Based on the most recent actuarial valuations, the Group expects that employer contributions for funded plans in 2013 will be approximately 319 million Swiss francs, which includes an estimated 111 million Swiss francs of additional contributions. Benefits paid for unfunded plans are estimated to be approximately 136 million Swiss francs.

Amounts recorded in other comprehensive income

The actuarial gains and losses recognised in the statement of comprehensive income were as follows:

Accumulated actuarial gains and losses (pre-tax) in millions of CHF

	2012	2011
At 1 January	(3,030)	(1,846)
Actuarial gains (losses) recognised on plan assets and liabilities	(1,819)	(1,205)
Actuarial gains (losses) recognised on reimbursement rights	11	21
At 31 December	**(4,838)**	**(3,030)**

The recognition of pension assets is limited to the total of the present value of any future refunds from the plans or reductions in future contributions to the plans and the cumulative unrecognised past service costs. Adjustments arising from this limit on asset recognition are recorded directly in other comprehensive income as follows:

Limit on asset recognition (pre-tax) in millions of CHF

	2012	2011
At 1 January	(10)	(4)
(Increase) decrease in asset limit recognised during the year	3	(6)
At 31 December	**(7)**	**(10)**

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10. Employee stock options and other equity compensation plans

The Group operates several equity compensation plans, including separate plans at Chugai. IFRS 2 'Share-based Payment' requires that the fair value of all equity compensation plan awards granted to employees be estimated at grant date and recorded as an expense over the vesting period. The expense is charged against the appropriate income statement heading.

Expenses for equity compensation plans in millions of CHF

	2012	2011
Cost of sales	45	56
Marketing and distribution	77	79
Research and development	108	106
General and administration	133	130
Total operating expenses	**363**	**371**
Share option plans		
Roche Option Plan	6	6
Total share option plans	**6**	**6**
Other equity compensation plans		
Bonus Stock Awards	5	5
Roche Connect	12	13
Roche Stock-settled Stock Appreciation Rights	256	231
Roche Restricted Stock Unit Plan	65	95
Roche Performance Share Plan	16	17
Roche Stock Appreciation Rights	–	1
Chugai equity compensation plans	3	3
Total other equity compensation plans	**357**	**365**
Total operating expenses	**363**	**371**
of which		
– Equity-settled	363	370
– Cash-settled	–	1

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Cash inflow (outflow) from equity compensation plans in millions of CHF

	2012	2011
Equity-settled equity compensation plans		
Roche Option Plan exercises	28	24
Chugai equity-compensation plan exercises	1	–
Roche Connect costs	(12)	(13)
Total equity-settled equity compensation plans	**17**	**11**
Cash outflow from transactions in own equity instruments	(319)	(589)
Total cash inflow (outflow) from equity-settled equity compensation plans, net of transactions in own equity instruments	**(302)**	**(578)**
Cash-settled plans (included as part of movements in net working capital)		
Roche Stock Appreciation Rights	–	(7)

The net cash outflow from transactions in own equity instruments mainly arises from sales and purchases of non-voting equity securities *(Genussscheine)* and derivative instruments thereon which are held for the Group's potential conversion obligations that may arise from the Group's equity-settled equity compensation plans. These derivative instruments mainly consist of call options that are exercisable at any time up to their maturity (see Note 27).

Roche Long-Term. During 2005 the Group implemented a new global long-term incentive programme which is available to certain directors, management and employees selected at the discretion of the Group. The programme consists of Stock-settled Stock Appreciation Rights ('S-SARs'), with the Group having the alternative of granting awards under the existing Roche Option Plan. In 2009, following the integration of Genentech, the Group also established a Restricted Stock Unit ('RSU') plan. The first awards of this plan were made in September 2009 to employees at Genentech. The S-SARs are issued in accordance with the Roche S-SAR Plan regulations, under which 180 million S-SARs will be available for issuance over a ten-year period. The RSUs are issued in accordance with the Roche Restricted Stock Unit Plan regulations, under which 20 million non-voting equity securities will be available for issuance over a ten-year period. The Remuneration Committee determines the number of non-voting equity securities that will be available under the plans each year. The Plan regulations for both the S-SAR and the RSU plans were restated and amended effective 1 January 2013. Further details of both plans are given in the relevant sections below.

Share option plans

Roche Option Plan. Awards under this plan give employees the right to purchase non-voting equity securities at an exercise price specified at the grant date. The Roche Option Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche Option Plan'). The options, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years, subject to continued employment. The Roche Option Plan includes provisions with respect to the consequences of termination of employment, the effect of certain corporate transactions and the authority of the Remuneration Committee and Executive Committee to interpret and administer the plan. The Group covers such obligations by purchasing non-voting equity securities or derivatives thereon (see Note 27). With the introduction of Roche Long-Term in 2005, the number of options granted under the Roche Option Plan was significantly reduced, as most eligible employees now receive Roche Stock-settled Stock Appreciation Rights instead.

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Roche Option Plan – movement in number of options outstanding

	2012 Number of options (thousands)	2012 Weighted average exercise price (CHF)	2011 Number of options (thousands)	2011 Weighted average exercise price (CHF)
Outstanding at 1 January	1,676	167.77	1,437	173.29
Granted	443	157.67	536	140.10
Forfeited	(117)	176.68	(105)	174.18
Exercised	(190)	145.01	(184)	128.33
Expired	(2)	132.74	(8)	129.50
Outstanding at 31 December	**1,810**	**167.15**	**1,676**	**167.77**
– of which exercisable	966	179.93	840	186.38

Roche Option Plan – terms of options outstanding as at 31 December 2012

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Options outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Options exercisable Weighted average exercise price (CHF)
2006	70	0.18	195.34	70	195.34
2007	138	1.18	229.71	138	229.71
2008	266	2.11	194.76	266	194.76
2009	195	3.23	152.11	195	152.11
2010	269	4.26	171.14	174	171.02
2011	444	5.17	140.10	122	140.10
2012	428	6.25	157.67	1	157.50
Total	**1,810**	**4.13**	**167.15**	**966**	**179.93**

Issues of Roche Option Plan in 2012

Number of options granted	443,196
Underlying equity	Roche non-voting equity securities
Currency	Swiss francs
Vesting period	Progressively over 3 years
Contractual life	7 years
Weighted average fair value of options issued	16.49
Option pricing model used	Binomial
Inputs to option pricing model	
– Share price at grant date	157.67
– Exercise price	157.67
– Expected volatility	24.69%
– Expected dividend yield	6.03%
– Early exercise factor	1.136
– Expected exit rate	10.10%

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Volatility was determined primarily by reference to historically observed prices of the underlying equity. Risk-free interest rates are derived from zero coupon swap rates at the grant date taken from Datastream. The early exercise factor describes the ratio between the expected market price at the exercise date and the exercise price at which early exercises can be expected, based on historically observed behaviour.

Exercise of share options in 2012. The weighted average share price of Roche non-voting equity securities during the year was 168.47 Swiss francs.

Other equity compensation plans

Bonus Stock Awards. Certain members of the Corporate Executive Committee will be granted Bonus Stock Awards in lieu of part or all of their cash-settled bonus for the financial year 2012. These will be issued by the end of April 2013 with a total fair value of 5 million Swiss francs. The number of awards and fair value per award will be calculated at the grant date.

Roche Connect. This programme enables all employees worldwide, except for those in the United States and certain other countries, to make regular deductions from their salaries to purchase non-voting equity securities. It is administered by independent third parties. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%). The programme has been operational since 1 October 2002. The administrator purchases the necessary non-voting equity securities directly from the market. At 31 December 2012 the administrator held 2.3 million non-voting equity securities (2011: 2.2 million). During the year the cost of the plan was 12 million Swiss francs (2011: 13 million Swiss francs), which was reported within the relevant expenditure line by function.

Roche Stock-settled Stock Appreciation Rights. With the introduction of Roche Long-Term in 2005, the Group offers Stock-settled Stock Appreciation Rights (S-SARs) to certain directors, management and employees selected at the discretion of the Group. The S-SARs give employees the right to receive non-voting equity securities reflecting the value of any appreciation in the market price of the non-voting equity securities between the grant date and the exercise date. The S-SAR Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche S-SAR Plan'). Under the Roche S-SAR Plan, 180 million S-SARs will be available for issuance over a ten-year period. The rights, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years. The Roche S-SAR Plan also includes provisions with respect to the consequences of termination of employment, the effect of certain corporate transactions and the authority of the Remuneration Committee and Executive Committee to interpret and administer the plan. Within the meaning of Section 25102(o) of Title 4 of the California Corporations Code and Sections 260.140.41 and 260.140.42 of Title 10 of the California Code of Regulations, approval of these Annual Financial Statements constitutes approval of the Roche S-SAR Plan, which is described in these Annual Financial Statements, by a majority of Roche Holding Ltd's outstanding securities entitled to vote. The Group covers such obligations by purchasing non-voting equity securities, or derivatives thereon (see Note 27).

Roche S-SARs – movement in number of rights outstanding

	2012		2011	
	Number of rights (thousands)	Weighted average exercise price (CHF)	Number of rights (thousands)	Weighted average exercise price (CHF)
Outstanding at 1 January	51,044	158.09	38,833	165.73
Granted	19,673	157.92	18,266	140.20
Forfeited	(3,196)	166.52	(4,239)	162.12
Exercised	(11,924)	149.36	(1,816)	132.29
Expired	(7)	123.00	–	–
Outstanding at 31 December	**55,590**	**159.42**	**51,044**	**158.09**
– of which exercisable	22,400	170.55	20,733	174.92

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Roche S-SARs – terms of rights outstanding at 31 December 2012

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Rights outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Rights exercisable Weighted average exercise price (CHF)
2006	1,232	0.17	195.08	1,232	195.08
2007	1,960	1.17	229.43	1,960	229.43
2008	4,209	2.10	194.85	4,209	194.85
2009	5,759	3.54	158.48	5,759	158.48
2010	10,750	4.59	155.06	6,255	156.13
2011	13,029	5.18	140.21	2,851	140.22
2012	18,651	6.26	157.93	134	157.52
Total	**55,590**	**4.77**	**159.42**	**22,400**	**170.55**

The weighted average fair value of the rights granted in 2012 was calculated using the Binomial model and the inputs to the model were consistent with those used for the Roche Option Plan 2012 awards. The resulting weighted average fair value per right is 16.52 Swiss francs giving a total fair value of 325 million Swiss francs which is charged over the vesting period of three years.

Roche Restricted Stock Unit Plan. The Group issues Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Group. The RSUs, which are non-tradable, represent the right to receive non-voting equity securities which vest only after a three-year period.

The RSU Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche RSU Plan'). Under the Roche RSU Plan 20 million non-voting equity securities will be available for issuance over a ten-year period. The awards, which are non-tradable, represent the right to receive non-voting equity securities which generally vest after a three year period, subject to performance conditions, if any. The Roche RSU Plan also includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted. In addition, the Roche RSU Plan includes provisions with respect to the consequences of termination of employment, the effect of certain corporate transactions and the authority of the Remuneration Committee and Executive Committee to interpret and administer the plan. The provisions are consistent with the terms of applicable California securities laws. Within the meaning of Section 25102(o) of Title 4 of the California Corporations Code and Sections 260.140.41 and 260.140.42 of Title 10 of the California Code of Regulations, approval of these Annual Financial Statements constitutes approval of the Roche RSU Plan, which is described in these Annual Financial Statements, by a majority of Roche Holding Ltd's outstanding securities entitled to vote.

Roche RSUs – movement in number of awards outstanding

	2012 Number of awards (thousands)	2011 Number of awards (thousands)
Outstanding at 1 January	2,227	2,495
Granted	–	16
Forfeited	(98)	(265)
Transferred to participants	(992)	(19)
Outstanding at 31 December	**1,137**	**2,227**
– of which exercisable	1	–

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Roche Performance Share Plan. The Group offers future non-voting equity security awards (or, at the discretion of the Board of Directors, their cash equivalent) to certain directors and key senior managers. These are non-tradable equity-settled awards. The programme was established at the beginning of 2002 and currently operates in annual three-year cycles. The Roche Performance Share Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche PSP Plan'). The Roche PSP Plan includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted. In addition, the Roche PSP Plan includes provisions with respect to the consequences of termination of employment, the effect of certain corporate transactions and the authority of the Remuneration Committee and Executive Committee to interpret and administer the plan. The terms of the currently outstanding awards are set out in the table below. The amount of non-voting equity securities allocated will depend upon the individual's salary level, the achievement of performance targets linked to the Group's Total Shareholder Return (shares and non-voting equity securities combined) relative to the Group's peers during the three-year period from the date of the grant, and the discretion of the Board of Directors. Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets.

Roche Performance Share Plan – terms of outstanding awards at 31 December 2012

	2010–2012	2011–2013	2012–2014
Number of awards outstanding (thousands)	87	135	133
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2013	Feb. 2014	Feb. 2015
Fair value per unit at grant (CHF)	173.39	124.17	153.67
Total fair value at grant (CHF millions)	**19**	**19**	**22**

The weighted average fair value of the 142,981 awards granted in 2012 was calculated using a Monte Carlo simulation. The input parameters to the model were the covariance matrix between Roche and the other individual companies of the peer group based on a three-year history and a risk-free rate of minus 0.067%. The valuation also takes into account the defined rank and performance structure which determines the pay-out of the plan.

Chugai Stock Acquisition Rights. During 2003 Chugai adopted a Stock Acquisition Rights programme. The programme allows for the granting of rights to employees and directors of Chugai. The 3,340 rights issued in 2012 (2011: 3,250) are non-tradable equity-settled awards, have a ten-year duration and vest after two years. Each right entitles the holder to purchase 100 Chugai shares at a specified exercise price. The total fair value of rights issued was equivalent to 1 million Swiss francs (2011: 1 million Swiss francs), which was calculated using a binomial model.

Chugai Retirement Stock Acquisition Rights. For the first time in 2009 Chugai issued Stock Acquisition Rights in lieu of the Retirement Gratuities System for Directors which was abolished. The 817 rights issued in 2012 (2011: 888) have a thirty-year duration and vest upon the holder's retirement as a director of Chugai. Each right entitles the holder to purchase 100 Chugai shares at an exercise price of 100 Japanese yen. The total fair value of rights issued was equivalent to 1 million Swiss francs (2011: 1 million Swiss francs), which was calculated using a binomial model.

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11. Property, plant and equipment

Property, plant and equipment: movements in carrying value of assets in millions of CHF

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At 1 January 2011					
Cost	970	11,853	16,257	1,908	30,988
Accumulated depreciation and impairment	–	(4,557)	(9,579)	(123)	(14,259)
Net book value	**970**	**7,296**	**6,678**	**1,785**	**16,729**
Year ended 31 December 2011					
At 1 January 2011	970	7,296	6,678	1,785	16,729
Additions	4	95	858	1,049	2,006
Disposals	(61)	(183)	(66)	(13)	(323)
Business combinations[6]	–	–	3	–	3
Divestment of subsidiaries[33]	–	(1)	(6)	(2)	(9)
Transfers	–	744	764	(1,508)	–
Reclassification to assets-held-for-sale	–	(13)	(63)	(23)	(99)
Depreciation charge	–	(461)	(1,387)	–	(1,848)
Impairment charge	–	(61)	(29)	(6)	(96)
Other	–	–	(124)	–	(124)
Currency translation effects	8	(4)	(34)	(8)	(38)
At 31 December 2011	**921**	**7,412**	**6,594**	**1,274**	**16,201**
Cost	921	12,166	16,631	1,344	31,062
Accumulated depreciation and impairment	–	(4,754)	(10,037)	(70)	(14,861)
Net book value	**921**	**7,412**	**6,594**	**1,274**	**16,201**
Year ended 31 December 2012					
At 1 January 2012	921	7,412	6,594	1,274	16,201
Additions	4	79	929	1,118	2,130
Disposals	(6)	(33)	(89)	(5)	(133)
Business combinations[6]	–	–	–	–	–
Transfers	1	395	588	(984)	–
Depreciation charge	–	(476)	(1,415)	–	(1,891)
Impairment charge	–	(246)	(144)	(72)	(462)
Other	4	–	(21)	–	(17)
Currency translation effects	(44)	(183)	(186)	(13)	(426)
At 31 December 2012	**880**	**6,948**	**6,256**	**1,318**	**15,402**
Cost	880	12,138	16,827	1,406	31,251
Accumulated depreciation and impairment	–	(5,190)	(10,571)	(88)	(15,849)
Net book value	**880**	**6,948**	**6,256**	**1,318**	**15,402**

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Impairment charges arise from changes in the estimates of the future cash flows expected to result from the use of the asset and its eventual disposal. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition and technical obsolescence could result in shortened useful lives or impairment. Impairment charges of 55 million Swiss francs (2011: 25 million Swiss francs) are reported as part of 'Cost of sales', 4 million Swiss francs (2011: none) in 'Marketing and Distribution', 98 million Swiss francs (2011: 71 million Swiss francs) in 'Research and development' and 305 million Swiss francs in 'General and administration' (2011: none).

