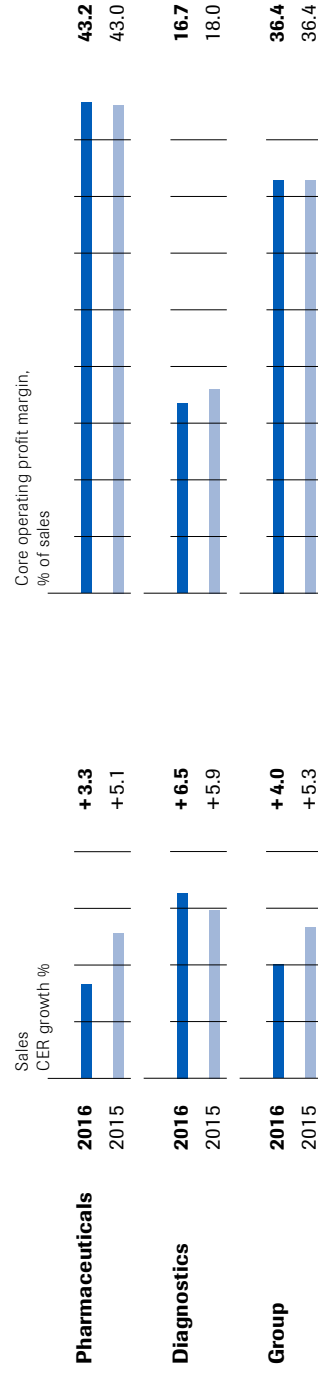




# Finance in brief

## Key results



|   | 2016<br>(CHF m) | 2015<br>(CHF m) | (CHF) | % change<br>(CER) | 2016 | % of sales<br>2015 |
|---|-----------------|-----------------|-------|-------------------|------|--------------------|
| <b>IFRS results</b>                           |                 |                 |       |                   |      |                    |
| Sales   | 50,576          | 48,145          | +5    | +4                |      |                    |
| Operating profit                              | 14,069          | 13,821          | +2    | +1                | 27.8 | 28.7               |
| Net income                                    | 9,733           | 9,056           | +7    | +7                | 19.2 | 18.8               |
| Net income attributable to Roche shareholders | 9,576           | 8,863           | +8    | +8                | 18.9 | 18.4               |
| Diluted EPS (CHF)                             | 11.13           | 10.28           | +8    | +5                |      |                    |
| Dividend per share (CHF) <sup>1)</sup>        | 8.20            | 8.10            | +1    |                   |      |                    |
| <b>Core results</b>                           |                 |                 |       |                   |      |                    |
| Research and development                      | 9,915           | 9,332           | +6    | +5                | 19.6 | 19.4               |
| Core operating profit                         | 18,420          | 17,542          | +5    | +4                | 36.4 | 36.4               |
| Core EPS (CHF)                                | 14.53           | 13.49           | +8    | +5                |      |                    |
| <b>Free cash flow</b>                         |                 |                 |       |                   |      |                    |
| Operating free cash flow                      | 14,086          | 14,872          | -5    | -7                | 27.9 | 30.9               |
| Free cash flow                                | 9,130           | 10,306          | -11   | -14               | 18.1 | 21.4               |

|                | 2016<br>(CHF m) | 2015<br>(CHF m) | (CHF) | % change<br>(CER) |
|----------------|-----------------|-----------------|-------|-------------------|
| Net debt       | (13,248)        | (14,080)        | -6    | -9                |
| Capitalisation | 48,757          | 46,551          | +5    | +3                |
| - Debt         | 22,355          | 23,251          | -4    | -6                |
| - Equity       | 26,402          | 23,300          | +13   | +11               |

1) Proposed by the Board of Directors.

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconstituting both the 2016 and 2015 results at constant exchange rates (the average rates for the year ended 31 December 2015). For the definition of CER see page 144.

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows an assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 137-140 and reconciliations between the IFRS and Core results are given there.

The Group has refined the calculation of free cash flow in 2016 to exclude dividends, in line with its peer group. The free cash flow for 2015 has been restated accordingly, resulting in an increase of CHF 6,954 million to the free cash flow for that period. There was no impact on the operating free cash flow from this change. For the definition of free cash flow and a detailed breakdown see pages 140-142.

