Idorsia

Interim Consolidated Financial Statements

Half Year 2017

Interim Consolidated Financial Statements

Consolidated Income Statement

(in CHF thousands, except per share amounts)	Notes	Period ended June 30, 2017 (unaudited)
Net revenue		
Product sales		-
Contract revenue		-
Total net revenue		**-**
Operating (expenses)		
Research and development		(8,234)
General and administrative		(2,339)
Amortization of acquired intangible assets		(9)
Total operating (expenses)		**(10,582)**
Operating income (loss)		**(10,582)**
Interest income (expense), net		(318)
Accretion of convertible loan discount		(390)
Other financial income (expense), net		(60)
Total financial income (expense)		**(768)**
Income (loss) before income tax benefit (expense)		(11,350)
Income tax benefit (expense)	6	(8)
Net income (loss)		**(11,358)**
Less: Net loss attributable to the noncontrolling interests		78
Net income (loss) attributable to Idorsia's shareholders		**(11,280)**
Basic net income (loss) per share attributable to Idorsia's shareholders	7	**(0.11)**
Weighted-average number of common shares (in thousands)		106,023
Diluted net income per share attributable to Idorsia's shareholders	**7**	**(0.11)**
Weighted-average number of common shares (in thousands)		106,023

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

Consolidated statement of comprehensive income

(in CHF thousands)	Period ended June 30, 2017
	(unaudited)
Net income (loss)	**(11,358)**
Other comprehensive income (loss), net of tax:	
Foreign currency translation adjustments	(5)
Other comprehensive income (loss), net of tax	**(5)**
Comprehensive income (loss)	**(11,363)**
Less: Comprehensive loss attributable to noncontrolling interests	78
Comprehensive income (loss) attributable to Idorsia's shareholders	**(11,285)**

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

Consolidated Balance Sheet

(in CHF thousands, except number of shares)	Notes	June 30, 2017 (unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	8/9	607,059
Short-term deposits	9	150,000
Receivables from related parties	18	18,301
Other current assets	10	5,845
Total current assets		**781,205**
Noncurrent assets		
Long-term deposits	9	250,000
Property, plant and equipment, net	2	158,911
Intangible assets, net		597
Other noncurrent assets		1,919
Total noncurrent assets		**411,427**
TOTAL ASSETS		**1,192,632**
LIABILITIES		
Current liabilities		
Trade and other payables		3,636
Payables to related parties	18	14,793
Accrued expenses	2	22,719
Total current liabilities		**41,148**
Noncurrent liabilities		
Convertible loan	11	360,953
Pension liability	12	23,912
Deferred tax liability		7,386
Other noncurrent liabilities		15,737
Total noncurrent liabilities		**407,988**
Total liabilities		**449,136**
EQUITY		
Idorsia's shareholders' equity		
Common shares (par value CHF 0.05 per share, issued and outstanding 119,123,430; authorized 213,330,210)	13	5,956
Additional paid in capital		753,825
Accumulated profit (loss)		(11,280)
Accumulated other comprehensive income (loss)	14	(5)
Total Idorsia's shareholders' equity		**748,496**
Equity attributable to noncontrolling interests	3	(5,000)
Total equity		**743,496**
TOTAL LIABILITIES AND EQUITY		**1,192,632**

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

Consolidated Statement of Cash Flows

(in CHF thousands)	Period ended June 30, 2017
	(unaudited)
Cash flow from operating activities	
Net income (loss)	(11,358)
Adjustments to reconcile net income to net cash provided from operating activities:	
Depreciation and amortization	772
Accretion of convertible loan	390
Changes in operating assets and liabilities:	
Other receivables	(434)
Trade and other payables	14,948
Accrued expenses	4,026
Changes in other operating cash flow items	(3,941)
Net cash flow provided by (used in) operating activities	**4,403**
Cash flow from investing activities	
Purchase of short-term deposits	(150,000)
Purchase of long-term deposits	(250,000)
Purchase of property, plant and equipment	(219)
Net cash flow provided by (used in) investing activities	**(400,219)**
Cash flow from financing activities	
Issuance of new shares	5,366
Proceeds from demerger	418,873
Proceeds from issuance of convertible loan, net of costs	578,645
Net cash flow provided by (used in) financing activities	**1,002,884**
Net effect of exchange rates on cash and cash equivalents	(9)
Net change in cash and cash equivalents	**607,059**
Cash and cash equivalents at beginning of period	-
Cash and cash equivalents at end of period	**607,059**