In 2012 no income was received from insurance companies in respect of impairments to property, plant and equipment (2011: 24 million Swiss francs). In 2012 no borrowing costs were capitalised as property, plant and equipment (2011: none).

Leasing arrangements where the Group is the lessee

Finance leases. As at 31 December 2012 the capitalised cost of property, plant and equipment under finance leases was 327 million Swiss francs (2011: 314 million Swiss francs) and the net book value of these assets was 159 million Swiss francs (2011: 181 million Swiss francs). The carrying value of the leasing obligation was 203 million Swiss francs (2011: 225 million Swiss francs), which is reported as part of Debt (see Note 26).

Finance leases: future minimum lease payments under non-cancellable leases in millions of CHF

	Future minimum lease payments		Present value of future minimum lease payments	
	2012	2011	2012	2011
Within one year	31	31	19	17
Between one and five years	133	131	97	89
More than five years	94	131	87	119
Total	**258**	**293**	**203**	**225**
Future finance charges	–	–	55	68
Total future minimum lease payments (undiscounted)	**258**	**293**	**258**	**293**

Operating leases. Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the Group. Total operating lease rental expense was 404 million Swiss francs (2011: 395 million Swiss francs).

Operating leases: future minimum lease payments under non-cancellable leases in millions of CHF

	2012	2011
Within one year	228	206
Between one and five years	432	376
More than five years	149	178
Total minimum payments	**809**	**760**

Leasing arrangements where the Group is the lessor

Finance leases. Certain assets, mainly Diagnostics instruments, are leased to third parties through finance lease arrangements. Such assets are reported as receivables at an amount equal to the net investment in the lease. Lease income from finance leases is recognised over the term of the lease based on the effective interest rate method.

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Finance leases: future minimum lease payments under non-cancellable leases in millions of CHF

	Gross investment in lease 2012	2011	Present value of future minimum lease payments 2012	2011
Within one year	42	33	38	30
Between one and five years	93	86	87	81
More than five years	1	–	1	–
Total	**136**	**119**	**126**	**111**
Unearned finance income	(9)	(8)	n/a	n/a
Unguaranteed residual value	n/a	n/a	1	–
Net investment in lease	**127**	**111**	**127**	**111**

The accumulated allowance for uncollectible minimum lease payments was 2 million Swiss francs (2011: 2 million Swiss francs). There were no contingent rents recognised in income.

Operating leases. Certain assets, mainly Diagnostics instruments, are leased to third parties through operating lease arrangements. Such assets are reported within property, plant and equipment. Lease income from operating leases is recognised over the lease term on a straight-line basis.

At 31 December 2012 machinery and equipment with an original cost of 3,382 million Swiss francs (2011: 3,040 million Swiss francs) and a net book value of 1,361 million Swiss francs (2011: 1,274 million Swiss francs) was being leased to third parties. There was no contingent rent recognised as income.

Operating leases: future minimum lease payments under non-cancellable leases in millions of CHF

	2012	2011
Within one year	151	95
Between one and five years	124	103
More than five years	3	–
Total minimum payments	**278**	**198**

Capital commitments

The Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totalling 0.5 billion Swiss francs (2011: 0.6 billion Swiss francs).

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12. Goodwill

Goodwill: movements in carrying value of assets in millions of CHF

	2012	2011
At 1 January		
Cost	7,843	7,722
Accumulated impairment	–	–
Net book value	**7,843**	**7,722**
Year ended 31 December		
At 1 January	7,843	7,722
Business combinations[6]	–	194
Divestment of subsidiaries[33]	–	(72)
Impairment charge	(187)	–
Currency translation effects	(176)	(1)
At 31 December	**7,480**	**7,843**
Cost	7,662	7,843
Accumulated impairment	(182)	–
Net book value	**7,480**	**7,843**
Allocated to the following cash-generating units		
Roche Pharmaceuticals	2,047	2,099
Chugai	117	134
Total Pharmaceuticals Division	**2,164**	**2,233**
Diabetes Care	832	833
Professional Diagnostics	1,539	1,581
Molecular Diagnostics	–	–
Applied Science	34	223
Tissue Diagnostics	801	822
Strategic goodwill (held at divisional level and not allocated to business areas)	2,110	2,151
Total Diagnostics Division	**5,316**	**5,610**

The goodwill arising from investments in associates is classified as part of the investments in associates (see Note 14).

Goodwill impairment testing

Pharmaceuticals Division. The division's sub-divisions are the cash-generating units used for the testing of goodwill.

For Chugai, the recoverable amount is based on fair value less costs to sell, determined with reference to the publicly quoted share prices of Chugai shares. For Roche Pharmaceuticals, the recoverable amount used in the impairment testing is based on value in use. The cash flow projections used for Roche Pharmaceuticals impairment testing are based on the most recent business plans approved by management. The business plans include management's latest estimates on sales volume and pricing, and production and other operating costs and assumes no significant changes in the organisation.

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The business plans are projected over five years. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 6.4%, which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 25.5% is used in the calculations and the corresponding pre-tax discount rate is 8.6%.

Diagnostics Division. The division's business areas are the cash-generating units used for the testing of goodwill. The goodwill arising from the Corange/Boehringer Mannheim acquisition and part of the goodwill from the Ventana acquisition is recorded and monitored at a divisional level as it relates to the strategic development of the whole division and cannot be meaningfully allocated to the division's business areas. Therefore the cash-generating unit for this goodwill is the entire division.

The recoverable amount used in the impairment testing is based on value in use and the cash flow projections are based on the most recent business plans approved by management. The business plans include management's latest estimates on sales volume and pricing, and production and other operating costs. The business plans assume no further significant changes in the organisation beyond the Applied Science restructuring explained below.

The business plans are projected over five years, except for the Tissue Diagnostics business area which is projected over ten years reflecting the long-term nature of this business. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 6.4%, which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 15.9% is used in the calculations and the corresponding pre-tax discount rate is 7.7%.

The Diagnostics Division announced several global restructuring initiatives in 2012, as disclosed in Note 7. As part of the plan for streamlining the product portfolio in the Applied Science business, the division is exiting the Microarray business. The Microarray business was acquired in 2007 through the acquisition of NimbleGen. As a result of this decision the Microarray business is no longer considered to be part of the Applied Science business area cash-generating unit for assessing goodwill impairment. Given the plan to exit the Microarray business the goodwill which arose from the NimbleGen acquisition was considered to be fully impaired and a charge of 187 million Swiss francs was recorded. The remaining goodwill of 34 million Swiss francs in the Applied Science business area is supported by the value in use of the on-going business and is dependent on the success of the plan to streamline the product portfolio.

Goodwill sensitivity analysis

Management has performed sensitivity analyses for both Roche Pharmaceuticals and the Diagnostics Division which increased the discount rate by 1% combined with decreasing the forecast cash flows by 5%. The results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

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Regeneron v. Novartis, IPR2021-00816

13. Intangible assets

Intangible assets: movements in carrying value of assets in millions of CHF

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At 1 January 2011					
Cost	12,819	3,063	29	698	16,609
Accumulated amortisation and impairment	(9,845)	(972)	(15)	(644)	(11,476)
Net book value	**2,974**	**2,091**	**14**	**54**	**5,133**
Year ended 31 December 2011					
At 1 January 2011	2,974	2,091	14	54	5,133
Business combinations [6]	243	158	4	–	405
Additions	43	203	–	–	246
Disposals	–	–	–	–	–
Transfers	90	(90)	–	–	–
Amortisation charge	(505)	–	(5)	(10)	(520)
Impairment charge	(86)	(52)	–	–	(138)
Currency translation effects	(14)	16	(1)	(1)	–
At 31 December 2011	**2,745**	**2,326**	**12**	**43**	**5,126**
Cost	13,185	2,748	32	612	16,577
Accumulated amortisation and impairment	(10,440)	(422)	(20)	(569)	(11,451)
Net book value	**2,745**	**2,326**	**12**	**43**	**5,126**
Allocation by operating segment					
– Roche Pharmaceuticals	525	1,817	–	27	2,369
– Chugai	249	–	–	–	249
– Diagnostics	1,971	509	12	16	2,508
Total Group	**2,745**	**2,326**	**12**	**43**	**5,126**
Year ended 31 December 2012					
At 1 January 2012	2,745	2,326	12	43	5,126
Business combinations [6]	17	–	–	–	17
Additions	122	85	2	25	234
Disposals	–	–	–	–	–
Transfers	121	(121)	–	–	–
Amortisation charge	(514)	–	(6)	(10)	(530)
Impairment charge	(41)	(476)	–	(8)	(525)
Currency translation effects	(69)	(39)	–	–	(108)
At 31 December 2012	**2,381**	**1,775**	**8**	**50**	**4,214**
Cost	12,968	2,375	35	621	15,999
Accumulated amortisation and impairment	(10,587)	(600)	(27)	(571)	(11,785)
Net book value	**2,381**	**1,775**	**8**	**50**	**4,214**
Allocation by operating segment					
– Roche Pharmaceuticals	606	1,287	–	42	1,935
– Chugai	157	–	2	–	159
– Diagnostics	1,618	488	6	8	2,120
Total Group	**2,381**	**1,775**	**8**	**50**	**4,214**

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Regeneron v. Novartis, IPR2021-00816

Significant intangible assets as at 31 December 2012 in millions of CHF

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
Tanox acquisition	Roche Pharmaceuticals	260	7 years
Corange/Boehringer Mannheim acquisition	Diagnostics	595	5 years
Ventana acquisition	Diagnostics	344	5 years
Product intangibles not available for use			
InterMune alliance	Roche Pharmaceuticals	293	n/a
Ventana acquisition	Diagnostics	472	n/a

Classification of amortisation and impairment expenses in millions of CHF

	2012 Amortisation	2012 Impairment	2011 Amortisation	2011 Impairment
Cost of sales				
– Pharmaceuticals	146	13	137	32
– Diagnostics	341	28	361	54
Marketing and distribution				
– Diagnostics	6	–	5	–
Research and development				
– Pharmaceuticals	35	476	15	47
– Diagnostics	2	8	2	5
General and administration				
– Pharmaceuticals	–	–	–	–
Total	**530**	**525**	**520**	**138**

Internally generated intangible assets

The Group currently has no internally generated intangible assets from development as the criteria for the recognition as an asset are not met.

Intangible assets with indefinite useful lives

The Group currently has no intangible assets with indefinite useful lives.

Intangible assets not available for use

These mostly represent in-process research and development assets acquired either through in-licensing arrangements, business combinations or separate purchases. As at 31 December 2012 the carrying value of such assets in the Pharmaceuticals Division is 1,287 million Swiss francs. Of this amount approximately 98% represents projects that have potential decision points within the next twelve months which in certain circumstances could lead to impairment. Due to the inherent uncertainties in the research and development processes, intangible assets not available for use are particularly at risk of impairment if the project in question does not result in a commercialised product.

Intangible asset impairment

Impairment charges arise from changes in the estimates of the future cash flows expected to result from the use of the asset and its eventual disposal. Factors such as the presence or absence of competition, technical obsolescence or lower than anticipated sales for products with capitalised rights could result in shortened useful lives or impairment.

Intangible asset impairment charges – 2012

Total impairment charges during 2012 were 525 million Swiss francs, of which 489 million Swiss francs were in the Roche Pharmaceuticals operating segment and 36 million Swiss francs in the Diagnostics operating segment.

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Regeneron v. Novartis, IPR2021-00816

Pharmaceuticals Division. Impairment charges totalling 158 million Swiss francs arose from the various global restructuring initiatives disclosed in Note 7. Following the recent dalcetrapib trial results, impairment charges of 112 million Swiss francs were incurred in respect of previously acquired intangible assets. Additionally impairment charges of 46 million Swiss francs were recorded following a portfolio prioritisation decision as part of the reorganisation of research and development in the Pharmaceuticals Division. The assets concerned, which were not yet being amortised, were fully written down.

Impairment charges of 103 million Swiss francs were recorded following a portfolio prioritisation decision by the Pharmaceuticals Division. This relates to a decision to return the global rights to the monoclonal antibody RG 7334 anti-PLGF MAb to the alliance partners. The assets concerned, which were not yet being amortised, were fully written down by these charges.

Impairment charges of 162 million Swiss francs were recorded following the latest clinical data assessment of a project acquired as part of the Marcadia acquisition. The assets concerned, which were not yet being amortised, were written down to their recoverable value of 31 million Swiss francs.

Following recent clinical data, further impairment charges of 53 million Swiss francs were recorded in respect of projects in collaboration with alliance partners. The assets concerned, which were not yet being amortised, were fully written down by these charges. In addition, impairment charges of 13 million Swiss francs were recorded, which relate to a decision to stop development of one compound with an alliance partner. The assets concerned, which were being amortised, were fully written down by these charges.

Diagnostics Division. Impairment charges of 36 million Swiss francs were recorded, which includes 29 million Swiss francs from global restructuring initiatives in the Applied Science and Diabetes Care businesses (see Note 7). The assets concerned, which had been partly amortised, were written down to their recoverable value of 2 million Swiss francs.

Intangible asset impairment charges – 2011

Total impairment charges during 2011 were 138 million Swiss francs, of which 79 million Swiss francs were in the Roche Pharmaceuticals operating segment and 59 million Swiss francs in the Diagnostics operating segment.

Pharmaceuticals Division. An impairment charge of 32 million Swiss francs was recorded related to a decision to stop the development of a project acquired in a business combination that had been out-licensed to an alliance partner. The assets concerned, which had been partly amortised, were written down to their recoverable value of 29 million Swiss francs. Further charges of 47 million Swiss francs were recorded, resulting from portfolio prioritisation decisions on projects acquired separately or as part of a business combination. The assets concerned, which were not yet being amortised, were fully written down by these charges.

Diagnostics Division. An impairment charge of 59 million Swiss francs was recorded mainly in respect of intangible assets in use. This followed the regular updating of the division's business plans and technology assessments in the second half of 2011. The assets concerned were written down to their recoverable amount of 14 million Swiss francs.

Potential commitments from alliance collaborations

The Group is party to in-licensing and similar arrangements with its alliance partners. These arrangements may require the Group to make certain milestone or other similar payments dependent upon the achievement of agreed objectives or performance targets as defined in the collaboration agreements.

The Group's current estimate of future third-party commitments for such payments is set out in the table below. These figures are undiscounted and are not risk adjusted, meaning that they include all such potential payments that can arise assuming all projects currently in development are successful. The timing is based on the Group's current best estimate. These figures do not include any potential commitments within the Group, such as may arise between the Roche and Chugai businesses.

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Regeneron v. Novartis, IPR2021-00816

Potential future third-party collaboration payments as at 31 December 2012 in millions of CHF

	Pharmaceuticals	Diagnostics	Group
Within one year	208	11	219
Between one and two years	175	2	177
Between two and three years	196	–	196
Total	**579**	**13**	**592**

14. Associates

The Group's investments in associates are accounted for using the equity method. The goodwill arising from investments in associates is classified as part of the investments in associates.