# Roche Group

Finance in brief

Inside cover

**Finance – 2016 in brief** **1**

**Financial Review** **3**

**Roche Group Consolidated Financial Statements** **38**

**Notes to the Roche Group Consolidated Financial Statements** **44**

|   |    |  |     |
|---|----|--|-----|
| <b>1.</b> General accounting principles | 44 | <b>17.</b> Other non-current liabilities                     | 71  |
| <b>2.</b> Operating segment information | 46 | <b>18.</b> Other current liabilities                         | 71  |
| <b>3.</b> Net financial expense         | 50 | <b>19.</b> Provisions and contingent liabilities             | 72  |
| <b>4.</b> Income taxes                  | 51 | <b>20.</b> Debt  | 76  |
| <b>5.</b> Business combinations         | 54 | <b>21.</b> Equity attributable to Roche shareholders         | 81  |
| <b>6.</b> Global restructuring plans    | 57 | <b>22.</b> Subsidiaries                                      | 84  |
| <b>7.</b> Property, plant and equipment | 60 | <b>23.</b> Non-controlling interests                         | 86  |
| <b>8.</b> Goodwill                      | 63 | <b>24.</b> Employee benefits                                 | 86  |
| <b>9.</b> Intangible assets             | 65 | <b>25.</b> Pensions and other post-employment benefits       | 87  |
| <b>10.</b> Inventories                  | 68 | <b>26.</b> Equity compensation plans                         | 93  |
| <b>11.</b> Accounts receivable          | 68 | <b>27.</b> Earnings per share and non-voting equity security | 97  |
| <b>12.</b> Marketable securities        | 69 | <b>28.</b> Statement of cash flows                           | 98  |
| <b>13.</b> Cash and cash equivalents    | 69 | <b>29.</b> Risk management                                   | 100 |
| <b>14.</b> Other non-current assets     | 70 | <b>30.</b> Related parties                                   | 109 |
| <b>15.</b> Other current assets         | 70 | <b>31.</b> Subsidiaries and associates                       | 111 |
| <b>16.</b> Accounts payable             | 71 | <b>32.</b> Significant accounting policies                   | 116 |

**Report of Roche Management on Internal Control over Financial Reporting** **124**

**Statutory Auditor's Report to the General Meeting of Roche Holding Ltd, Basel** **125**

**Report of the Independent Auditor on Internal Control over Financial Reporting to the Board of Directors of Roche Holding Ltd, Basel** **133**

**Multi-Year Overview and Supplementary Information** **134**

**Roche Securities** **145**

## Roche Holding Ltd, Basel

**Financial Statements** **148**

**Notes to the Financial Statements** **150**

**Appropriation of Available Earnings** **155**

**Statutory Auditor's Report to the General Meeting of Roche Holding Ltd, Basel** **156**

Net income increased by 7% at CER on both an IFRS basis and a core basis. In addition to the items described above in the core results, the IFRS results reflect impacts from higher intangible asset impairment and amortisation than in 2015, offset by releases from contingent consideration provisions.

In 2016 compared to 2015, the Swiss franc was weaker against most major currencies, in particular the Japanese yen, the US dollar and the euro. The overall impact is positive on the results expressed in Swiss francs compared to constant exchange rates, with a 1 percentage point impact on sales and core operating profit and 3 percentage points on Core EPS.

#### Income statement

|                                      | 2016<br>(CHF m) | 2015<br>(CHF m) | % change<br>(CHF) | % change<br>(CER) |
|--------------------------------------|-----------------|-----------------|-------------------|-------------------|
| <b>IFRS results</b>                  |                 |                 |                   |                   |
| Sales                                | 50,576          | 48,145          | +5                | +4                |
| Royalties and other operating income | 2,060           | 2,258           | -9                | -11               |
| Cost of sales                        | (16,180)        | (15,460)        | +5                | +3                |
| Marketing and distribution           | (9,140)         | (8,814)         | +4                | +3                |
| Research and development             | (11,532)        | (9,581)         | +20               | +19               |
| General and administration           | (1,715)         | (2,727)         | -37               | -38               |
| <b>Operating profit</b>              | <b>14,069</b>   | <b>13,821</b>   | <b>+2</b>         | <b>+1</b>         |
| Financing costs                      | (1,099)         | (1,574)         | -30               | -31               |
| Other financial income (expense)     | 37              | (260)           | -                 | -                 |
| <b>Profit before taxes</b>           | <b>13,007</b>   | <b>11,987</b>   | <b>+9</b>         | <b>+8</b>         |
| Income taxes                         | (3,274)         | (2,931)         | +12               | +10               |
| <b>Net income</b>                    | <b>9,733</b>    | <b>9,056</b>    | <b>+7</b>         | <b>+7</b>         |
| Attributable to                      |                 |                 |                   |                   |
| - Roche shareholders                 | 9,576           | 8,863           | +8                | +8                |
| - Non-controlling interests          | 157             | 193             | -19               | -30               |
| EPS - Basic (CHF)                    | 11.24           | 10.42           | +8                | +5                |
| EPS - Diluted (CHF)                  | 11.13           | 10.28           | +8                | +5                |
| <b>Core results</b>                  |                 |                 |                   |                   |
| Sales                                | 50,576          | 48,145          | +5                | +4                |
| Royalties and other operating income | 2,060           | 2,258           | -9                | -11               |
| Cost of sales                        | (13,469)        | (12,706)        | +6                | +5                |
| Marketing and distribution           | (9,007)         | (8,610)         | +5                | +4                |
| Research and development             | (9,915)         | (9,332)         | +6                | +5                |
| General and administration           | (1,825)         | (2,213)         | -18               | -19               |
| <b>Operating profit</b>              | <b>18,420</b>   | <b>17,542</b>   | <b>+5</b>         | <b>+4</b>         |
| Financing costs                      | (1,034)         | (1,140)         | -9                | -10               |
| Other financial income (expense)     | 37              | (276)           | -                 | -                 |
| <b>Profit before taxes</b>           | <b>17,423</b>   | <b>16,126</b>   | <b>+8</b>         | <b>+7</b>         |
| Income taxes                         | (4,735)         | (4,289)         | +10               | +9                |
| <b>Net income</b>                    | <b>12,688</b>   | <b>11,837</b>   | <b>+7</b>         | <b>+7</b>         |
| Attributable to                      |                 |                 |                   |                   |
| - Roche shareholders                 | 12,507          | 11,626          | +8                | +7                |
| - Non-controlling interests          | 181             | 211             | -14               | -25               |
| Core EPS - Basic (CHF)               | 14.68           | 13.66           | +7                | +5                |
| Core EPS - Diluted (CHF)             | 14.53           | 13.49           | +8                | +5                |