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

Consolidated Statement of Changes in Equity

(in CHF thousands, except number of shares)	Idorsia's shareholders					Noncontrolling interests	
	Common shares		Additional paid-in capital	Accum. profit (loss)	Accum. other comprehensive income (loss)	Equity attrib. to noncontrolling interests	Total equity
	Shares	Amount					
Incorporation March 3, 2017	**104,000**	**5,200**	**-**	**-**	**-**	**-**	**5,200**
Comprehensive income (loss):							
Net income (loss)				(11,280)		(78)	(11,358)
Other comprehensive income (loss)					(5)		(5)
Comprehensive income (loss)							**(11,363)**
Increase due to share issuance	3,330	166					166
Conversion of convertible loan to common stock[1]	11,793	590	133,450				134,040
Capitalization from demerger			542,885			(4,922)	537,963
Conversion feature intrinsic value[2]			77,490				77,490
At June 30, 2017	**119,123**	**5,956**	**753,825**	**(11,280)**	**(5)**	**(5,000)**	**743,496**

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

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

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

Notes to the unaudited Interim 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 unaudited interim 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 interim consolidated financial statements include the accounts of the Group and its affiliated companies 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%-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 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. For determination 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 in disproportion 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 at 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.

Ownership interests not attributable, directly or indirectly, to the Group and related to entities where the Group exercises control through majority of the voting rights or through contract, is allocated to noncontrolling interests' holders and presented separately within the consolidated balance sheets and the consolidated statements 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 interim 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 financial statements in conformity with US GAAP requires management to make judgments, assumptions and estimates that affect the amounts and disclosures reported in the interim 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 recognition

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*. The Group mainly expects revenues from milestone payments in the upcoming future.

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.

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 identified 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 pre-clinical 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 awards.

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 valuation 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 its 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.

Amortization of total compensation costs for the SSOP, is recognized on a straight-line basis over the requisite service period for the entire award. Expenses related to performance based awards are recognized ratably over the requisite service period for each separately vesting portion of such awards. 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 as the largest benefit of having 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, tax credit forwards or similar tax losses. If the net operating loss carryforwards, tax loss carryforwards or similar tax losses 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 purpose, the unrecognized tax benefit is presented as a liability in the consolidated balance sheets and is not offset with 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 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 are separated from cash and cash equivalents and reported in a separate line in the consolidated balance sheets.

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"). Exposures 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 statements. 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, which include foreign currency spot rates, forwards 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 sheets.

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 fair value of the instrument are reported in other financial income (expense), net in the consolidated income statements.

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 which is consistent with the principles of ASC 820 like 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. 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. However, sometimes milestones include continuing involvement of the Group where a part of the revenue is recognized over a period in time, resulting in contract liabilities.

Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and amortization. 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 and amortization 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 are amortized on a straight-line basis over the useful lives of the respective assets 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 are separated from short-term deposits and reported in a separate line in the consolidated balance sheets.

Loss contingencies

The Group records accruals for loss contingencies, asserted or un-asserted, 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 *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 sheets.