Investments in associates in millions of CHF

	2012	2011
At 1 January	24	13
Share of net income	–	12
Currency translation effects	–	(1)
At 31 December	**24**	**24**

The Group has no significant investments in associates and there were no material transactions between the Group and its associates. Additional information about associates is given in Note 33.

15. Financial and other long-term assets

Financial and other long-term assets in millions of CHF

	2012	2011	2010
Available-for-sale investments	182	201	239
Held-to-maturity investments	–	–	–
Loans receivable	12	6	9
Long-term trade receivables	21	35	75
Restricted cash	35	37	41
Other	89	81	64
Total financial long-term assets	**339**	**360**	**428**
Long-term employee benefits	254	240	230
Other	197	220	226
Total other long-term assets	**451**	**460**	**456**

Financial long-term assets are held for strategic purposes and are classified as non-current. The available-for-sale investments are mainly equity investments. These are primarily investments in private biotechnology companies, which are kept as part of the Group's strategic alliance efforts. Some unquoted equity investments classified as available-for-sale are measured at cost, as their fair value cannot be measured reliably. The carrying value of equity investments held at cost is 57 million Swiss francs (2011: 53 million Swiss francs, 2010: 39 million Swiss francs). Loans receivable comprise all loans to third parties with a term of over one year.

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Regeneron v. Novartis, IPR2021-00816

16. Inventories

Inventories in millions of CHF

	2012	2011	2010
Raw materials and supplies	827	817	793
Work in process	158	155	169
Intermediates	3,718	3,101	3,290
Finished goods	1,231	1,348	1,174
Less: provision for slow-moving and obsolete inventory	(392)	(361)	(454)
Total inventories	**5,542**	**5,060**	**4,972**

In 2012 expenses relating to inventories expensed through cost of sales totalled 8,615 million Swiss francs (2011: 8,481 million Swiss francs).

17. Accounts receivable

Accounts receivable in millions of CHF

	2012	2011	2010
Trade accounts receivable	10,091	10,270	9,700
Notes receivable	141	152	224
Other receivables	38	30	24
Allowances for doubtful accounts	(474)	(431)	(376)
Charge-backs and other allowances	(331)	(222)	(169)
Total accounts receivable	**9,465**	**9,799**	**9,403**

At 31 December 2012 accounts receivable include amounts denominated in US dollars equivalent to 2.4 billion Swiss francs (2011: 2.3 billion Swiss francs, 2010: 2.0 billion Swiss francs) and amounts denominated in euros equivalent to 2.5 billion Swiss francs (2011: 3.1 billion Swiss francs, 2010: 3.2 billion Swiss francs).

Allowances for doubtful accounts receivable: movements in recognised liability in millions of CHF

	2012	2011
At 1 January	(431)	(376)
Additional allowances created	(313)	(253)
Unused amounts reversed	239	65
Utilised during the year	23	126
Currency translation effects	8	7
At 31 December	**(474)**	**(431)**

In 2012 expenses relating to bad debts expensed through marketing and distribution totalled 64 million Swiss francs (2011: 193 million Swiss francs). Significant concentrations within trade receivables of counterparty credit risk are described in Note 31.

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Regeneron v. Novartis, IPR2021-00816

18. Other current assets

Other current assets in millions of CHF

	2012	2011	2010
Accrued interest income	34	20	53
Derivative financial instruments [23]	454	274	485
Restricted cash	–	–	–
Other receivables	617	699	612
Total financial current assets	**1,105**	**993**	**1,150**
Prepaid expenses	421	383	462
Other taxes recoverable	338	350	366
Other assets	170	138	190
Total non-financial current assets	**929**	**871**	**1,018**
Total other current assets	**2,034**	**1,864**	**2,168**

Derivative financial instrument assets are primarily related to hedges on the non-US dollar-denominated bonds and notes issued to finance the Genentech transaction. The increase compared to 31 December 2011 is mainly due to a strengthening of the euro compared to the US dollar during 2012.

19. Marketable securities

Marketable securities in millions of CHF

	2012	2011	2010
Financial assets at fair-value-through-profit-or-loss			
– Bonds and debentures	–	–	–
Total financial assets at fair-value-through-profit-or-loss	**–**	**–**	**–**
Held-to-maturity financial assets			
– Money market instruments and time accounts over three months	–	–	4
Total held-to-maturity financial assets	**–**	**–**	**4**
Available-for-sale financial assets			
– Shares	272	241	272
– Bonds and debentures	1,558	1,428	1,614
– Money market instruments and time accounts over three months	7,631	5,764	7,170
– Other investments	–	–	–
Total available-for-sale financial assets	**9,461**	**7,433**	**9,056**
Total marketable securities	**9,461**	**7,433**	**9,060**

Marketable securities are held for fund management purposes and are classified as current. They are primarily denominated in Swiss francs, US dollars and euros. Other investments held for strategic purposes are classified as non-current (see Note 15).

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Regeneron v. Novartis, IPR2021-00816

Bonds and debentures. The carrying values and contracted maturity of debt securities are shown below.

Bonds and debentures in millions of CHF

Contracted maturity	2012	2011	2010
Within one year	1,273	735	388
Between one and five years	269	693	1,109
More than five years	16	–	117
Total bonds and debentures	**1,558**	**1,428**	**1,614**

Money market instruments. These are contracted to mature within one year of 31 December 2012.

20. Cash and cash equivalents

Cash and cash equivalents in millions of CHF

	2012	2011	2010
Cash			
– Cash in hand and in current or call accounts	3,725	2,838	1,744
Cash equivalents			
– Time accounts with a maturity of three months or less	805	1,016	97
Total cash and cash equivalents	**4,530**	**3,854**	**1,841**

21. Accounts payable

Accounts payable in millions of CHF

	2012	2011	2010
Trade accounts payable	1,132	1,213	1,141
Other taxes payable	334	403	360
Dividends payable	2	2	2
Other accounts payable	477	435	565
Total accounts payable	**1,945**	**2,053**	**2,068**

22. Accrued and other current liabilities

Accrued liabilities and other current liabilities in millions of CHF

	2012	2011	2010
Deferred income	156	373	458
Accrued payroll and related items	1,998	1,804	1,753
Interest payable	749	887	1,028
Derivative financial instruments[23]	165	104	102
Other accrued liabilities	4,098	3,647	3,185
Total accrued and other current liabilities	**7,166**	**6,815**	**6,526**

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Regeneron v. Novartis, IPR2021-00816

23. Derivative financial instruments

The Group uses derivative financial instruments as part of its risk management activities. This is discussed in Note 31. Derivative financial instruments are carried at fair value. The methods used for determining fair value are described in Note 1.

Derivative financial instruments in millions of CHF

	Assets 2012	Assets 2011	Assets 2010	Liabilities 2012	Liabilities 2011	Liabilities 2010
Foreign currency derivatives						
– Forward exchange contracts	31	87	129	(59)	(42)	(95)
– Cross-currency swaps	418	178	356	–	–	–
– Other	–	–	–	–	–	–
Interest rate derivatives						
– Swaps	5	9	–	–	–	–
– Other	–	–	–	–	–	–
Other derivatives	–	–	–	(106)	(62)	(7)
Total derivative financial instruments [18, 22]	**454**	**274**	**485**	**(165)**	**(104)**	**(102)**

Hedge accounting

The Group's accounting policy on hedge accounting, which is described in Note 1, requires that to qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement.

As described in Note 31, the Group has financial risk management policies for foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. When deemed appropriate, certain of the above risks are managed by using derivatives. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in financial income.

The Group generally limits the use of hedge accounting to certain significant transactions. Consequently as at 31 December 2012 the Group has no fair value hedges, cash flow hedges or hedges of net investment in a foreign entity that meet the strict requirements to qualify for hedge accounting, apart from those described below.

Cash flow hedges

The Group has issued bonds and notes in 2009 to finance the Genentech transaction (see Note 26). On some of the bonds and notes which are denominated in euros and sterling, the Group has entered into cross-currency swaps to hedge foreign exchange and interest rate risk. As at 31 December 2012 such instruments, which are designated and qualify for hedge accounting, are recorded as assets with a fair value of 418 million Swiss francs (2011: assets of 178 million Swiss francs). There was no ineffective portion.

During 2012 the Group entered into foreign exchange forward contracts to hedge a part of its foreign translation exposure to euros. As at 31 December 2012 such instruments, which are designated and qualify for hedge accounting, are recorded as liabilities with a fair value of 10 million Swiss francs. There was no ineffective portion.

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The expected undiscounted cash flows from qualifying cash flow hedges, including interest payments during the duration of the derivative contract and final settlement on maturity, are shown in the table below.

Expected cash flows of qualifying cash flow hedges in millions of CHF

	Total	0–3 months	4–6 months	7–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Year ended 31 December 2012									
Cash inflows	11,172	4,370	409	243	286	1,172	2,772	94	1,826
Cash outflows	(10,919)	(4,278)	(412)	(246)	(302)	(1,078)	(2,709)	(99)	(1,795)
Total	**253**	**92**	**(3)**	**(3)**	**(16)**	**94**	**63**	**(5)**	**31**
Year ended 31 December 2011									
Cash inflows	14,062	594	–	–	5,346	375	1,244	3,678	2,825
Cash outflows	(14,091)	(665)	–	–	(5,330)	(405)	(1,204)	(3,655)	(2,832)
Total	**(29)**	**(71)**	**–**	**–**	**16**	**(30)**	**40**	**23**	**(7)**

The undiscounted cash flows in the table above will affect profit and loss as shown below. These include interest payments during the duration of the derivative contract but do not include the final settlement on maturity.

Expected cash flows of qualifying cash flow hedges with impact on profit and loss in millions of CHF

	Total	0–3 months	4–6 months	7–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Year ended 31 December 2012									
Cash inflows	1,730	451	–	–	286	286	236	94	377
Cash outflows	(1,839)	(490)	–	–	(302)	(302)	(254)	(99)	(392)
Total	**(109)**	**(39)**	**–**	**–**	**(16)**	**(16)**	**(18)**	**(5)**	**(15)**
Year ended 31 December 2011									
Cash inflows	2,959	594	–	–	595	375	375	327	693
Cash outflows	(3,228)	(665)	–	–	(662)	(405)	(405)	(357)	(734)
Total	**(269)**	**(71)**	**–**	**–**	**(67)**	**(30)**	**(30)**	**(30)**	**(41)**

The changes in the hedging reserve within equity are shown in Note 27.

Fair value hedges

During 2011 the Group entered into some interest rate swaps to hedge some of its fixed-term debt instruments. These instruments, which had been designated and qualified as fair value hedges, were recorded in the balance sheet at 31 December 2012 as assets with a fair value of 5 million Swiss francs (2011: assets of 9 million Swiss francs). During 2012 a loss of 4 million Swiss francs was recorded on these interest rate swaps (2011: gain of 9 million Swiss francs). As the fair value hedge had been highly effective since inception, the result of the interest rate swaps was largely offset by changes in the fair value of the hedged debt instruments.

The Group has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure the Group has entered into forward contracts, which have been designated and qualify as fair value hedges. As at 31 December 2012 such instruments are recorded as liabilities with a fair value of 106 million Swiss francs (2011: liabilities of 62 million Swiss francs). During 2012 a loss of 44 million Swiss francs was recorded on these forward contracts (2011: loss of 55 million Swiss francs). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

The Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposures to foreign currency, interest rate, equity market and credit risks. The instruments used may include interest rate swaps, cross-currency swaps, forwards contracts, options.

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Regeneron v. Novartis, IPR2021-00816

24. Provisions and contingent liabilities

Provisions: movements in recognised liabilities in millions of CHF

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended 31 December 2011						
At 1 January 2011	781	261	970	253	815	3,080
Additional provisions created	99	8	173	92	533	905
Unused amounts reversed	(35)	(1)	(77)	(8)	(244)	(365)
Utilised during the year	(99)	(9)	(480)	(57)	(303)	(948)
Unwinding of discount [4]	1	7	–	1	6	15
Business combinations [6]						
– Acquired companies	–	–	–	7	1	8
– Contingent consideration	–	–	–	–	82	82
– Contingent consideration utilisation	–	–	–	–	(15)	(15)
Divestment of subsidiaries [33]	–	(1)	(3)	–	–	(4)
Currency translation effects	(1)	–	(17)	1	(8)	(25)
At 31 December 2011	**746**	**265**	**566**	**289**	**867**	**2,733**
Of which						
– Current portion	655	11	376	88	612	1,742
– Non-current portion	91	254	190	201	255	991
Total provisions	**746**	**265**	**566**	**289**	**867**	**2,733**
Year ended 31 December 2012						
At 1 January 2012	746	265	566	289	867	2,733
Additional provisions created	86	317	607	137	509	1,656
Unused amounts reversed	(21)	–	(139)	(9)	(124)	(293)
Utilised during the year	(65)	(15)	(326)	(104)	(318)	(828)
Unwinding of discount [4]	1	7	–	1	3	12
Business combinations [6]						
– Acquired companies	–	–	–	–	–	–
– Contingent consideration	–	–	–	–	1	1
– Contingent consideration utilisation	–	–	–	–	(24)	(24)
Currency translation effects	(19)	(8)	(10)	(1)	(19)	(57)
At 31 December 2012	**728**	**566**	**698**	**313**	**895**	**3,200**
Of which						
– Current portion	703	109	522	91	733	2,158
– Non-current portion	25	457	176	222	162	1,042
Total provisions	**728**	**566**	**698**	**313**	**895**	**3,200**
Expected outflow of resources						
– Within one year	703	109	522	91	733	2,158
– Between one and two years	8	124	103	43	26	304
– Between two and three years	6	112	25	30	98	271
– More than three years	11	221	48	149	38	467
Total provisions	**728**	**566**	**698**	**313**	**895**	**3,200**

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Legal provisions

Legal provisions consist of a number of separate legal matters, including claims arising from trade, in various Group companies. The majority of any cash outflows for these other matters are expected to occur within the next one to three years, although these are dependent on the development of the various litigations. Significant provisions are discounted by between 4% and 5% where the time value of money is material.

Legal expenses during 2012 totalled 72 million Swiss francs (2011: 74 million Swiss francs) which reflect the recent developments in various legal matters. Details of the major legal cases outstanding are disclosed below.

Environmental provisions

Provisions for environmental matters include various separate environmental issues in a number of countries. By their nature the amounts and timings of any outflows are difficult to predict. The estimated timings of these cash outflows are shown in the table above. Significant provisions are discounted by between 4% and 6% where the time value of money is material.

As disclosed in Note 7, the restructuring plan to streamline the research and development activities within the Pharmaceuticals Division includes the closure of the US site in Nutley, New Jersey. An expense of 243 million Swiss francs was recorded based on estimates of the additional remediation activities that may be needed before the Nutley site can be sold. Further expenses were also recorded for an increase in the estimated remediation costs for a landfill site near Grenzach, Germany, that was used by manufacturing operations that were closed some years ago.

Restructuring provisions

These arise from planned programmes that materially change the scope of business undertaken by the Group or the manner in which business is conducted. Such provisions include only the costs necessarily entailed by the restructuring which are not associated with the recurring activities of the Group. The timings of these cash outflows are reasonably certain on a global basis and are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

The restructuring provisions created in 2012 are primarily related to the plan to streamline the research and development activities within the Pharmaceuticals Division, mainly related to the closure of the US site in Nutley, New Jersey.

Employee provisions

These mostly relate to certain employee benefit obligations, such as sabbatical leave and long-service benefits. The timings of these cash outflows can be reasonably estimated based on past performance and are shown in the table above. Significant provisions are discounted by 6% where the time value of money is material.

Other provisions

The timings of cash outflows are by their nature uncertain and the best estimates are shown in the table below. Significant provisions are discounted by between 2% and 6% where the time value of money is material.

