange rate changes	-
Projected benefit obligation at December 31,	**236,171**

	2017
Fair value of plan assets at March 3,	**-**
Effect of demerger	193,263
Actual return on plan assets	433
Employer contributions	13,275
Plan participants' contributions	3,540
Benefits (paid) / deposited	3,890
Foreign currency exchange rate changes	-
Fair value of plan assets at December 31,	**214,401**
Accumulated benefit obligation	**228,189**

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

	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 the Swiss pension law, benefits derived from surplus sharing by the insurance company of CHF 8.4 m and premiums paid in excess to premiums owed by the Group of CHF 16.0 m.

The movement in the net asset or liability and the amounts recognized in the balance sheet as of December 31, 2017, was as follows:

	2017
Present value of obligations	(236,171)
Fair value of plan assets	214,401
Funded status	**(21,770)**

As of December 31, 2017, CHF 6.0 m related to the pension plans has been recognized in other comprehensive income (loss). Amounts recognized in accumulated other comprehensive income represent not yet amortized actuarial losses. In 2018 there will be no amortization as the amount is in the "corridor".

	2017
Components of net periodic benefit costs at March 3,	**-**
Net gain (loss) arising during the period	(5,996)
Taxes	-
Total included in other comprehensive income (loss) at December 31,	**(5,996)**

The expected future cash flows to be paid by the Group in respect of the pension plans as of December 31, 2017 were as follows:

Expected employer contributions	
2018[1]	9,053
Expected future payments to beneficiaries	
2018	509
2019	4,876
2020	4,819
2021	4,859
2022	3,885
Thereafter	18,161

[1]either paid or off-set against existing prepayment

One subsidiary sponsors a defined contribution plan. This plan is structured as 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 a Swiss Federal Institution ("Sicherheitsfonds") stipulated by Swiss pension law. In the event of default of a Swiss pension plan, this institution will cover the minimum benefits mandatorily required by Swiss pension law.

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 assets' returns.

Note 16.
Stock-based compensation

Share-based payment arrangements ("SBPA")

On July 1, 2017, the Group granted 4,865,030 standard share options as stock-based compensation to its employees and members of the Board of Directors.

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

	2017
Outstanding nonvested share equivalents under SBPA	
Share options granted under the ESOP	4,348,130
Share options granted under the DSOP	500,000
Total outstanding nonvested share equivalents under SBPA	**4,848,130**
Exercisable	-

Total compensation costs recognized in the consolidated financial statements with respect to the Group's SBPA were CHF 5.9 m in 2017. No gross tax benefits were recognized in 2017 as the future utilization is uncertain.

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. 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 will vest at the 2018 AGM. Each option entitles the holder to one share. Options generally expire ten years after the grant date. The exercise price of all options granted under the ESOP and DSOP was CHF 17.73.

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

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

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

	Period ended December 31, 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:

	2017	
	Share options	**Weighted-average grant date fair value**
Outstanding beginning of period,	**-**	**-**
Granted	4,365,030	5.74
Forfeited	(16,900)	5.74
Outstanding ending of period,	**4,348,130**	**5.74**
Exercisable ending of period,	-	-

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

	2017	
	Share options	**Weighted-average grant date fair value**
Outstanding beginning of period,	**-**	**-**
Granted	500,000	5.67
Outstanding ending of period,	**500,000**	**5.67**
Exercisable ending of period,	-	-

As of December 31, 2017, the total unrecognized compensation cost related to non-vested options was CHF 21.9 m; this is expected to be recognized over a weighted average period of 2.39 years.

Note 17.
Share capital

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

(all numbers in thousands)	Shares Issued	Shares Authorized	Shares 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**
Share capital at December 31, 2017 (in CHF)	**5,956**	**2,060**	**2,650**	**10,666**

Authorized capital

As set forth in Article 3b of Idorsia's Articles of Association, authorized capital can be used for purposes of strategic partnering and financing of business transactions. The Board of Directors ("BoD") is authorized to increase the Group's share capital at any time until May 31, 2019 and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or co-operation transactions.

As shown in the table above, 11,793,220 authorized shares were used in connection with the conversion of the first tranche of the convertible loan. Consequently, on December 31, 2017, the Group had authorized capital which would enable an increase in its share capital of up to CHF 2.06 m through the issuance of up to 41,206,780 fully paid-in registered shares with a nominal value of CHF 0.05 per share.

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.