## Acquisitions

The Roche Group did not complete any business combinations in 2016. During 2016 there was CHF 408 million of non-core income from the release of contingent consideration provisions, mainly due to the partial reversal of the provisions related to the Seragon and Trophos acquisitions. There were two intangible asset impairment charges of CHF 885 million and CHF 187 million related to Seragon and Trophos respectively which offset this provision reversal as noted below in the 'Impairment of goodwill and intangible assets' commentary. Non-core costs also include expenses of CHF 167 million (2015: CHF 552 million) from the release of the Esbriet inventory fair value adjustment, which is now fully unwound. Further details are given in Notes 5 and 29 to the Annual Financial Statements.

## Global restructuring plans

During 2016 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the strategic realignment of the Pharmaceuticals Division's manufacturing network, and programmes to address long-term strategy in the Diagnostics Division.

Global restructuring plans: costs incurred for 2016 in millions of CHF

|   | Diagnostics <sup>1)</sup> | Site consolidation <sup>2)</sup> | Other plans <sup>3)</sup> | Total        |
|---|---------------------------|----------------------------------|---------------------------|--------------|
| Global restructuring costs              |                           |                                  |                           |              |
| - Employee-related costs                | 90                        | 86                               | 127                       | 303          |
| - Site closure costs                    | 33                        | 367                              | 3                         | 403          |
| - Other reorganisation expenses         | 189                       | 271                              | 67                        | 527          |
| <b>Total global restructuring costs</b> | <b>312</b>                | <b>724</b>                       | <b>197</b>                | <b>1,233</b> |
| Additional costs                        |                           |                                  |                           |              |
| - Impairment of goodwill                | -                         | -                                | -                         | -            |
| - Impairment of intangible assets       | -                         | -                                | -                         | -            |
| - Legal and environmental cases         | -                         | 24                               | -                         | 24           |
| <b>Total costs</b>                      | <b>312</b>                | <b>748</b>                       | <b>197</b>                | <b>1,257</b> |

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.

2) Includes the Pharmaceuticals Division strategic realignment of its manufacturing network.

3) Includes plans for Pharmaceuticals Division research and development strategic realignment and IT outsourcing.

**Diagnostics Division.** In 2016 costs from the Roche Diabetes Care 'Autonomy and Speed' initiative were CHF 132 million, mainly for consultancy and IT-related matters as well as employee-related costs. New strategy plans in Diagnostics and Diabetes Care incurred costs of CHF 106 million related to site closures and employees. Spending on other smaller plans within the division was CHF 74 million and included costs related to certain IT projects.

**Site consolidation.** In 2015 the Pharmaceuticals Division announced a strategic realignment of its manufacturing network including exiting from the manufacturing sites at Clarecastle, Ireland; Leganés, Spain; Segrate, Italy; and Florence, US. Costs from this plan in 2016 were CHF 733 million, of which CHF 337 million were non-cash write-downs and accelerated depreciation of property, plant and equipment and CHF 396 million were related to other site closures costs, reorganisation costs and employee costs. The divestment of the Nutley site in the US was completed in the second half of 2016 and resulted in an increase in provisions for environmental remediation.

**Other global restructuring plans.** The major items were CHF 74 million from the Pharmaceuticals Division research and development strategic realignment and CHF 90 million in informatics mainly for the outsourcing of IT functions to shared service centres and external providers.

Further details are given in Note 6 to the Annual Financial Statements.

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