Other provisions in millions of CHF

	2012	2011	2010
Sales returns	503	377	328
Contingent consideration[6]	81	153	132
Other items	311	337	355
Total other provisions	**895**	**867**	**815**

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Contingent liabilities

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which it operates. The industries in which the Group operates are also subject to other risks of various kinds. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings, are not predictable.

The Group has entered into strategic alliances with various companies in order to gain access to potential new products or to utilise other companies to help develop the Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The Group's best estimates of future commitments for such payments are given in Note 13.

Pharmaceuticals legal cases

Accutane. Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the United States and elsewhere relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. As of 31 December 2012 HLR was defending approximately 7,830 actions involving approximately 7,920 plaintiffs brought in various federal and state courts throughout the United States for personal injuries allegedly resulting from their use of Accutane. Most of the actions allege IBD as a result of Accutane use. On 26 June 2009 HLR announced that, following a re-evaluation of its portfolio of medicines that are now available from generic manufacturers, rapidly declining brand sales in the US and high costs from personal-injury lawsuits that it continues to defend vigorously, it had decided to immediately discontinue the manufacture and distribution of the product in the United States.

All of the actions pending in federal court alleging IBD were consolidated for pre-trial proceedings in a Multi-District Litigation in the United States District Court for the Middle District of Florida, Tampa Division. Since July 2007 the District Court has granted summary judgment in favour of HLR for all of the federal IBD cases that have proceeded. Since August 2008 all of these rulings have been affirmed by the United States Court of Appeals for the Eleventh Circuit when plaintiffs appealed. Multiple recently filed matters remain pending.

All of the actions pending in state court in New Jersey alleging IBD were consolidated for pre-trial proceedings in the Superior Court of New Jersey, Law Division, Atlantic County. As of 31 December 2012 juries in the Superior Court have ruled in favour of the plaintiff in eight cases, assessing total compensatory damages totalling 67.7 million US dollars, and ruled in favour of HLR in four cases. For the eight cases that were originally ruled in favour of the plaintiff by the Superior Court, HLR is in the process of appealing two cases (27.4 million US dollars); one case is scheduled for a retrial in April 2013 (10.5 million US dollars); post-trial briefing is on-going for two cases (18.0 million US dollars); and three cases have had their verdicts reversed in favour of HLR (11.8 million US dollars).

In May 2012 a trial involving four plaintiffs reached defence verdicts in two of the cases and awarded compensatory damages of 9.0 million US dollars in each of the other two cases; the cases are in post-trial briefing. In August 2012 the New Jersey Appellate Division reversed three 2008 verdicts in favour of plaintiffs in the amount of 11.8 million US dollars and directed that final judgment be entered for HLR. The Court held that, under controlling Florida case law, HLR was entitled to judgment because the prescribing physicians testified that they would have still prescribed Accutane even in the face of the plaintiffs' proposed different warnings; thus, plaintiffs could not establish their respective cases. The New Jersey Supreme Court declined the plaintiffs' request to review the decision.

Additional trials may be scheduled for 2013. Individual trial results depend on a variety of factors, including many that are unique to the particular case and therefore the trial results to date may not be predictive of future trial results. The Group continues to defend vigorously the remaining personal injury cases and claims.

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Cabilly patents. On 8 October 2009 Glaxo Group Limited, SmithKline Beecham Corporation, and GlaxoSmithKline LLC (collectively 'GSK') filed a patent lawsuit against Genentech and City of Hope in the US District Court for the Southern District of Florida. The lawsuit related to US Patent No. 6,331,415 ('the Cabilly II patent') that is co-owned by Genentech and the City of Hope. On 17 February 2010 GSK dismissed its Florida lawsuit in its entirety and filed a related action on the same day in the US District Court for the Northern District of California, which was subsequently transferred to the Central District of California. In the lawsuit, GSK was seeking a declaratory judgment of patent invalidity and unenforceability with regard to the Cabilly II patent and of patent non-infringement with regard to GSK's Arzerra product.

In the first half of 2011 additional lawsuits between Genentech and GSK and/or Human Genome Sciences, Inc. ('HGS') involving the Cabilly II patent and related US Patent No. 7,923,221 ('the Cabilly III patent') were filed in the US District Courts for the District of Delaware and the Central District of California. The lawsuits filed in Delaware were subsequently transferred to the Central District of California. The additional lawsuits included claims by GSK and/or HGS that the Cabilly patents are not infringed, are invalid, and are unenforceable, and that Genentech violated antitrust and unfair competition laws, and other laws, and claims by Genentech that GSK's Arzerra product and GSK's and HGS's Benlysta product infringed the Cabilly patents.

On 26 March 2012 the parties agreed to a settlement of the claims in these lawsuits relating to the Arzerra product. On 18 December 2012 the parties agreed to a settlement of all the remaining claims in these lawsuits, including those related to the Benlysta product. All of these matters are now concluded.

Rituxan arbitration (Sanofi/Hoechst). On 27 October 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis US LLC and Sanofi-Aventis US Inc. in the Northern District of California seeking a declaratory judgment that certain Genentech products, including Rituxan, do not infringe Sanofi's US Patents 5,849,522 and 6,218,140 and a declaratory judgment that the '522 and '140 patents are invalid. Also on 27 October 2008 Sanofi filed suit against Genentech and Biogen Idec in the Eastern District of Texas, Lufkin Division, claiming that Rituxan and at least eight other Genentech products infringe the '522 and '140 patents. Sanofi requested preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. Subsequently the Texas and California cases were consolidated in the Northern District of California. On 7 March 2011 the District Court ruled that as a matter of law Genentech and Biogen Idec do not infringe any of the asserted patent claims. On 18 May 2011 Sanofi filed a notice of appeal of the Court's non-infringement ruling and its claim construction order. The appellate court affirmed the District Court's judgment that the Rituxan product does not infringe any of the claims of either of those patents.

In addition on 24 October 2008 Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated agreement between one of Hoechst's predecessors and Genentech that pertained to the above patents and related patents outside the United States. Hoechst is seeking payment of royalties on sales of Genentech products, damages for breach of contract, and other relief. In June 2011 the ICC arbitrator issued an intermediate decision indicating that Rituxan is covered by the terminated agreement and ordering that Genentech produce certain Rituxan sales information from December 1998 to October 2008. The Group expects that the arbitrator would use this information, and possibly other information, to determine the amount of damages to be awarded to Hoechst. At 31 December 2011 the Group recorded a back royalty expense of 61 million Swiss francs, net of the assumed reimbursement of a portion of the Group's obligation by its co-promotion partner in the US, and a corresponding amount in accrued liabilities. At 31 December 2012 the amount that was accrued in 2011 continues to represent management's best estimate of the compensatory damages, including interest, which may be awarded to Hoechst based on the financial terms of the terminated agreement. The final amount of the decision may vary from the amounts provided if the nature and/or extent of the damages awarded to Hoechst differ from the Group's estimate or if Genentech successfully challenges the arbitrator's decision. On 11 July 2011 Genentech filed a Declaration of Appeal with the Court of Appeal of Paris to initiate legal proceedings challenging the arbitrator's decision. The arbitrator subsequently stated to the parties that his June 2011 decision 'did not decide in the operative part the underlying issue of liability with respect of Rituxan'. In light of that statement, Genentech did not pursue its previously filed action to challenge the arbitrator's decision (without prejudicing its ability to bring a challenge in the future). In March 2012 Genentech completed briefing on liability, and on the amount owed under the license agreement if the arbitrator were to find liability. On 5 September 2012 the arbitrator issued a decision indicating that Genentech is liable to Hoechst for certain damages yet to be determined. On 29 November 2012 the arbitrator held a hearing on the amount of damages that Genentech may owe to Hoechst. The arbitrator has not yet issued a decision regarding damages. On 10 December 2012 Genentech filed a Declaration of Appeal with the Court of Appeal of Paris to initiate legal proceedings challenging the arbitrator's decision.

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Regeneron v. Novartis, IPR2021-00816

On 1 May 2012 Genentech filed a motion in the US District Court seeking to enjoin Sanofi and its affiliates (e.g. Hoechst) from pursuing an award in the ICC arbitration that would undermine and be contrary to the US courts' final judgment of no infringement. The District Court denied that motion, and Genentech appealed to the US Court of Appeals for the Federal Circuit. The appeal hearing was held on 8 January 2013 and a decision is expected later in 2013.

The outcome of these matters cannot be determined at this time.

Average Wholesale Prices litigation. HLR and Roche Laboratories Inc. ('RLI'), along with approximately 50 other brand and generic pharmaceutical companies, have been named as defendants in several legal actions in the United States relating to the pricing of pharmaceutical drugs and State Medicaid reimbursement. The primary allegation in these litigations is that the pharmaceutical companies misrepresented or otherwise reported inaccurate Average Wholesale Prices ('AWP') and/or Wholesale Acquisition Costs ('WAC') for their drugs, which prices were allegedly relied upon by the States in calculating Medicaid reimbursements to entities such as retail pharmacies. The States, through their respective Attorney General, are seeking repayment of the amounts they claim were over-reimbursed. The time period associated with these cases is 1991–2005. As of 31 December 2012 HLR and RLI are defending one AWP action filed in the state of New Jersey. Discovery is currently pending in this case. HLR and RLI are vigorously defending themselves in this matter. The outcome of this matter cannot be determined at this time.

Brand Name Prescription Drugs litigations. HLR, along with various other branded pharmaceutical companies, has been named as a defendant in several legal actions in the United States brought by retail pharmacies relating to the discounting practices for Brand Name Prescription Drugs ('BNPD'). In these BNPD litigations, the plaintiffs allege that they were denied discounts for certain prescription drugs that were offered to other mail order and managed care entities, which denial is claimed to be a violation of the Robinson-Patman Act ('RPA'). The RPA is a Federal law that prohibits unlawful price discrimination. In addition, the plaintiffs alleged that the defendants conspired in their refusal to offer them certain discounts. The conspiracy claims against all defendants were previously settled, with only the RPA claims remaining to be litigated. As of 31 December 2012 HLR and RLI have successfully obtained dismissals of all BNPD cases and are no longer defending these matters. This matter is now concluded.

University of Pennsylvania litigation. On 11 May 2010 Genentech filed a patent lawsuit against the University of Pennsylvania in the US District Court for the Northern District of California. The lawsuit related to US Patent No. 6,733,752 and sought a declaratory judgment of patent non-infringement and invalidity with regard to that patent. On 12 July 2010 the University counterclaimed against Genentech for infringement of the '752 patent, seeking unspecified damages based on the sales of Herceptin. On 9 May 2011 the Court issued a claim construction order, construing certain terms used in claims of the '752 patent. On 7 June 2012 the parties entered into a binding term sheet to settle the litigation and the parties dismissed the case by stipulation. This matter is now concluded.

PDL litigation. On 27 August 2010 PDL Biopharma ('PDL') filed a complaint against Genentech in Nevada state Court seeking a judicial declaration concerning Genentech's obligation to pay royalties on certain ex-US sales of Herceptin, Avastin, Xolair and Lucentis under a 2003 agreement between the parties. On 13 September 2010 PDL filed a first amended complaint asserting additional claims against Genentech, including breach of contract and breach of the implied covenant of good faith and fair dealing. PDL also asserted new claims against Roche and Novartis for intentional interference with contractual relations. In addition to declaratory relief, PDL is seeking monetary damages including compensatory and liquidated damages. On 1 November 2010 Genentech and Roche filed a motion to dismiss for failure to state a claim, and Roche filed an additional motion to dismiss for lack of personal jurisdiction. On 7 July 2011 the Court denied the motions. PDL settled its claim against Novartis. Fact discovery between the other parties is on-going and is expected to be completed in March 2013 and the trial is currently scheduled for October 2013.

In addition to the litigation, PDL conducted a royalty audit related to sales of Avastin, Herceptin, Lucentis, Xolair and Raptiva for the years 2007 through 2009. On 22 October 2012 the Group received from PDL a copy of the independent auditor's final audit report. The audit report indicates that under PDL's interpretation of certain contract terms, Genentech owes PDL additional royalties for the audit period (and under the same interpretation Genentech may owe additional royalties for years subsequent to the audit period). The Group disputes PDL's interpretation of the relevant contract terms and does not believe that additional royalties are owed.

The outcome of these matters cannot be determined at this time.

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Regeneron v. Novartis, IPR2021-00816

GSK litigation. On 20 September 2010 GSK and Genentech each filed patent lawsuits against one another (and in the case of GSK, also against Roche Holding Ltd) in US District Courts for the District of Delaware and the Northern District of California, respectively. The lawsuits concern GSK's US Patent Nos. RE41,070 and RE41,555. GSK has asserted claims against Genentech and Roche alleging infringement of the '070 and '555 patents by certain 'therapeutic antibody products', although the complaint only specifically refers to Herceptin. In its lawsuit Genentech is seeking a judicial declaration of non-infringement by certain Genentech products. In the Delaware action on 12 November 2010 Genentech filed a motion to dismiss for failure to state a claim and a motion to transfer the case to California. Roche filed a motion to dismiss for lack of personal jurisdiction. The parties subsequently stipulated to Roche's dismissal and only Genentech remains a party. On 29 March 2012 the Delaware Court denied Genentech's motion to transfer the case to California. On 12 June 2012 the parties agreed to dismiss the California action without prejudice and the case will now proceed in Delaware. The outcome of these matters cannot be determined at this time.

Boniva litigation. HLR, Genentech and various other Roche affiliates (collectively 'Roche') have been named as defendants in numerous legal actions in the United States and Canada relating to the post-menopausal osteoporosis medication Boniva. In these litigations, the plaintiffs allege that Boniva caused either osteonecrosis of the jaw ('ONJ') or atypical femoral fractures. As of 31 December 2012 HLR is defending approximately 245 actions involving approximately 284 plaintiffs brought in federal and state courts throughout the United States and one action brought in the Court of the Queen's Bench, Province of Saskatchewan, Canada, for personal injuries allegedly resulting from the use of Boniva. All of these cases are in the early discovery stages of litigation. Individual trial results depend on a variety of factors, including many that are unique to the particular case. Roche is vigorously defending itself in these matters. The outcome of these matters cannot be determined at this time.

EMA investigation. On 23 October 2012 the European Medicines Agency ('EMA') announced that it would start an infringement procedure to investigate allegations regarding an alleged breach of medicines safety reporting obligations in relation to 19 centrally authorised medicines. This investigation will take up to 18 months to conclude. Based on the data reviewed and submitted to the EMA to date, no impact on the safety profiles of any of the products has been found. To date, the EMA and other health authorities have confirmed all medicines remain authorised without changes to the treatment advice for patients and healthcare professionals. All corrective and preventative actions resulting from the inspections have been completed and newly defined processes are being implemented, which will become routine practice. The outcome of this investigation cannot be determined at this time.

Diagnostics legal cases

Marsh Supermarkets litigation. On 8 July 2008 Marsh Supermarkets Inc. ('Marsh') filed a breach of contract suit against Roche Diagnostics Operations, Inc. ('RDO'). The lawsuit relates to the termination of a sub-lease agreement for a building by RDO. After extensive argument during a bench trial a Hamilton Superior Court judge awarded Marsh damages amounting to 19.5 million US dollars, which has been accrued for as a legal provision in 2011. RDO has appealed this judgment and a decision is expected in the first half of 2013. The outcome of this appeal cannot be determined at this time.

25. Other non-current liabilities

Other non-current liabilities in millions of CHF

	2012	2011	2010
Deferred income	99	63	74
Other long-term liabilities	220	247	263
Total other non-current liabilities	**319**	**310**	**337**

Other long-term liabilities consist mainly of accrued long-term employee benefits.