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 30 June 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. The expense 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. 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) 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 statements. 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 accumulated other comprehensive income (loss) ("AOCI") and amortized over the requisite service period (See Note 12. 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 14. 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 currency translation adjustment ("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, which are comprised of 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 19. 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 and available for sale debt securities to be presented at the net amount expected to be collected. Credit losses should be recorded through an allowance and deducted from the amortized costs basis of the asset. ASU 2016-13 is effective for public entities for annual periods 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 and 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 the joint convergence project with the International Accounting Standards Board ("the IASB"). ASU 2016-02 will be codified in a new Leases Topic ("ASC 842") and will virtually supersede all requirements in the current *Leases* Topic ("ASC 840"). The new guidance requires lessees to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, on the balance sheet regardless of whether the lease is a finance or an operating one. Further, the amendments specify that interest on the lease liability for finance leases will be recognized separately from amortization of the right-of-use asset in the statements of comprehensive income, while the lease costs for operating leases will be allocated over the lease term on a straight-line basis. ASU 2016-02 is effective for public entities for annual periods 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 an entity to measure equity investments at fair value through net income and simplifies the impairment assessment for equity investments without readily available fair values. Further, the guidance amends certain presentation and disclosure requirements for financial assets and liabilities. ASU 2016-01 is effective for public entities for annual periods 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 and cash flows upon adoption.

Note 2.
Demerger

Description of the demerger

On 26 January 2017 Johnson & Johnson ("J&J") pre-announced 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 9 June 2017 when J&J announced that all regulatory approvals required to complete the Transaction have been received and settled on 16 June 2017. As part of this Transaction, Actelion spun-off its drug discovery operations and early-stage clinical development assets into Idorsia on 15 June 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 16 June 2017.

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

(in CHF thousands, except number of shares)	**Opening Balance 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**

Financing

The demerger agreement provided that at the date the R&D business transfer completes, Idorsia will have cash and cash equivalents in the amount of CHF 1,000m, which will comprise cash in the amount of CHF 420m from the demerger as well as funding of CHF 580m through the convertible loan by Cilag Holding AG ("Cilag"), a subsidiary of J&J (See notes 11. Borrowings and 18. Related party transactions).

Cilag also provided Idorsia with the credit facility of CHF 243m (See note 11. 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 to the end of the year 2020 with some services to be provided longer.

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 incorporated under the laws of Switzerland together with the Max Planck Society ("MPS"), a publicly funded non-profit 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 of 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 office of MPS. Further details related to the collaboration between Vaxxilon and MPI are provided in Note 4. Licensing agreements. As part of the Transaction, MPI ensures access to licensed intellectual property ("IP") rights for multiple preclinical vaccine candidates and additional technologies.

As of 30 June 2017, CHF 5.0m net assets and CHF 0.1m 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	(78)
Change from net income (loss)	**(78)**
Capitalization from demerger[1]	(4,922)
At June 30, 2017	**(5,000)**

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

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 41.3m 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 at the sublicense consideration. Further information about the contractual relationship between the Group and MPI as well about the portion of Vaxxilon's results allocated to MPS and Seeberger Science GmbH for the reporting period is provided in Note 3. Noncontrolling interests. The Group provides funding commitments of up to EUR 9.4m.

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 up to CHF 132m in connection with filing (CHF 30m), approval (CHF 65m), commercialization (CHF 30m) of clazosentan and CHF 7m for another compound patented

by Axovan. Furthermore, by virtue of the acquisition of Axovan, the Group is also liable to pay to Roche milestones up to CHF 12m 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 40m pending 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 granted to Kythera Biopharmaceuticals, Inc. ("KBI") for the development and commercialization of setipiprant, a clinical-stage selective oral antagonist to the CRTH2 receptor, which was discontinued by Actelion prior to the Demerger. In 2015, Allergan acquired KBI and correspondingly assumed KBI's rights and obligations in conjunction 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 25.5m pending 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 later of the end of the Phase 2 study meeting with the FDA or receipt by Janssen of a complete Phase 2 data package, Janssen will have thirty (30) days to opt in to the collaboration by paying the Group a milestone payment of USD 230m.