On December 31, 2017, the Group had conditional capital which would enable an increase in its share capital of up to CHF 2.65 m through the issuance of up to 53,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share of which:

- CHF 0.65 m can be used by issuance of not more than 13,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share in connection with the exercise of options and similar rights granted to employees and non-executive directors of the Group;

- CHF 2.0 m can be used by issuance of not more than 40,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share in connection with the exercise of conversion rights or options of convertible debt instruments, loans and similar forms of financing.

Note 18.
Accumulated other comprehensive income (loss)

Movements in accumulated other comprehensive income (loss) consist of the following for the period ended December 31:

	Accumulated OCI (loss), net of tax			
	March 3, 2017	Changes arising during period	Attr to noncontrolling 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 of which a full valuation allowance has been recorded.

Note 19.
Commitments and guarantees

Commitments

The Group has entered into capital commitments of CHF 0.7 m related to the maintenance of the Group's own facilities, which is 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 interest rates, the Group has issued a guarantee to a financial institution in the total amount of CHF 40 m.

In the ordinary course of business, the Group has entered into certain guarantee contracts and letters of credit in the amount of CHF 0.5 m.

To date the Group was not 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 2018 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, 2017, are as follows:

Period ending December 31	**Operating leases**
2018	8,542
2019	8,379
2020	8,276
2021	8,195
2022	7,560
Thereafter	26,946
Total minimum payments	**67,898**

Rent expense under operating leases was CHF 4.6 m for the period ended December 31, 2017.

Note 20.
Concentrations

Cash, cash equivalents and short- and long-term deposits were invested with three banks 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 three counterparties. Concerning risk mitigation, the Group reviews on an ongoing basis the creditworthiness of counterparties to such contracts. To date, the Group has not experienced and does not expect to incur any significant losses from failure of counterparties to perform under such agreements.

Note 21.
Segment and geographic information

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

The Group's geographic information is as follows:

	Switzerland	Rest of world	Total
December 31, 2017			
Contract revenue	158,085	-	158,085
Property, plant and equipment	156,184	554	156,738

Note 22.
Related party transactions

Following the demerger (see Note 2. Demerger), J&J and its affiliates Actelion, Janssen and Cilag are considered related parties of the Group with the following material transactions:

- The Group, Actelion and Cilag entered into a demerger agreement which, among other things, sets forth the steps necessary to effect the reorganization, demerger distribution and listing of the Group and to govern the separation of the R&D business from the commercial activities and operations of Actelion (see Note 2. Demerger).

- Cilag provided the Group with a CHF 580 m convertible loan, which is convertible into shares of the Group representing a potential total of 32% of the share capital of the Group. After a mandatory conversion of CHF 135 m and the classification of the intrinsic value of the beneficial conversion feature in equity (CHF 84 m), a noncurrent liability of CHF 361 m remained, which will be accreted over 10 years to CHF 445 m (see Note 14. Borrowings).

- Cilag provided the Group with a credit facility of CHF 243 m. During the period ended December 31, 2017, the Group did not draw from the credit line and did not pay any commitment fee (see Note 14. Borrowings).

- On December 1, 2017 Janssen opted in to a collaboration with the Group to jointly develop and solely commercialize aprocitentan (see Note 5. Collaborative agreements).

- Actelion is liable to pay 8% of aggregate annual net sales of products containing ponesimod and/or cadazolid (see Note 5. Collaborative Agreements).

- The Group and Actelion entered into a series of transitional and long-term service agreements (see Note 2. Demerger).

- The Group and Cilag entered into a shareholders' agreement which, among other things, includes a lock-up period of two years and a standstill period of five years.

During the period ended December 31, 2017, the Group received services from J&J and its affiliates of CHF 14 m and provided services of CHF 3 m. As of December 31, 2017, the Group has receivables of CHF 21 m and payables and accruals of CHF 25 m with J&J and its affiliates.

During 2017 a Board member held a Board seat with Charles River Laboratories, Inc. ("Charles River Laboratories"), a company providing research and clinical support services. In the ordinary course of business, the Group entered into transactions with Charles River Laboratories amounting to CHF 2 m in 2017. As of December 31, 2017, the Group has payables and accruals of CHF 1 m with Charles River Laboratories.

During the period ended December 31, 2017, the Group did not enter into any additional material related party transactions.

Note 23.
Subsequent events

The Group has evaluated subsequent events through January 31, 2018, 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 sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows and notes to the consolidated financial statements (pages 19 to 55), for the period from incorporation (March 3, 2017) to December 31, 2017.