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Regeneron v. Novartis, IPR2021-00816

26. Debt

Debt: movements in carrying value of recognised liabilities in millions of CHF

	2012	2011
At 1 January	26,853	30,058
Proceeds from issue of bonds and notes	2,698	–
Redemption and repurchase of bonds and notes	(4,326)	(4,019)
Increase (decrease) in commercial paper	(687)	808
Increase (decrease) in other debt	153	19
(Gains) losses on redemption and repurchase of bonds and notes, net	247	143
Amortisation of debt discount[4]	30	35
Foreign currency transaction (gains) losses, net	325	(144)
Currency translation effects and other	(703)	(47)
At 31 December	**24,590**	**26,853**
Consisting of		
– Bonds and notes	23,720	25,418
– Commercial paper	324	1,022
– Amounts due to banks and other financial institutions	336	180
– Finance lease obligations[11]	203	225
– Other borrowings	7	8
Total debt	**24,590**	**26,853**
Reported as		
– Long-term debt	17,860	23,459
– Short-term debt	6,730	3,394
Total debt	**24,590**	**26,853**

The fair value of the bonds and notes is 27.8 billion Swiss francs (2011: 29.7 billion Swiss francs, 2010: 33.1 billion Swiss francs) and the fair value of total debt is 28.6 billion Swiss francs (2011: 31.1 billion Swiss francs, 2010: 33.6 billion Swiss francs). This is calculated based on the observable market prices of the debt instruments or the present value of the future cash flows on the instrument, discounted at a market rate of interest for instruments with similar credit status, cash flows and maturity periods.

There are no pledges on the Group's assets in connection with debt.

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Regeneron v. Novartis, IPR2021-00816

Bonds and notes

Recognised liabilities and effective interest rates of bonds and notes in millions of CHF

	Effective interest rate Underlying instrument	Effective interest rate Including hedging	2012	2011	2010
US dollar-denominated notes – floating rate	3 months LIBOR				
Notes due 25 February 2011, principal 931 million US dollars	+2.10%	n/a	–	–	871
US dollar-denominated notes – fixed rate					
5.0% notes due 1 March 2014, principal 2.75 billion US dollars, outstanding 1.75 billion US dollars (ISIN: USU75000AL00 and US771196AQ59)	5.31%	4.85%	1,667	1,637	2,652
6.0% notes due 1 March 2019, principal 4.5 billion US dollars (ISIN: USU75000AM82 and US771196AS16)	6.37%	n/a	4,053	4,163	4,137
7.0% notes due 1 March 2039, principal 2.5 billion US dollars (ISIN: USU75000AN65 and US771196AU61)	7.43%	n/a	2,205	2,268	2,257
European Medium Term Note programme – fixed rate					
4.625% notes due 4 March 2013, principal 5.25 billion euros, outstanding 3.313 billion euros (ISIN: XS0415624393)	4.82%	5.53%	3,997	5,213	6,499
5.5% notes due 4 March 2015, principal 1.25 billion pounds sterling, outstanding 0.90 billion pounds sterling (ISIN: XS0415625283)	5.70%	5.78%	1,325	1,297	1,791
5.625% notes due 4 March 2016, principal 2.75 billion euros, outstanding 2.10 billion euros (ISIN: XS0415624120)	5.70%	6.36%	2,531	3,342	3,407
2.0% notes due 25 June 2018, principal 1.0 billion euros (ISIN: XS0760139773)	2.07%	n/a	1,203	–	–
6.5% notes due 4 March 2021, principal 1.75 billion euros (ISIN: XS0415624716)	6.66%	7.00%	2,093	2,110	2,150
5.375% notes due 29 August 2023, principal 250 million pounds sterling, outstanding 200 million pounds sterling (ISIN: XS0175478873)	5.46%	n/a	292	287	356
Swiss franc bonds – floating rate	3 months LIBOR +0.2%				
Notes due on 23 September 2013, principal 0.4 billion Swiss francs	+0.36%	n/a	400	–	–
Swiss franc bonds					
2.5% bonds due 23 March 2012, principal 2.5 billion Swiss francs (ISIN: CH0038365117)	2.68%	2.88%	–	2,208	2,497
4.5% bonds due 23 March 2017, principal 1.5 billion Swiss francs (ISIN: CH0039139263)	4.77%	n/a	1,487	1,483	1,480
1.0% bonds due 21 September 2018, principal 0.6 billion Swiss francs (ISIN: CH0180513068)	1.04%	n/a	599	–	–
1.625% bonds due 23 September 2022, principal 0.5 billion Swiss francs (ISIN: CH0180513183)	1.64%	n/a	499	–	–
Genentech Senior Notes					
4.75% Senior Notes due 15 July 2015, principal 1 billion US dollars (ISIN: US368710AG46)	4.87%	n/a	913	940	935
5.25% Senior Notes due 15 July 2035, principal 500 million US dollars (ISIN: US368710AC32)	5.39%	n/a	456	470	467
Total			**23,720**	**25,418**	**29,499**

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Regeneron v. Novartis, IPR2021-00816

Bonds and notes: maturity in millions of CHF

	2012	2011	2010
Within one year	6,064	2,208	1,897
Between one and two years	–	5,213	2,497
Between two and three years	2,238	1,637	6,499
Between three and four years	2,531	2,237	1,626
Between four and five years	1,487	3,342	2,726
More than five years	11,400	10,781	14,254
Total bonds and notes	**23,720**	**25,418**	**29,499**

Unamortised discount included in carrying value of bonds and notes in millions of CHF

	2012	2011	2010
US dollar notes	139	157	77
Euro notes	30	41	60
Swiss franc bonds	16	18	23
Pound sterling notes	8	10	17
Total unamortised discount	**193**	**226**	**177**

Issuance of bonds and notes – 2012

The Group raised net proceeds of approximately 2.7 billion Swiss francs through a series of debt offerings in 2012, as described below. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

European Medium Term Notes. On 23 March 2012 the Group issued euro-denominated fixed rate notes. The terms and proceeds of the notes were as follows:

Issuance of European Medium Term Notes

	Effective interest rate	Principal amount EUR millions	Net proceeds CHF millions
Fixed rate 2.0% EUR notes due 2018	2.07%	1,000	1,201
Total		**1,000**	**1,201**

Swiss franc-denominated bonds. On 23 March 2012 the Group completed an offering of Swiss franc-denominated fixed rate and floating rate bonds. The terms and proceeds of the bonds were as follows:

Issuance of Swiss franc-denominated bonds

	Effective interest rate	Principal amount CHF millions	Net proceeds CHF millions
Floating rate 3 months LIBOR +0.2% bonds due 2013	0.36%	400	400
Fixed rate 1.0% bonds due 2018	1.04%	600	598
Fixed rate 1.625% bonds due 2022	1.64%	500	499
Total		**1,500**	**1,497**

Issuance of bonds and notes – 2011

The Group did not issue any bonds or notes in 2011.

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Regeneron v. Novartis, IPR2021-00816

Redemption and repurchase of bonds and notes – 2012

Redemption of Swiss franc-denominated notes. On the due date of 23 March 2012 the Group redeemed notes with a principal amount outstanding of 2,198 million Swiss francs at the original issue amount plus accrued original issue discount. The effective interest rate of these notes was 2.88%. The cash outflow was 2,198 million Swiss francs and there was no gain or loss recorded on the redemption.

Partial repurchase of euro-denominated notes. On 23 March 2012 the Group completed a tender offer for a nominal amount of 782 million euros of the 4.625% fixed rate notes due 4 March 2013 with a total principal amount outstanding of 4,288 million euros. The cash outflow was 981 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 39 million Swiss francs. On 30 November 2012 the Group completed a tender offer for a nominal amount of 193 million euros of the 4.625% fixed rate notes due 4 March 2013 with a total principal amount outstanding of 3,506 million euros. The cash outflow was 235 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 3 million Swiss francs. In addition the Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created an additional loss of 7 million Swiss francs, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. The total loss on repurchases of 49 million Swiss francs was recorded within financing costs (see Note 4). The effective interest rate of the notes repurchased was 5.53%.

Partial repurchase of euro-denominated notes. On 30 November 2012 the Group completed a tender offer for a nominal amount of 650 million euros of the 5.625% fixed rate notes due 4 March 2016 with a total principal amount outstanding of 2.75 billion euros. The cash outflow was 912 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 135 million Swiss francs. In addition the Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created an additional loss of 5 million Swiss francs, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. The total loss on repurchase of 140 million Swiss francs was recorded within financing costs (see Note 4). The effective interest rate of the notes repurchased was 6.36%.

Early redemption of US dollar-denominated notes in 2013. On 20 December 2012 the Group resolved to exercise its option to call for redemption of the entire outstanding US dollar-denominated 5.0% fixed rate notes due 1 March 2014. The Group will redeem the remaining outstanding principal of 1.75 billion US dollars on 21 March 2013 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker on the third business day preceding the redemption. A cash outflow of approximately 1,821 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The revised carrying value of these notes at 31 December 2012 is 1,820 million US dollars (1,667 million Swiss francs). The increase in carrying value of 74 million US dollars (70 million Swiss francs) is recorded within financing costs (see Note 4) as a loss on redemption. The effective interest rate of these notes is 4.85%.

Redemption and repurchase of bonds and notes – 2011

Redemption of US dollar-denominated notes. On the due date of 25 February 2011 the Group redeemed notes with a principal of 931 million US dollars at the original issue amount plus accrued original issue discount. The effective interest rate of these notes was 3 months LIBOR plus 2.10%. The cash outflow was 862 million Swiss francs and there was no gain or loss recorded on the redemption.

Partial early redemption of US dollar-denominated notes. On 28 December 2010 the Group resolved to exercise its option to call for redemption a portion of the US dollar-denominated 5.00% fixed rate notes due 1 March 2014. The Group redeemed 1.0 billion US dollars of the total principal amount of 2.75 billion US dollars of these notes on 24 March 2011 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 999 million Swiss francs, plus accrued interest. As at 31 December 2010 the Group had already revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flow. The increase in carrying value of 108 million Swiss francs was recorded within financing costs in 2010. An additional loss of 2 million Swiss francs was incurred in 2011 upon final settlement of the notes. The effective interest rate of these notes was 5.31%.

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Regeneron v. Novartis, IPR2021-00816

Partial repurchase of euro-denominated notes. On 28 June 2011 the Group completed a tender offer for a nominal amount of 962 million euros of the 4.625% fixed rate notes due 4 March 2013 with a total principal amount of 5.25 billion euros. The cash outflow was 1,197 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 57 million Swiss francs. In addition the Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created an additional loss of 29 million Swiss francs, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. The total loss on repurchase of 86 million Swiss francs was recorded within financing costs. The effective interest rate of the notes repurchased was 5.53%.

Partial repurchase of Swiss franc-denominated bonds. On 2 November 2011 the Group completed a tender offer for a nominal amount of 302 million Swiss francs of the 2.5% fixed rate bonds due 23 March 2012 with a total principal amount of 2.5 billion Swiss francs. The cash outflow was 305 million Swiss francs, plus accrued interest. The loss on repurchase of the bonds was 3 million Swiss francs. The effective interest rate of the bonds repurchased was 2.88%.

Partial repurchase of pound sterling-denominated notes. On 5 December 2011 the Group completed a tender offer for a nominal amount of 350 million pounds sterling of the 5.5% fixed rate notes due 4 March 2015 with a total principal amount of 1.25 billion pounds sterling. The cash outflow was 568 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 65 million Swiss francs. The effective interest rate of the notes repurchased was 5.77%.

Partial repurchase of pound sterling-denominated notes. On 5 December 2011 the Group completed a tender offer for a nominal amount of 50 million pounds sterling of the 5.375% fixed rate notes due 29 August 2023 with a total principal amount of 250 million pounds sterling. The cash outflow was 88 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 16 million Swiss francs. The effective interest rate of the notes repurchased was 5.46%.

Cash flows from issuance, redemption and repurchase of bonds and notes

Cash inflows from issuance of bonds and notes in millions of CHF

	2012	2011
European Medium Term Note programme euro-denominated notes	1,201	–
Swiss franc-denominated bonds	1,497	–
Total cash inflows from issuance of bonds and notes	**2,698**	**–**

Cash outflows from redemption and repurchase of bonds and notes in millions of CHF

	2012	2011
Swiss franc-denominated bonds	(2,198)	(305)
European Medium Term Note programme euro-denominated notes	(2,128)	(1,197)
European Medium Term Note programme pound sterling-denominated notes	–	(656)
US dollar-denominated notes	–	(1,861)
Total cash outflows from redemption and repurchase of bonds and notes	**(4,326)**	**(4,019)**

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Regeneron v. Novartis, IPR2021-00816

Collateral arrangements

The Group has entered into various currency swaps for certain non-US dollar debt instruments that were issued in 2009. Collateral agreements were entered into with the counterparties to the currency swaps to mitigate counterparty risk. As the fair value of the derivative instruments increased during 2012, mainly due to a strengthening of the euro compared to the US dollar, a total of 0.2 billion Swiss francs cash collateral was delivered to the Group during the year (2011: 0.1 billion Swiss francs delivered to the Group). This collateral delivered was recorded as an increase in cash and a corresponding increase in accrued liabilities. The carrying value of accrued liabilities in respect of these agreements at 31 December 2012 was 0.4 billion Swiss francs (31 December 2011: accrued liabilities of 0.2 billion Swiss francs).

Commercial paper

Roche Holdings, Inc. commercial paper program. In March 2009 Roche Holdings, Inc. established a commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. As at 31 December 2012 unsecured commercial paper notes with a principal amount of 355 million US dollars and an average interest rate of 0.13% were outstanding. These amounts were due at various dates until 25 January 2013.

Movements in commercial paper obligations in millions of CHF

	2012	2011
At 1 January	1,022	166
Net cash proceeds (payments)	(687)	808
Currency translation effects	(11)	48
At 31 December	**324**	**1,022**

Amounts due to banks and other financial institutions

These amounts are denominated in various currencies, notably in Chinese renminbi and Argentine pesos, and the average interest rate was 6.98% (2011: 8.08%). The amounts outstanding of 336 million Swiss francs at 31 December 2012 are due within one year.

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27. Equity attributable to Roche shareholders

Changes in equity attributable to Roche shareholders in millions of CHF

	Share capital	Retained earnings	Reserves: Fair value	Reserves: Hedging	Reserves: Translation	Total
Year ended 31 December 2011						
At 1 January 2011	160	14,550	174	(103)	(5,312)	9,469
Net income recognised in income statement	–	9,343	–	–	–	9,343
Available-for-sale investments						
– Valuation gains (losses) taken to equity	–	–	(19)	–	–	(19)
– Transferred to income statement on sale or impairment	–	–	(60)	–	–	(60)
– Income taxes	–	–	27	–	–	27
– Non-controlling interests	–	–	2	–	–	2
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	(92)	–	(92)
– Transferred to income statement [a]	–	–	–	204	–	204
– Income taxes	–	–	–	(40)	–	(40)
– Non-controlling interests	–	–	–	–	–	–
Currency translation of foreign operations						
– Exchange differences	–	–	–	11	(24)	(13)
– Accumulated differences transferred to income statement on divestment [33]	–	–	–	–	20	20
– Non-controlling interests	–	–	–	–	(118)	(118)
Defined benefit post-employment plans						
– Actuarial gains (losses) [9]	–	(1,184)	–	–	–	(1,184)
– Limit on asset recognition [9]	–	(6)	–	–	–	(6)
– Income taxes	–	350	–	–	–	350
– Non-controlling interests	–	4	–	–	–	4
Other comprehensive income, net of tax	**–**	**(836)**	**(50)**	**83**	**(122)**	**(925)**
Total comprehensive income	**–**	**8,507**	**(50)**	**83**	**(122)**	**8,418**
Dividends	–	(5,614)	–	–	–	(5,614)
Equity compensation plans, net of transactions in own equity instruments	–	(178)	–	–	–	(178)
Changes in non-controlling interests	–	–	–	–	–	–
At 31 December 2011	**160**	**17,265**	**124**	**(20)**	**(5,434)**	**12,095**

a) The entire losses transferred to income statement of 204 million Swiss francs were reported as 'Financial income'.