If the option is exercised the development costs related to (i) the Phase 3 program for the initial product for the initial indication (resistant hypertension management); (ii) any Phase 3 program (or Phase 2b study that the parties agree to conduct) for any additional indications (comprising all 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 tiered royalties on annual net sales in a calendar year (20% up to USD 500m, 30% from USD 500m up to USD 2,000m and 35% above USD 2,000m) 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 Duchene 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 2b study results for a consideration of USD 45m.

If the option is exercised, Reveragen will be entitled to receive milestones up to USD 120m for the approval (USD 90m) and commercialization (USD 30m) in the DMD indication; Reveragen is also entitled to receive milestones up to USD 190m for approval (USD 140m) and commercialization (USD 50m) 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 1m p.a. for the next twenty-two 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.

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

The Group incurred operating losses which may be carried forward and utilized in the coming 7 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.

Note 7.
Earnings per share

The following table sets forth the basic and diluted earnings per share calculations at June 30:

	2017	
	Basic	Diluted
Numerator		
Net income (loss) attributable to Idorsia's shareholders	(11,280)	(11,280)
Net income (loss) available for earnings per share calculation	**(11,280)**	**(11,280)**
Denominator		
Weighted-average number of common shares	106,022,770	106,022,770
Total average equivalent shares	**106,022,770**	**106,022,770**
Earnings (loss) per share attributable to Idorsia's shareholders	**(0.11)**	**(0.11)**

For the period ended 30 June 2017, 4,674364 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 June 30:

	2017
Cash	57,304
Cash equivalents	549,755
Total	**607,059**

Note 9.
Financial assets

The following table states the Group's financial assets carried at fair value at June 30:

		2017
	Total	**Level 1**
Financial assets carried at fair value		
Cash and cash equivalents	607,059	607,059
Total	**607,059**	**607,059**

Short- and long-term deposits of a total of CHF 400m are not included in the table above as they are carried at amortized costs which approximates their fair value. Short-term deposits have a duration between four and twelve months, long-term deposits have a duration exceeding twelve months.

Note 10.
Other current assets

Other current assets consisted of the following at June 30:

	2017
VAT receivables	234
Prepaid expenses	5,611
Other receivables	**5,845**

Note 11.
Borrowings

Convertible Loan

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

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

The remaining amount of approximately CHF 445m may be converted into 22.1% of shares of the Group by Cilag as follows: (i) up to an aggregate shareholding of 16% shares of the Group if another shareholder holds more than 20% of the issued shares of the Group, 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 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.

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 in the additional paid-in capital, with an offsetting reduction to the carrying amount of the convertible loan. The Group will accrete the discount over the life of the instrument (ten years) using an implied compounded interest rate of 2,12% p.a. as interest expense.

Credit facilities

On 30 June 2017, the Group had an undrawn credit line of CHF 243m 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 19 June 2032.

Note 12.
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 15 June 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 remainder of the year the Group estimates to pay contributions of CHF 4.5m. Interest is credited to the employees' accounts at the minimum rate provided in the Basic Plan, payment of which is guaranteed by the insurance contract, which represents the Basic Plan's primary asset. 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.

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

	Period ended June 30, 2017
Service cost	464
Interest cost	70
Expected return on plan assets	(133)
Net periodic benefit cost	**401**

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 June 30:

Weighted-average assumptions to determine net cost	**2017**
Mortality and disability assumptions	BVG[1] 2015
Discount rate for all defined benefit plans of the Group	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.