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 Idorsia Ltd as of December 31, 2017, the consolidated results of its operations and its consolidated cash flows for the period from incorporation (March 3, 2017) to December 31, 2017, in accordance 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 period ended December 31, 2017, the Group recognized CHF 158.1 million as contract revenue from milestone payments and recorded a further CHF 69.0 million as deferred revenue as of December 31, 2017. Refer to notes 1 (Description of business and summary of significant accounting policies – Revenue from collaborations) and 5 (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 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 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.

Demerger

Area of focus	The Group's operations mainly represent the spin-off (the "Demerger") of the drug discovery operations and early-stage clinical development assets of Actelion Ltd, which subsequently was acquired by Johnson & Johnson, on June 15, 2017. Refer to note 2 (Demerger) in the consolidated financial statements for a detailed description of the Demerger. The Demerger is considered significant to our audit due to its complexity in particular with regard to • the legal transfer of assets and liabilities to the Group with a net asset value of CHF 542.9 million, • the convertible loan in the nominal amount of CHF 580 million entered into, and • the establishment of a range of significant related party transactions between the Group and Johnson & Johnson.
Our audit response	Our audit procedures included evaluating the contractual basis of the Demerger as well as substantively testing the accounting for the legal transfer of assets and liabilities and the basis of and amounts related to significant related party transactions between the Group and Johnson & Johnson. In addition, we assessed the Group's accounting for the convertible loan.

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.

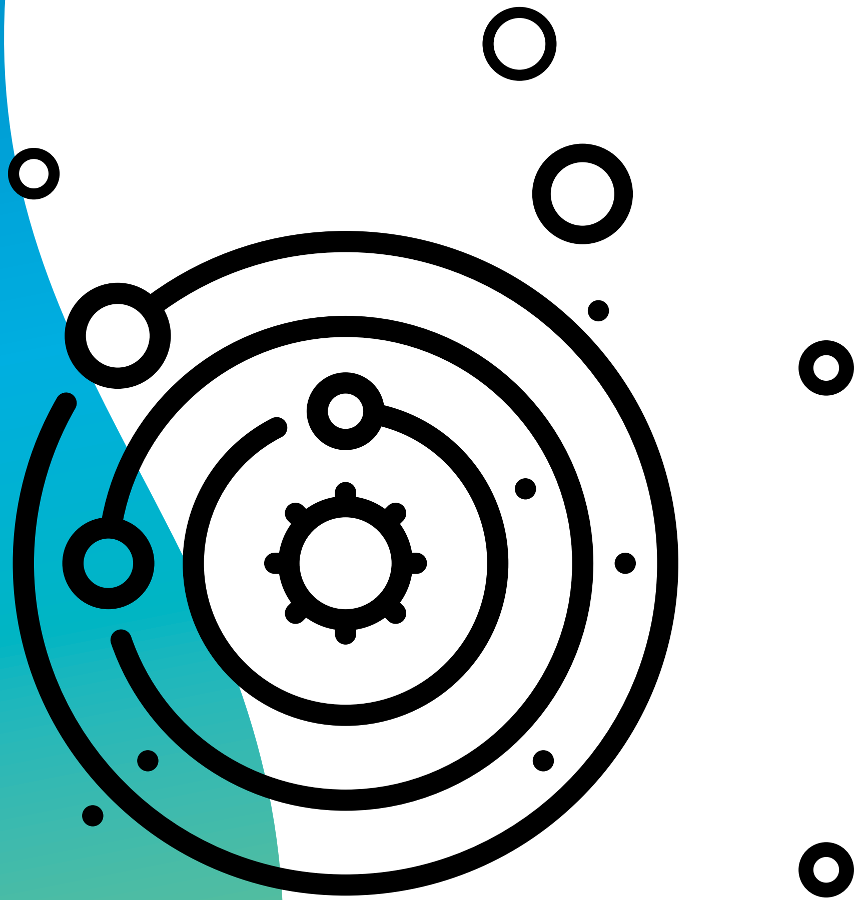
Ernst & Young Ltd

Eric Ohlund
Licensed audit expert
(Auditor in charge)