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Regeneron v. Novartis, IPR2021-00816

Changes in equity attributable to Roche shareholders in millions of CHF

	Share capital	Retained earnings	Fair value	Hedging	Reserves Translation	Total
Year ended 31 December 2012						
At 1 January 2012	160	17,265	124	(20)	(5,434)	12,095
Net income recognised in income statement	–	9,539	–	–	–	9,539
Available-for-sale investments						
– Valuation gains (losses) taken to equity	–	–	27	–	–	27
– Transferred to income statement on sale or impairment	–	–	(29)	–	–	(29)
– Income taxes	–	–	–	–	–	–
– Non-controlling interests	–	–	(4)	–	–	(4)
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	204	–	204
– Transferred to income statement [a]	–	–	–	(106)	–	(106)
– Income taxes	–	–	–	(37)	–	(37)
– Non-controlling interests	–	–	–	–	–	–
Currency translation of foreign operations						
– Exchange differences	–	–	(5)	(1)	(687)	(693)
– Non-controlling interests	–	–	–	–	282	282
Defined benefit post-employment plans						
– Actuarial gains (losses) [9]	–	(1,808)	–	–	–	(1,808)
– Limit on asset recognition [9]	–	3	–	–	–	3
– Income taxes	–	491	–	–	–	491
– Non-controlling interests	–	(5)	–	–	–	(5)
Other comprehensive income, net of tax	**–**	**(1,319)**	**(11)**	**60**	**(405)**	**(1,675)**
Total comprehensive income	**–**	**8,220**	**(11)**	**60**	**(405)**	**7,864**
Dividends	–	(5,770)	–	–	–	(5,770)
Equity compensation plans, net of transactions in own equity instruments	–	305	–	–	–	305
Changes in non-controlling interests	–	–	–	–	–	–
At 31 December 2012	**160**	**20,020**	**113**	**40**	**(5,839)**	**14,494**

a) The entire gains transferred to income statement of 106 million Swiss francs were reported as 'Financial income'.

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the Group at that time was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacted the Group's net equity, but has no effect on the Group's business or its dividend policy.

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Regeneron v. Novartis, IPR2021-00816

Share capital

As of 31 December 2012, the authorised and issued share capital of Roche Holding Ltd, which is the Group's parent company, consisted of 160,000,000 shares with a nominal value of 1.00 Swiss franc each, as in the preceding year. The shares are bearer shares and the Group does not maintain a register of shareholders. Based on information supplied to the Group, a shareholder group with pooled voting rights owns 45.01% (2011: 45.01%) of the issued shares. On 24 March 2011 the shareholder group announced that it would continue the shareholder pooling agreement existing since 1948 with a modified shareholder composition. The shareholder group with pooled voting rights now holds 72,018,000 shares, corresponding to 45.01% of the shares issued. This figure does not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, holds now 8,091,900 shares representing 5.057% of the voting rights independently of the pool. This is further described in Note 32. Based on information supplied to the Group, Novartis Ltd, Basel, and its affiliates own 33.3330% (participation below 33⅓%) of the issued shares (2011: 33.3330%).

Non-voting equity securities *(Genussscheine)*

As of 31 December 2012, 702,562,700 non-voting equity securities have been authorised and were in issue as in the preceding year. Under Swiss company law these non-voting equity securities have no nominal value, are not part of the share capital and cannot be issued against a contribution which would be shown as an asset in the balance sheet of Roche Holding Ltd. Each non-voting equity security confers the same rights as any of the shares to participate in the net profit and any remaining proceeds from liquidation following repayment of the nominal value of the shares and, if any, participation certificates. In accordance with the law and the Articles of Incorporation of Roche Holding Ltd, the Company is entitled at all times to exchange all or some of the non-voting equity securities into shares or participation certificates.

Dividends

On 6 March 2012 the shareholders approved the distribution of a dividend of 6.80 Swiss francs per share and non-voting equity securities (2011: 6.60 Swiss francs) in respect of the 2011 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 5,770 million Swiss francs (2011: 5,614 million Swiss francs) and has been recorded against retained earnings in 2012. The Board of Directors has proposed dividends for the 2012 business year of 7.35 Swiss francs per share and non-voting equity security which, if approved, would result in a total distribution to shareholders of 6,340 million Swiss francs. This is subject to approval at the Annual General Meeting on 5 March 2013.

Own equity instruments

Holdings of own equity instruments in equivalent number of non-voting equity securities

	2012 (millions)	2011 (millions)
Non-voting equity securities	14.1	15.1
Derivative instruments	8.9	9.9
Total	**23.0**	**25.0**

Own equity instruments are recorded within equity at original purchase cost. Details of own equity instruments held at 31 December 2012 are shown in the table below. Fair values are disclosed for information purposes.

Own equity instruments at 31 December 2012: supplementary information

	Equivalent number of non-voting equity securities (millions)	Maturity	Strike price (CHF)	Market value (CHF billions)
Non-voting equity securities	14.1	–	–	2.6
Derivative instruments	8.9	1 Feb. 2013–16 Sept. 2016	145.40–195.80	0.2
Total	**23.0**			**2.8**

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Regeneron v. Novartis, IPR2021-00816

Non-voting equity securities and derivative instruments are held for the Group's potential conversion obligations that may arise from the Roche Option Plan, Roche Stock-settled Stock Appreciation Rights and Roche Restricted Stock Unit Plan (see Note 10). These mainly consist of call options that are exercisable at any time up to their maturity.

The Group holds none of its own shares.

Reserves

Fair value reserve. The fair value reserve represents the cumulative net change in the fair value of available-for-sale financial assets until the asset is sold, impaired or otherwise disposed of.

Hedging reserve. The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve. The translation reserve represents the cumulative currency translation differences relating to the consolidation of Group companies that use functional currencies other than Swiss francs.

28. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

For the calculation of basic earnings per share and non-voting equity security, the number of shares and non-voting equity securities is reduced by the weighted average number of its own non-voting equity securities held by the Group during the period.

Basic earnings per share and non-voting equity security

	2012	2011
Net income attributable to Roche shareholders (CHF millions)	9,539	9,343
Number of shares (millions) [27]	160	160
Number of non-voting equity securities (millions) [27]	703	703
Weighted average number of own non-voting equity securities held (millions)	(15)	(14)
Weighted average number of shares and non-voting equity securities in issue (millions)	**848**	**849**
Basic earnings per share and non-voting equity security (CHF)	11.25	11.01

Diluted earnings per share and non-voting equity security

For the calculation of diluted earnings per share and non-voting equity security, the net income and weighted average number of shares and non-voting equity securities outstanding are adjusted for the effects of all dilutive potential shares and non-voting equity securities.

Potential dilutive effects arise from the employee stock option plans. The exercise of outstanding vested employee stock options would have a dilutive effect. The exercise of the outstanding vested Chugai stock options would have a dilutive effect if the net income of Chugai were positive. The diluted earnings per share and non-voting equity security reflects the potential impacts of these dilutive effects on the earnings per share figures.

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Regeneron v. Novartis, IPR2021-00816

Diluted earnings per share and non-voting equity security

	2012	2011
Net income attributable to Roche shareholders (CHF millions)	9,539	9,343
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
Net income used to calculate diluted earnings per share (CHF millions)	**9,538**	**9,342**
Weighted average number of shares and non-voting equity securities in issue (millions)	848	849
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	7	2
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**855**	**851**
Diluted earnings per share and non-voting equity security (CHF)	11.16	10.98

29. Non-controlling interests

Changes in equity attributable to non-controlling interests in millions of CHF

	2012	2011
At 1 January	2,387	2,193
Net income recognised in income statement		
– Chugai[3]	216	188
– Other non-controlling interests	18	13
Total net income recognised in income statement	**234**	**201**
Available-for-sale investments	4	(2)
Cash flow hedges	–	–
Currency translation of foreign operations	(282)	118
Defined benefit post-employment plans	5	(4)
Other comprehensive income, net of tax	**(273)**	**112**
Total comprehensive income	**(39)**	**313**
Dividends to non-controlling shareholders		
– Chugai[3]	(98)	(100)
– Other non-controlling interests	(18)	(20)
Equity compensation plans, net of transactions in own equity instruments	1	1
Changes in non-controlling interests	–	–
Equity contribution by non-controlling interests	1	–
At 31 December	**2,234**	**2,387**
Of which		
– Chugai[3]	2,152	2,315
– Other non-controlling interests	82	72
Total non-controlling interests	**2,234**	**2,387**

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Regeneron v. Novartis, IPR2021-00816

30. Statement of cash flows

Cash flows from operating activities

Cash flows from operating activities arise from the Group's primary activities in the Pharmaceuticals and Diagnostics businesses. These are calculated by the indirect method by adjusting the Group's operating profit for any operating income and expenses that are not cash flows (for example depreciation, amortisation and impairment) in order to derive the cash generated from operations. This and other operating cash flows are shown in the statement of cash flows. Operating cash flows also include income taxes paid on all activities.

Cash generated from operations in millions of CHF

	2012	2011
Net income	9,773	9,544
Add back non-operating (income) expense		
– Associates [14]	–	(12)
– Financial income [4]	(471)	(647)
– Financing costs [4]	2,273	2,228
– Income taxes [5]	2,550	2,341
Operating profit	**14,125**	**13,454**
Depreciation of property, plant and equipment [11]	1,891	1,848
Amortisation of intangible assets [13]	530	520
Impairment of goodwill [12]	187	–
Impairment of intangible assets [13]	525	138
Impairment of property, plant and equipment [11]	462	96
Impairment of net assets-held-for-sale [7]	–	117
Operating expenses for defined benefit post-employment plans [9]	280	334
Operating expenses for equity-settled equity compensation plans [10]	363	370
Net (income) expense for provisions [24]	1,363	536
Bad debt expense	64	193
Inventory write-downs	306	423
Other adjustments	(112)	9
Cash generated from operations	**19,984**	**18,038**

Cash flows from investing activities

Cash flows from investing activities are principally those arising from the Group's investments in property, plant and equipment and intangible assets, and from the acquisition and divestment of subsidiaries, associates and businesses. Cash flows connected with the Group's portfolio of marketable securities and other investments are also included, as are any interest and dividend payments received in respect of these securities and investments. These cash flows indicate the Group's net reinvestment in its operating assets and the cash flow effects of business combinations and divestments, as well as the cash generated by the Group's other investments.

Interest and dividends received in millions of CHF

	2012	2011
Interest received	37	41
Dividends received	2	1
Total	**39**	**42**

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Regeneron v. Novartis, IPR2021-00816

Cash flows from financing activities

Cash flows from financing activities are primarily the proceeds from the issue and repayment of the Group's equity and debt instruments. They also include interest payments and dividend payments on these instruments. Cash flows from short-term financing, including finance leases, are also included. These cash flows indicate the Group's transactions with the providers of its equity and debt financing. Cash flows from short-term borrowings are shown as a net movement, as these consist of a large number of transactions with short maturity.

Dividends paid in millions of CHF

	2012	2011
Dividends to Roche Group shareholders	(5,770)	(5,614)
Dividends to non-controlling shareholders – Chugai	(98)	(100)
Dividends to non-controlling shareholders – Other	(18)	(20)
Dividend withholding tax	(2)	(8)
Total	**(5,888)**	**(5,742)**

Significant non-cash transactions

There were no significant non-cash transactions in 2012 (2011: none).

31. Risk management

Group risk management

Risk management is a fundamental element of the Group's business practice on all levels and encompasses different types of risks. At a group level risk management is an integral part of the business planning and controlling processes. Material risks are monitored and regularly discussed with the Corporate Executive Committee and the Audit Committee of the Board of Directors. Financial risk management specifically is described in further detail below.

Financial risk management

The Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The Group's financial risk exposures are predominantly related to changes in foreign exchange rates, interest rates and equity prices as well as the creditworthiness and the solvency of the Group's counterparties.

Financial risk management within the Group is governed by policies reviewed by the boards of directors of Roche or Chugai as appropriate to their areas of statutory responsibility. These policies cover credit risk, liquidity risk and market risk. The policies provide guidance on risk limits, type of authorised financial instruments and monitoring procedures. As a general principle, the policies prohibit the use of derivative financial instruments for speculative trading purposes. Policy implementation and day-to-day risk management are carried out by the relevant treasury functions and regular reporting on these risks is performed by the relevant accounting and controlling functions within Roche and Chugai.

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Regeneron v. Novartis, IPR2021-00816

Carrying value and fair value of financial assets in millions of CHF

By line items in Notes	Available-for-sale	FVtPL[a] Held-for-trading	Held-to-maturity	Carrying value by asset class Loans and receivables	Total	Fair value
Year ended 31 December 2012						
Accounts receivable	–	–	–	9,465	9,465	9,465
Accrued interest income	–	–	–	34	34	34
Marketable securities:						
– Money market instruments and time accounts over three months	7,631	–	–	–	7,631	7,631
– Bonds and debentures	1,558	–	–	–	1,558	1,558
– Shares	272	–	–	–	272	272
– Other investments	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	4,530	4,530	4,530
Derivative financial instruments	–	454	–	–	454	454
Available-for-sale investments	182	–	–	–	182	182
Held-to-maturity investments	–	–	–	–	–	–
Loans receivable	–	–	–	12	12	12
Long-term trade receivables	–	–	–	21	21	21
Other financial current assets	–	–	–	617	617	617
Restricted cash	–	–	–	35	35	35
Other long-term assets	–	–	–	89	89	89
Total	**9,643**	**454**	**–**	**14,803**	**24,900**	**24,900**
Year ended 31 December 2011						
Accounts receivable	–	–	–	9,799	9,799	9,799
Accrued interest income	–	–	–	20	20	20
Marketable securities:						
– Money market instruments and time accounts over three months	5,764	–	–	–	5,764	5,764
– Bonds and debentures	1,428	–	–	–	1,428	1,428
– Shares	241	–	–	–	241	241
– Other investments	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	3,854	3,854	3,854
Derivative financial instruments	–	274	–	–	274	274
Available-for-sale investments	201	–	–	–	201	201
Held-to-maturity investments	–	–	–	–	–	–
Loans receivable	–	–	–	6	6	6
Long-term trade receivables	–	–	–	35	35	35
Other financial current assets	–	–	–	699	699	699
Restricted cash	–	–	–	37	37	37
Other long-term assets	–	–	–	81	81	81
Total	**7,634**	**274**	**–**	**14,531**	**22,439**	**22,439**

a) Fair-value-through-profit-or-loss.

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Regeneron v. Novartis, IPR2021-00816

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 – unobservable inputs.

Fair value hierarchy of financial assets and liabilities at 31 December 2012 in millions of CHF

	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Marketable securities:				
– Money market instruments and time accounts over three months	2,551	5,080	–	7,631
– Bonds and debentures	1,414	144	–	1,558
– Shares	259	13	–	272
Derivative financial instruments	–	454	–	454
Available-for-sale investments	3	122	–	125
Total	**4,227**	**5,813**	**–**	**10,040**
Financial liabilities recognised at fair value				
Derivative financial instruments	–	(165)	–	(165)
Total	**–**	**(165)**	**–**	**(165)**

Fair value hierarchy of financial assets and liabilities at 31 December 2011 in millions of CHF

	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Marketable securities:				
– Money market instruments and time accounts over three months	3,524	2,240	–	5,764
– Bonds and debentures	1,187	241	–	1,428
– Shares	226	15	–	241
Derivative financial instruments	–	274	–	274
Available-for-sale investments	17	131	–	148
Total	**4,954**	**2,901**	**–**	**7,855**
Financial liabilities recognised at fair value				
Derivative financial instruments	–	(104)	–	(104)
Total	**–**	**(104)**	**–**	**(104)**

Available-for-sale investments exclude equity securities held at cost of 57 million Swiss francs (2011: 53 million Swiss francs), as those are not carried at fair value (see Note 15).

At 31 December 2012 Level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit, derivative financial instruments and unquoted shares. There were no significant transfers between Level 1 and Level 2 and vice versa. At 31 December 2012 the Group has no financial assets classified as Level 3.