Certain of the Group's subsidiaries sponsor defined contribution plans. These plans are structured as saving schemes without further obligation of the Group. These plans are 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 13.
Share capital

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

	Shares			
(all numbers in thousands)	**Issued**	**Authorized**	**Conditional**	**Total**
As of March 3, 2017	**104,000**	**-**	**-**	**104,000**
Increase due to share issuance	3,330	53,000	53,000	109,330
Conversion of convertible loan	11,793	(11,793)	-	-
At June 30, 2017	**119,123**	**41,207**	**53,000**	**213,330**
Share capital at June 30, 2017	**5,956**	**2,060**	**2,650**	**10,667**

Authorized capital

As set forth in article 3b of the articles of association of Idorsia, authorized capital can be used for strategic partnering and financing business transaction purposes. The Board of Directors ("BoD") is authorized to increase the Group's share capital at any time until 31 May 2019 and to exclude or restrict 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 30 June 2017, the Group had authorized capital which would enable an increase in its share capital of up to CHF 2.06m 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 the articles of association of Idorsia, conditional capital can be used for the establishment of share option plans, convertible bonds and similar forms of financing.

The BoD is authorized to increase the Group's share capital at any time and to exclude or restrict pre-emptive rights of existing shareholders, 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 30 June 2017, the Group had conditional capital which would enable an increase in its share capital of up to CHF 2.65m 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 0.65m 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 2.0m 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 14.
Accumulated other comprehensive income (loss)

Movements in accumulated other comprehensive income (loss) consist of the following for the period ended June 30:

	Accumulated OCI (loss), net of tax			
	March 3, 2017	Changes arising during period	Attributable to noncontrolling interests	June 30, 2017
Foreign currency translation adjustments[1]	-	(5)	-	(5)
Total accumulated OCI (loss)	**-**	**(5)**	**-**	**(5)**

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

Note 15.
Commitments and guarantees

Commitments

The Group has entered into capital commitments of CHF 0.5m related to the maintenance of the Group's own facilities, which are expected to be paid within the next twelve months.

Guarantees

In order to secure any potential obligations resulting from overdraft facilities, forward and derivative transactions in foreign currencies and / or interest rates, the Group has issued a guarantee to a financial institution in the total amount of CHF 40m.

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

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 various equipment. The leases expire between 2017 and 2026, most of them 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 30 June 2017, are as follows:

Period ending June 30,	Operating leases
2017	3,774
2018	8,183
2019	8,137
2020	8,036
2021	7,957
Thereafter	34,288
Total minimum payments	**70,375**

Rent expense under operating leases was CHF 0.3m for the period ended 30 June 2017.

Note 16.
Concentrations

Cash, cash equivalents and short- and long-term deposits were invested with two Swiss banks with a S&P rating of A and A+.

The Group could experience credit losses in the event of default or non-performance of these two counterparties. In order to mitigate such risks, 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 17.
Segment and geographic information

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

The Group's geographic information is as follows:

	Switzerland	Rest of World	Total
June 30, 2017			
Property, plant and equipment	**158,425**	**486**	**158,911**

Note 18.
Related party transactions

Following the Demerger (See Note 2. Demerger), J&J and its affiliates Actelion, Janssen and Cilag are considered related parties to 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 580m 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 135m and the classification of the intrinsic value of the beneficial conversion feature in equity (CHF 84m), a noncurrent liability of CHF 361m remained, which will be accreted over 10 years to CHF 445m (See Note 11. Borrowings)

- Cilag provided the Group with a credit facility of CHF 243m (See Note 11. Borrowings)

- Janssen has the option to collaborate 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, include a lock-up period of two years and a standstill period of five years

As of 30 June 2017, the Group has receivables of CHF 18m and payables of CHF 15m with J&J and its affiliates.

During period ended 30 June 2017, the Group did not enter into any additional material related party transactions.

Note 19.
Subsequent events

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

Standard Share Option Plans ("SSOP")

The SSOP include 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 the employees under the ESOP, generally vest and become exercisable three years after the grant date. Standard share options granted to non-executive Directors out of the DSOP vest after one year. Each option entitles the holder to one share. Options generally expire ten years after the grant date.

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

	Period ended June 30, 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 June 30, 2017
Expected term	5.92 years
Interest rate	0.00%
Expected volatility	32.32%
Expected dividend yield	0.00%

Significant shareholders

At the time the financial statements were available to be issued, Jean-Paul and Martine Clozel held more than 25% of the Group's shares.