Siro Bonetti
Licensed audit expert

Basle, January 31, 2018

Holding Company Financial Statements



BALANCE SHEET

(in CHF thousands, except number of shares)	Notes	December 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents		14,100
Short-term deposits		299,850
Other receivables from Group companies		7,897
Prepayments and accrued income		150
Total current assets		**321,997**
Noncurrent assets		
Long-term deposits		250,000
Long-term loans to Group companies (subordinated)	2	-
Investments in Group companies	2	259,810
Total noncurrent assets		**509,810**
TOTAL ASSETS		**831,807**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Other current liabilities		129
Total current liabilities		**129**
Noncurrent liabilities		
Noncurrent financial debt	3	444,576
Total noncurrent liabilities		**444,576**
Total liabilities		**444,705**
Shareholders' equity	4	
Common shares (par value CHF 0.05 per share, issued and outstanding 119,123,430; authorized 213,330,210)		5,956
Legal capital contribution reserve		394,468
Disbursable retained earnings		
Accumulated profit (loss)		(13,322)
Total shareholders' equity		**387,102**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**831,807**

Income Statement

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

Notes to the Holding Company Financial Statements

(CHF thousands, except share and per share amounts)

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.

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 long term 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 this amount may not be recoverable, a valuation adjustment is recognized in the income statement.

Demerger of Idorsia Ltd

On January 26, 2017 Johnson & Johnson ("J&J") preannounced its offer to acquire all publicly held registered shares of Actelion Ltd ("Actelion") at a cash price of USD 280 per Actelion share (the "Transaction"). The Transaction became unconditional on June 9, 2017 when J&J announced that all regulatory approvals required to complete the Transaction have been received and settled on June 16, 2017. As part of the Transaction, Actelion spun-off its drug discovery operations and early-stage clinical development assets into Idorsia on June 15, 2017 (the "Demerger"), and Idorsia shares were distributed to Actelion's shareholders as a dividend in kind and listed on the SIX Swiss Exchange on June 16, 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, 2017:

Company	Country	Ownership & voting interest	Direct & indirect investment	Function
Idorsia Pharmaceuticals Ltd	Switzerland	100%	direct	R&D
Idorsia Pharmaceuticals US Inc	United States	100%	direct	Clinical Development
Idorsia Pharmaceuticals Deutschland GmbH	Germany	100%	direct	Clinical Development, Patents
Idorsia (Shanghai) Pharmaceuticals Co., Ltd	China	100%	direct	R&D
Vaxxilon Ltd	Switzerland	74%	direct	R&D

Vaxxilon Ltd was overindebted as of December 31, 2017. Subordinated loans of CHF 22 m to this Group company are fully provided for.

Note 3.
Noncurrent financial debt

Convertible Loan

In connection with the Transaction, Cilag Holding AG ("Cilag")agreed to provide a convertible loan of CHF 580 m to the Company with a maturity on June 15, 2027, which shall be convertible up to an aggregate of 32% of the ordinary shares of the Company.

On June 17, 2017, a first tranche of the convertible loan of CHF 135 m was mandatorily converted and Cilag acquired 9.9% of the shares of the Company.

The remaining amount of approximately CHF 445 m may be converted into 22.1% of shares of the Company by Cilag as follows: (i) up to an aggregate shareholding of 16% shares of the Company if another shareholder holds more than 20% of the issued shares of the Company, and (ii) 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 January 31, 2018, 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 allows Cilag to increase its equity stake from 9.9% to 16%.

Note 4.
Shareholders' equity

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

(all numbers in thousands)	Shares Issued	Shares Authorized	Shares 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**
Share capital at December 31, 2017 (in CHF)	**5,956**	**2,060**	**2,650**	**10,666**

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).

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.

Authorized capital

As set forth in Article 3b of Idorsia's Articles of Association, authorized capital can be used for purposes of strategic partnering and financing of business transactions. The Board of Directors ("BoD") is authorized to increase the Company's share capital at any time until May 31, 2019 and to exclude or restrict the pre-emptive rights of existing shareholders in connection with mergers, acquisitions, strategic partnering or co-operation transactions.

As shown in the table above, 11,793,220 authorized shares were used in connection with the conversion of the first tranche of the convertible loan. Consequently, on December 31, 2017, the Company had authorized capital which would enable an increase in its share capital of up to CHF 2.06 m through the issuance of up to 41,206,780 fully paid-in registered shares with a nominal value of CHF 0.05 per share.

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 Company'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.