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Regeneron v. Novartis, IPR2021-00816

Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing counterparty credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking account of any collateral held or other credit enhancements, is equal to the carrying value of the Group's financial assets.

Trade receivables. These are subject to a policy of active credit risk management which focuses on the assessment of country risk, credit availability, on-going credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risks at an acceptable level. Except as noted below, there is no significant concentration of counterparty credit risk due to the Group's large number of customers and their wide geographical spread. Risk limits and exposures are continuously monitored by country and by the nature of counterparties. Additionally, the Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. As at 31 December 2012 no collateral was held for loans and receivables (2011: none).

At 31 December 2012 the Group's combined trade accounts receivable balance with three US national wholesale distributors, AmerisourceBergen Corp., Cardinal Health, Inc. and McKesson Corp., was equivalent to 1.4 billion Swiss francs representing 14% of the Group's consolidated trade accounts receivable (2011: 1.3 billion Swiss francs representing 13%).

At 31 December 2012 the Group has trade receivables of 10.1 billion Swiss francs. Since the beginning of 2010 there have been increasing financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and has trade receivables of 1.2 billion euros (1.5 billion Swiss francs) with the public customers in these countries. This is a reduction of 0.5 billion euros from 31 December 2011, which is mainly due to collections in Spain following the Montoro plan as well as increased factoring deals in Italy. The Group uses different measures to improve collections in these countries, including intense communication with customers, factoring, negotiations of payments plans, charging of interest for late payments, and legal action. The Group is also applying new commercial arrangements with some public hospitals in Greece and Portugal.

The nature and geographic location of counterparties to trade receivables that are not overdue are shown in the table below. These include the not overdue balances with US national wholesalers and Southern Europe public customers described above.

Trade receivables (not overdue): nature and geographical location of counterparties in millions of CHF

				2012				2011
Regions	Total	Public	Whole-salers/ distributors	Private	Total	Public	Whole-salers/ distributors	Private
Switzerland	72	22	15	35	98	32	9	57
European Union	2,064	733	914	417	2,091	739	872	480
Rest of Europe	475	13	383	79	398	15	333	50
North America	2,009	94	1,575	340	1,949	87	1,562	300
Latin America	520	125	212	183	508	107	209	192
Japan	1,336	17	1,292	27	1,468	29	1,405	34
Rest of Asia	820	122	444	254	862	105	404	353
Africa, Australia and Oceania	210	43	92	75	280	98	72	110
Total	**7,506**	**1,169**	**4,927**	**1,410**	**7,654**	**1,212**	**4,866**	**1,576**

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Regeneron v. Novartis, IPR2021-00816

Cash and marketable securities. These are subject to a policy of restricting exposures to high-quality counterparties and setting defined limits for individual counterparties. These limits and counterparty credit ratings are reviewed regularly. Investments in marketable securities are entered into on the basis of guidelines with regard to liquidity, quality and maximum amount. As a general rule, the Group invests only in high-quality securities with adequate liquidity. Cash and short-term time deposits are subject to rules which limit the Group's exposure to individual financial institutions. Within its fixed income marketable securities, the Group holds 3.8 billion Swiss francs of government securities, of which 47% are with Switzerland, and all of which are with counterparties with a rating of 'AA' or better, with the exception of Argentina (7 million Swiss francs as of 31 December 2012) which are rated 'B–'.

Rating analysis of cash and fixed income marketable securities (market values)

	2012 (mCHF)	2012 (% of total)	2011 (mCHF)	2011 (% of total)
AAA-range	5,175	38	5,891	53
AA-range	4,581	33	2,923	27
A-range	3,851	28	2,211	20
BBB-range	105	1	15	0
Below BBB-range	7	0	6	0
Total	**13,719**	**100**	**11,046**	**100**

Derivatives. The Group signs netting and collateral agreements under an ISDA (International Swaps and Derivatives Association) master agreement with the respective counterparties in order to mitigate counterparty risk on derivative positions. During 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued by the Group's US affiliate, Roche Holdings, Inc. in currencies other than US dollar. A total of 0.2 billion Swiss francs cash collateral was delivered to the Group during the year (2011: 0.1 billion Swiss francs delivered to the Group). The collateral agreements set out that only cash is acceptable as collateral. All collateral received or delivered as at 31 December 2012 related to derivative activities.

Overdue assets. Financial assets which are past due but not impaired total 2.5 billion Swiss francs (2011: 2.3 billion Swiss francs).

Analysis of overdue but not impaired financial assets by class in millions of CHF

	Total amount overdue	Under 1 month	1–3 months	4–6 months	6–12 months	More than 1 year
Year ended 31 December 2012						
Loans and receivables	2,450	605	577	656	328	284
Year ended 31 December 2011						
Loans and receivables	2,332	472	500	455	407	498

As at 31 December 2012 there are no significant financial assets whose terms have been renegotiated (2011: none).

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Group liquidity is reported to senior management on a monthly basis.

Roche and Chugai enjoy strong credit quality and are rated by at least one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements. In addition, the Group has unused committed credit lines with various financial institutions totalling 5.1 billion Swiss francs (2011: 5.2 billion Swiss francs). The decline in undiscounted financial liabilities, shown in the table below, is mainly due to debt repayments and interest paid.

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Regeneron v. Novartis, IPR2021-00816

Contractual maturity analysis of financial liabilities in millions of CHF

	Total	0–3 months	4–6 months	7–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Year ended 31 December 2012									
Total debt[a]	34,294	7,098	69	678	981	3,225	3,402	2,226	16,615
Trade payables	1,132	1,121	9	1	1	–	–	–	–
Accruals	6,095	4,746	1,129	155	65	–	–	–	–
Derivative financial instruments	165	27	56	82	–	–	–	–	–
Other liabilities: current and non-current	1,034	716	18	41	113	59	61	3	23
Total financial liabilities	**42,720**	**13,708**	**1,281**	**957**	**1,160**	**3,284**	**3,463**	**2,229**	**16,638**
Year ended 31 December 2011									
Total debt[a]	38,224	4,351	43	319	6,555	2,689	3,248	4,239	16,780
Trade payables	1,213	1,207	5	1	–	–	–	–	–
Accruals	5,450	4,266	646	459	79	–	–	–	–
Derivative financial instruments	104	30	33	41	–	–	–	–	–
Other liabilities: current and non-current	1,088	676	57	69	110	51	50	48	27
Total financial liabilities	**46,079**	**10,530**	**784**	**889**	**6,744**	**2,740**	**3,298**	**4,287**	**16,807**

a) Total debt in the above table shows undiscounted cash flows, whereas the carrying value in the consolidated balance sheet reflects discounted cash flows.

Market risk

Market risk arises from changing market prices of the Group's financial assets or financial liabilities. Market risk may affect the Group financial result and the value of Group equity.

The Group uses Value-at-Risk (VaR) to measure the impact of market risk on its financial instruments. Roche has defined VaR limits to manage market risk. VaR data are reported on a monthly basis and indicate the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. VaR is a statistical measure which implicitly assumes that value changes of the recent past are indicative of value changes in the future. VaR figures do not represent actual or expected losses, or possible worst-case losses over the stated period.

VaR figures are calculated using a historical simulation approach. For each scenario, all financial instruments are fully valued and the total change in value and earnings is determined. All VaR calculations are based on a 95% confidence level and a holding period of 20 trading days over the past ten years. This holding period reflects the time required to change the corresponding risk exposure, should this be deemed appropriate. Longer holding periods increase the probability of higher value changes and lead to increased VaR figures.

Actual future gains and losses associated with our treasury activities may differ materially from the VaR analyses performed due to the inherent limitations associated with predicting the timing and amount of changes to interest rates, foreign currency exchange rates and equity investment prices, particularly in periods of high market volatilities. Furthermore, the VaR numbers below do not include the effect of changes in credit spreads.

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Regeneron v. Novartis, IPR2021-00816

Market risk of financial instruments in millions of CHF

	2012	2011
VaR – Interest rate component	191	301
VaR – Foreign exchange component	50	49
VaR – Other price component	31	35
Diversification	(67)	(69)
VaR – Total market risk	**205**	**316**

The interest rate VaR decreased to 191 million Swiss francs reflecting the ageing of debt and the repayment of debt during 2012. As all issued debt is held at amortised cost, the interest rate VaR is a sole metric for economic fair value changes, but there is no impact on the carrying value or profit and loss of the Group. The foreign exchange VaR remained stable. Other price risk arises mainly from movements in the prices of equity securities and remained largely stable. At 31 December 2012 the Group held equity securities with a market value of 0.5 billion Swiss francs (31 December 2011: 0.4 billion Swiss francs). This includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations.

Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting the Group financial result and the value of Group's equity. Foreign exchange risk arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates ('transaction exposures') and because the foreign currency denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss franc-denominated Group Financial Statements ('translation exposures').

The objective of the Group's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimise the volatility of the Group's financial result. The primary focus of the Group's foreign exchange risk management activities is on hedging transaction exposures arising through foreign currency flows or monetary positions held in foreign currencies.

The Group monitors transaction exposures on a daily basis. The net foreign exchange result and the corresponding VaR parameters are reported on a monthly basis. The Group uses forward contracts, foreign exchange options and cross-currency swaps to hedge transaction exposures. Application of these instruments intends to continuously lock in favourable developments of foreign exchange rates, thereby reducing the exposure to potential future movements in such rates.

Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group financial result or the value of Group equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments. The primary objective of the Group's interest rate management is to protect the net interest result.

Interest rate exposures and the corresponding VaR parameters are reported on a monthly basis. The Group may use forward contracts, options and swaps to hedge its interest rate exposures. Depending on the interest rate environment of major currencies, the Group will use these instruments to generate the appropriate mix of fixed and floating rate exposures.

Other price risk

Other price risk arises mainly from movements in the prices of equity securities. The Group manages the price risk through placing limits on individual and total equity investments. These limits are defined both as a percentage of total liquid funds and as an absolute number for individual equity investments. Equity price risk is reported as a VaR figure on a monthly basis to senior management.

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Regeneron v. Novartis, IPR2021-00816

Impairment of financial assets

In 2012 and 2011 impairments of loans and receivables were mainly due to an increase in the expected non-recoverability of trade receivables. The write-downs of debt securities of 16 million Swiss francs in 2011 relate to Greek government bonds received in exchange for trade receivables.

Impairment losses by asset classes in millions of CHF

	2012	2011
Loans and receivables	(64)	(193)
Available-for-sale financial assets		
– Shares	–	(3)
– Investments	(25)	(35)
– Debt securities	–	(16)
Total impairment losses	**(89)**	**(247)**

Capital

The Group defines the capital that it manages as the Group's total capitalisation, being the sum of debt plus equity, including non-controlling interests. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide benefits for patients and returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for patients and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009 for a consideration, net of tax effects, of approximately 52.2 billion Swiss francs. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the Group was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the Group's net equity, but has no effect on the Group's business or its dividend policy.

Capital is monitored on the basis of the capitalisation, which is calculated as being debt plus equity (including non-controlling interests). This is reported to senior management as part of the Group's regular internal management reporting. The Group's capitalisation is shown in the table below.

Capital in millions of CHF

	2012	2011	2010
Capital and reserves attributable to Roche shareholders [27]	14,494	12,095	9,469
Equity attributable to non-controlling interests [29]	2,234	2,387	2,193
Total equity	**16,728**	**14,482**	**11,662**
Total debt [26]	**24,590**	**26,853**	**30,058**
Capitalisation	**41,318**	**41,335**	**41,720**

The Group is not subject to regulatory capital adequacy requirements as known in the financial services industry.

The Group has a majority shareholding in Chugai (see Note 3). Chugai is a public company and its objectives, policies and processes for managing its own capital are determined by local management.

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Novartis Exhibit 2274.00132
Regeneron v. Novartis, IPR2021-00816

32. Related parties

Controlling shareholders

The share capital of Roche Holding Ltd, which is the Group's parent company, consists of 160,000,000 bearer shares.

As of 31 December 2012, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, holds now 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

Mr André Hoffmann and Dr Andreas Oeri are members of the Board of Directors of Roche Holding Ltd. Mr Hoffmann received remuneration totalling 400,000 Swiss francs (2011: 400,000 Swiss francs) and Dr Oeri received remuneration totalling 360,000 Swiss francs (2011: 360,000 Swiss francs).

There were no other transactions between the Group and the individual members of the above shareholder group.

Subsidiaries and associates

A listing of the major Group subsidiaries and associates is included in Note 33. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation. There were no significant transactions between the Group and its associates.

Key management personnel

Total remuneration of key management personnel was 55 million Swiss francs (2011: 61 million Swiss francs, 2010: 57 million Swiss francs).

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees. Total remuneration of the Board of Directors, excluding the Chairman, in 2012 totalled 5 million Swiss francs (2011: 5 million Swiss francs, 2010: 5 million Swiss francs).

The Chairman of the Board of Directors and members of the Corporate Executive Committee of Roche Holding Ltd receive remuneration, which consists of an annual salary, bonus and an expense allowance. The Group pays social insurance contributions in respect of the above remuneration and pays contributions to pension and other post-employment benefit plans for the Chairman of the Board of Directors and members of the Corporate Executive Committee. The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms, vesting conditions and fair value of these awards are disclosed in Note 10. New members of the Corporate Executive Committee (Mr Diggelmann in 2012, Dr Hippe in 2011 and Mr O'Day in 2010) are included in the table below for the full calendar year in which they joined the CEC. Similarly, members of the Corporate Executive Committee retiring part way through the year (Dr Soriot in 2012 and Dr Hunziker in 2011) are included for the full calendar year in which they left the CEC.

Remuneration of the Chairman of the Board of Directors and members of the Corporate Executive Committee in millions of CHF

	2012	2011	2010
Salaries, including cash-settled bonus	28	24	30
Bonus Stock Awards	5	5	–
Social security costs	2	2	2
Pensions and other post-employment benefits	7	7	6
Equity compensation plans	7	13	13
Retirement awards	–	4	–
Other employee benefits	1	1	1
Total	**50**	**56**	**52**

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Novartis Exhibit 2274.00133
Regeneron v. Novartis, IPR2021-00816

For the purposes of these remuneration disclosures the values for equity compensation plans, including the Bonus Stock Awards, are calculated based on the fair value used in Note 10. These represent the cost to the Group of such awards at grant date and reflect, amongst other matters, the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions.

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the financial statements of Roche Holding Ltd, Basel, on pages 159 to 164. In those disclosures the values for equity compensation plans, including the Bonus Stock Awards, represent the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions. These fair values are shown in the table below, which reconciles those disclosures required by Swiss law to the above related party disclosures for key management personnel.

Reconciliation to executive remuneration disclosures required by Swiss law in millions of CHF

	2012	2011	2010
Total remuneration of the Chairman of the Board of Directors and members of Corporate Executive Committee (IFRS basis – see table above)	50	56	52
Deduct			
– Bonus Stock Awards (IFRS basis)	(5)	(5)	–
– Equity compensation plans (IFRS basis)	(7)	(13)	(13)
Add back			
– Bonus Stock Awards (Swiss legal basis)	3	4	–
– Equity compensation plans (Swiss legal basis)	13	11	12
Total remuneration of the Chairman of the Board of Directors and members of Corporate Executive Committee (Swiss legal basis)	**54**	**53**	**51**
Of which			
– Chairman of the Board of Directors (page 159)	9	9	11
– Members of the Corporate Executive Committee (page 160)	45	44	40

Bonus Stock Awards. Certain members of the Corporate Executive Committee will be granted Bonus Stock Awards in lieu of part or all of their cash-settled bonus for the financial year 2012. These will be issued by the end of April 2013 with a total fair value of 5 million Swiss francs (2011: 5 million Swiss francs, 2010: none). The number of awards and fair value per award will be calculated at the grant date.