On December 31, 2017, the Company had conditional capital which would enable an increase in its share capital of up to CHF 2.65 m through the issuance of up to 53,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share of which:

- CHF 0.65 m can be used by issuance of not more than 13,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share in connection with the exercise of options and similar rights granted to employees and non-executive directors of the Company;

- CHF 2.0 m can be used by issuance of not more than 40,000,000 fully paid-in registered shares with a nominal value of CHF 0.05 per share in connection with the exercise of conversion rights or options of convertible debt instruments, loans and similar forms of financing.

Legal capital contribution reserve

As at December 31, 2017, the legal capital contribution reserve amounted to CHF 394.5 m. The reserve resulted from the demerger (CHF 259.6 m) and the conversion of the first tranche of the convertible loan (CHF 134.9 m). The amount of the legal capital contribution reserve is subject to review and confirmation by the Swiss federal tax authorities. Any dividend distribution made out of the portion of the legal capital contribution reserve recognized by the Swiss federal tax authorities is neither subject to Swiss withholding tax nor subject to income tax on individual shareholders who are residents of Switzerland and hold the shares as part of their private wealth.

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:

	2017			
	Percentage of share capital	**Percentage of voting rights**	**Percentage of purchase positions**	**Percentage of sale positions**
Clozel Jean-Paul & Martine	>25%	>25%	>20%	-
Cilag Holding AG[2]	>5%	>5%	>30%	>20%
Rudolf Maag[1]	>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**	**2017**	**2017**
Jean-Pierre Garnier	Chairman Member of the Nominating, Governance & Compensation Committee	21,225	200,000
Robert J. Bertolini	Chairman of the Finance & Audit Committee	15,097	75,000
John J. Greisch	Chairman of the Nominating, Governance & Compensation Committee	6,118	75,000
David Stout	Member of the Finance & Audit Committee Member of the Nominating, Governance & Compensation Committee	1,377	75,000
Herna Verhagen	Member of the Finance & Audit Committee Member of the Nominating, Governance & Compensation Committee	1,279	75,000
Jean-Paul Clozel	CEO and Delegate of the Board	See table "Investments and options held by the members of the IEC"	
Total		**45,096**	**500,000**

Investments and options held by the members of the IEC

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

Name	Functions	Number of shares 2017	Number of options[1] 2017
Jean-Paul Clozel	Chief Executive Officer	24,975,307	250,000
Guy Braunstein	Head of Global Clinical Development	162,437	160,000
Martine Clozel	Chief Scientific Officer	8,905,182	160,000
André C. Muller	Chief Financial Officer	52,461	160,000
Total		**34,095,387**	**730,000**

[1] The Company has an employee share option plan ("ESOP"). Note 16. Stock-based compensation in the audited consolidated financial statements provides details on the ESOP conditions and valuation.

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 0.4 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

	2017
Accumulated profit at March 3,	**-**
Net income (loss) for the year	(13,322)
Balance to be carried forward	**(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 financial statements of Idorsia Ltd (the "Company"), which comprise the balance sheet, income statement and notes (pages 61 to 71), for the period from incorporation (March 3, 2017) to December 31, 2017.

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 incorporation. 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 period from incorporation (March 3, 2017) to December 31, 2017 comply with Swiss law and the Company's articles of incorporation.

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.

Demerger

Area of focus

The Company's investments in Group companies mainly represent the spin-off (the "Demerger") of the drug discovery operations and early-stage clinical development assets of Actelion Ltd, which subsequently was acquired by Johnson & Johnson, on June 15, 2017. Refer to note 1 (Summary of significant accounting policies – Demerger of Idorsia Ltd) in the financial statements for a detailed description of the Demerger.

The Demerger is considered significant to our audit due to its complexity in particular with regard to

- the legal transfer of the investments in Group companies in the amount of CHF 259.8 million,
- the convertible loan in the nominal amount of CHF 580 million entered into, and
- the establishment of a range of significant related party transactions between the Company and Johnson & Johnson.

Our audit response

Our audit procedures included evaluating the contractual basis of the Demerger as well as substantively testing the accounting for the legal transfer of the investments in Group companies and the basis of and amounts related to significant related party transactions between the Company and Johnson & Johnson. In addition, we assessed the Company's accounting for the convertible loan.

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

Eric Ohlund Licensed audit expert (Auditor in charge)	Siro Bonetti Licensed audit expert

Basle, January 31, 2018

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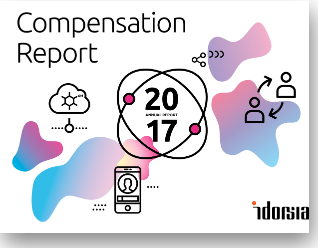

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