Roche Long-Term. During 2012 members of the Corporate Executive Committee were granted 408,288 Stock-settled Stock Appreciation Rights (S-SARs) and no Roche Option Plan (ROP) or Restricted Stock Unit (RSU) awards (2011: 572,121 S-SARs and no ROP or RSU awards, 2010: 451,755 S-SARs and no ROP or RSU awards).

Roche Connect. During 2012 contributions paid by the Group with respect to the Chairman of the Board of Directors and members of the Corporate Executive Committee totalled 0.2 million Swiss francs (2011: 0.3 million Swiss francs, 2010: 0.3 million Swiss francs).

Roche Performance Share Plan. During 2012 members of the Corporate Executive Committee were targeted with 22,825 awards of the 2012–2014 cycle (2011: 25,778 awards from the 2011–2013 cycle). Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets.

Transactions with former members of the Corporate Executive Committee. Pensions totalling 2 million Swiss francs were paid by the Group to former Corporate Executive Committee members (2011: 2 million Swiss francs, 2010: 2 million Swiss francs).

Post-employment benefit plans

Transactions between the Group and the various post-employment defined benefit plans for the employees of the Group are described in Note 9.

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Regeneron v. Novartis, IPR2021-00816

33. Subsidiaries and associates

Divestment of subsidiaries – 2011

Effective 31 May 2011 the Group sold its wholly owned subsidiary Roche Vitamins, Inc. (RVI) to a third party. In addition during 2011 the Group completed the sale of the following wholly-owned subsidiaries in connection with the Operational Excellence programme:

- Roche Colorado Corporation, in Boulder, Colorado.
- Roche Madison Inc., in Madison, Wisconsin.
- Roche Kulmbach GmbH, in Kulmbach, Germany.
- Lascona Land Company, Inc., Philippines.

The total consideration received from these divestments was 18 million Swiss francs. This consisted of 6 million Swiss francs in cash, marketable securities with a fair value of 4 million Swiss francs and deferred cash consideration of 8 million Swiss francs that was received in 2012.

The total gain (loss) on these divestments is shown in the table below.

Gain (loss) on divestment of subsidiaries in millions of CHF

	2012	2011
Consideration	–	18
Net assets disposed		
– Property, plant and equipment [11]	–	9
– Goodwill [12]	–	72
– Provisions [24]	–	(4)
– Cash	–	16
– Other net assets	–	(5)
– Accumulated currency translation adjustments [27]	–	20
Total net assets disposed	**–**	**108**
Transaction costs and provisions and accruals for residual obligations retained by the Roche Group	–	(11)
Gain (loss) on divestment	**–**	**(101)**
Reported as		
– Global restructuring plans – Roche Pharmaceuticals operating segment [7]	–	(105)
– General and administration costs – Corporate operating segment	–	4

Listed companies

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Switzerland	Roche Holding Ltd Stock Exchange: SIX Swiss Exchange Zurich Valor Share: 1203211 Valor *Genussschein*: 1203204 ISIN Share: CH0012032113 ISIN *Genussschein:* CH0012032048 Market Capitalisation: CHF 156,582.3 m	Basel	CHF	160.0	
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo ISIN: JP3519400000 Market Capitalisation: JPY 898,549.2 m	Tokyo	JPY	335.2	61.6

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Novartis Exhibit 2274.00135
Regeneron v. Novartis, IPR2021-00816

Non-listed companies

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Algeria	Roche Algerie S.p.A	Bab Ezzouar	DZD	1.0	48
Argentina	Productos Roche S.A. Química e Industrial	Buenos Aires	ARS	163.5	100
	Vanguardia en productos farmacéuticos (VANPROFARMA) S.A.	Buenos Aires	ARS	2.3	100
Australia	Roche Diagnostics Australia Pty. Limited	Castle Hill	AUD	5.0	100
	Roche Products Pty. Limited	Dee Why	AUD	65.0	100
Austria	Roche Austria GmbH	Vienna	EUR	14.5	100
	Roche Diagnostics GmbH	Vienna	EUR	1.1	100
	Roche Diagnostics Graz GmbH	Graz	EUR	0.4	100
Belgium	N.V. Roche S.A.	Brussels	EUR	32.0	100
	Roche Diagnostics Belgium S.A.	Brussels	EUR	3.8	100
Bermuda	Chemical Manufacturing and Trading Company Limited	Hamilton	USD	(–)	100
	Roche Capital Services Ltd.	Hamilton	RUB	(–)	100
	Roche Catalyst Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Management Ltd.	Hamilton	USD	(–)	100
	Roche Financial Services Ltd.	Hamilton	USD	(–)	100
	Roche International Ltd.	Hamilton	USD	(–)	100
	Roche Intertrade Limited	Hamilton	USD	10.0	100
	Roche Operations Ltd.	Hamilton	USD	(–)	100
	Roche Services Holdings Ltd.	Hamilton	USD	(–)	100
	Syntex Pharmaceuticals International Ltd.	Hamilton	USD	(–)	100
Bosnia-Herzegovina	Roche Ltd. Pharmaceutical Company	Sarajevo	BAM	13.1	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL	41.7	100
	Roche Diagnostica Brasil Ltda.	São Paulo	BRL	456.0	100
Bulgaria	Roche Bulgaria EOOD	Sofia	BGN	5.1	100
Canada	Chempharm Limited	Toronto	CAD	(–)	100
	Hoffmann-La Roche Limited	Toronto	CAD	40.3	100
	Sapac Corporation Ltd.	St. John	CAD	(–)	100
Chile	Roche Chile Limitada	Santiago de Chile	CLP	70.9	100
China	Roche (China) Holding Ltd.	Shanghai	USD	37.0	100
	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD	10.0	100
	Roche Diagnostics (Shanghai) Limited	Shanghai	USD	14.5	100
	Roche Hong Kong Limited	Hong Kong	HKD	10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD	6.3	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD	62.4	70
Colombia	Productos Roche S.A.	Bogotá	COP	26,923.7	100
Costa Rica	Roche Servicios S.A.	Heredia	USD	8.1	100
Croatia	Roche d.o.o.	Zagreb	HRK	4.8	100
Czech Republic	Roche s.r.o.	Prague	CZK	200.0	100
Denmark	Roche a/s	Hvidovre	DKK	4.0	100
	Roche Diagnostics a/s	Hvidovre	DKK	1.3	100
Dominican Republic	Productos Roche Dominicana S.A.	Santo Domingo	DOP	0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD	13.1	100
El Salvador	Productos Roche (El Salvador) S.A.	San Salvador	SVC	0.2	100
Estonia	Roche Eesti OÜ	Tallinn	EUR	0.1	100
Finland	Roche Diagnostics Oy	Espoo	EUR	0.2	100
	Roche Oy	Espoo	EUR	(–)	100
France	Institut Roche de Recherche et Médecine Translationnelle SAS	Boulogne-Billancourt cedex	EUR	(–)	100
	Roche Diagnostics France S.A.S.	Meylan	EUR	16.0	100
	Roche S.A.S.	Boulogne-Billancourt cedex	EUR	38.2	100
	Ventana Medical Systems S.A.S.	Illkirch	EUR	0.9	100
Georgia	Roche Georgia LLC	Tbilisi	GEL	0.5	100
Germany	Galenus Mannheim GmbH	Mannheim	EUR	1.7	100
	NimbleGen Systems GmbH	Pleiskirchen	EUR	(–)	100
	Roche Beteiligungs GmbH	Grenzach-Wyhlen	EUR	3.6	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	DEM	10.0	100
	Roche Diagnostics Deutschland GmbH	Mannheim	EUR	1.0	100
	Roche Diagnostics GmbH	Mannheim	EUR	94.6	100
	Roche mtm laboratories AG	Heidelberg	EUR	1.4	100
	Roche Pharma AG	Grenzach-Wyhlen	EUR	61.4	100
	Roche PVT GmbH	Waiblingen	EUR	(–)	100
	Swisslab GmbH	Berlin	EUR	(–)	100
	Verum Diagnostica GmbH	Munich	EUR	(–)	100

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Novartis Exhibit 2274.00136
Regeneron v. Novartis, IPR2021-00816

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Greece	Roche (Hellas) S.A.	Athens	EUR	80.1	100
	Roche Diagnostics (Hellas) S.A.	Athens	EUR	48.7	100
Guatemala	Productos Roche Guatemala S.A.	Guatemala	GTQ	0.6	100
Honduras	Productos Roche (Honduras), S.A.	Tegucigalpa	HNL	(–)	100
Hungary	Roche (Hungary) Ltd.	Budapest	HUF	30.0	100
	Roche Services (Europe) Ltd.	Budapest	HUF	3.0	100
India	Roche Diagnostics (India) Pvt. Ltd.	Mumbai	INR	149.2	100
	Roche Products (India) Pvt. Ltd.	Mumbai	INR	10.0	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR	1,323.0	98.3
Ireland	Roche Ireland Limited	Clarecastle	EUR	1.9	100
	Roche Products (Ireland) Limited	Dublin	EUR	(–)	100
Israel	Medingo Ltd.	Yoqneam Illit	ILS	8.0	100
	Roche Pharmaceuticals (Israel) Ltd.	Petach Tikva	ILS	(–)	100
Italy	Roche Diagnostics S.p.A.	Milan	EUR	18.1	100
	Roche S.p.A.	Milan	EUR	34.1	100
Japan	Roche Diagnostics K.K.	Tokyo	JPY	2,500.0	100
Latvia	Roche Latvija SIA	Riga	LVL	0.2	100
Lithuania	UAB Roche Lietuva	Vilnius	LIT	0.8	100
Malaysia	Roche (Malaysia) Sdn Bhd.	Kuala Lumpur	MYR	4.0	100
	Roche Diagnostics (Malaysia) Sdn Bhd.	Kuala Lumpur	MYR	0.9	100
	Syntex Pharmaceuticals Sdn. Bhd.	Kuala Lumpur	MYR	(–)	100
Mauritius	Roche Products (Mauritius) Limited	Quatre Bornes	MUR	4.0	100
Mexico	Productos Roche, S.A. de C.V.	Mexico City	MXN	82.6	100
	Roche Servicios de México, S.A. de C.V.	Mexico City	MXN	3.5	100
Morocco	Roche S.A.	Casablanca	MAD	59.5	100
Netherlands	Roche Diagnostics Nederland B.V.	Almere	EUR	2.3	100
	Roche Finance Europe B.V.	Woerden	EUR	2.0	100
	Roche Nederland B.V.	Woerden	EUR	10.9	100
	Roche Pharmholding B.V.	Woerden	EUR	467.8	100
New Zealand	Roche Diagnostics NZ Limited	Auckland	NZD	3.0	100
	Roche Products (New Zealand) Limited	Auckland	NZD	13.5	100
Nicaragua	Productos Roche (Nicaragua) S.A.	Managua	NIO	(–)	100
Nigeria	Roche Products Limited	Lagos	NGN	200.0	100
Norway	Roche Diagnostics Norge A/S	Oslo	NOK	5.8	100
	Roche Norge A/S	Oslo	NOK	6.2	100
Pakistan	Roche Pakistan Limited	Karachi	PKR	38.3	100
Palestine	Roche Pharmaceuticals Palestine Ltd	Ramallah & Al-Bireh	USD	1.2	100
Panama	Productos Roche (Panamá) S.A.	Panama City	PAB	(–)	100
	Productos Roche Interamericana S.A.	Panama City	USD	0.1	100
	Roche Products Inc.	Panama City	USD	0.5	100
	Syntex Puerto Rico Inc.	Panama City	USD	(–)	100
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN	11.1	100
Philippines	Roche (Philippines) Inc.	Taguig City	PHP	300.0	100
Poland	Roche Diagnostics Polska Sp. z o.o.	Warsaw	PLN	8.0	100
	Roche Polska Sp. z o.o.	Warsaw	PLN	25.0	100
Portugal	Roche Farmacêutica Química, Lda.	Amadora	EUR	1.1	100
	Roche Sistemas de Diagnósticos, Sociedade Unipessoal, Lda.	Amadora	EUR	2.6	100
Puerto Rico	Roche Operations Ltd.	Ponce	USD	(–)	100
Romania	Roche Romania S.R.L.	Bucharest	RON	472.1	100
Russian Federation	Limited Liability Company Roche Diagnostics Rus	Moscow	RUB	250.0	100
	Roche – Moscow Ltd.	Moscow	RUB	2.6	100
Serbia	Roche d.o.o. Beograd	Belgrade	EUR	4.1	100
Singapore	Roche Diagnostics Asia Pacific Pte. Ltd.	Singapore	SGD	20.4	100
	Roche Singapore Pte. Ltd.	Singapore	SGD	4.0	100
	Roche Singapore Technical Operations, Pte. Ltd.	Singapore	USD	795.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	EUR	0.3	100
Slovenia	Roche d.o.o. Pharmaceutical Company	Ljubljana	EUR	0.2	100
South Africa	Roche Products (Proprietary) Limited	Illovo	ZAR	60.0	100
South Korea	Roche Diagnostics Korea Co., Ltd.	Seoul	KRW	22,969.0	100
	Roche Korea Company Ltd.	Seoul	KRW	13,375.0	100

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Novartis Exhibit 2274.00137
Regeneron v. Novartis, IPR2021-00816

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Spain	Andreu Roche S.A.	Madrid	EUR	0.1	100
	Roche Diagnostics S.L.	Barcelona	EUR	18.0	100
	Roche Farma S.A.	Madrid	EUR	54.1	100
	Syntex Roche S.A.	Madrid	EUR	0.1	100
Sri Lanka	Roche Products Colombo (Private) Limited	Colombo	LKR	14.0	100
Sweden	Roche AB	Stockholm	SEK	20.0	100
	Roche Diagnostics Scandinavia AB	Bromma	SEK	9.0	100
Switzerland	F. Hoffmann-La Roche Ltd	Basel	CHF	150.0	100
	Hoffmann-La Roche Ltd.	Basel	CHF	0.5	100
	Rabbit-Air Ltd.	Bachenbülach	CHF	3.0	100
	Roche Capital Market Ltd.	Basel	CHF	1.0	100
	Roche Diabetes Care AG	Burgdorf	CHF	0.9	100
	Roche Diagnostics (Switzerland) Ltd.	Rotkreuz	CHF	1.0	100
	Roche Diagnostics International Ltd.	Steinhausen	CHF	20.0	100
	Roche Finance Ltd.	Basel	CHF	409.2	100
	Roche Forum Buonas AG	Buonas	CHF	0.1	100
	Roche Glycart AG	Schlieren	CHF	0.3	100
	Roche Long Term Foundation	Basel	CHF	0.5	100
	Roche Pharma (Switzerland) Ltd.	Reinach	CHF	2.0	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD	80.0	100
	Roche Products Ltd.	Taipei	TWD	100.0	100
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB	103.0	100
	Roche Thailand Limited	Bangkok	THB	12.0	100
Turkey	Roche Diagnostik Sistemleri Ticaret A.S.	Istanbul	TRY	80.0	100
	Roche Müstahzarlari Sanayi Anonim Sirketi	Istanbul	TRY	249.5	100
Ukraine	Roche Ukraine LLC	Kiev	USD	0.5	100
United Arab Emirates	Roche Diagnostics Middle East FZCO	Dubai	AED	0.5	100
	Roche Middle East FZCO	Dubai	AED	0.5	100
United Kingdom	Piramed Limited	Welwyn Garden City	GBP	(–)	100
	Roche Diagnostics Ltd.	Burgess Hill	GBP	32.6	100
	Roche Holding (UK) Limited	Welwyn Garden City	GBP	100.0	100
	Roche Products Limited	Welwyn Garden City	GBP	98.3	100
	Roche Registration Limited	Welwyn Garden City	GBP	(–)	100
United States	454 Life Sciences Corporation	Branford	USD	(–)	100
	Alios Biopharma, Inc.	South San Francisco	USD	(–)	20.5
	Anadys Pharmaceuticals, Inc.	South San Francisco	USD	(–)	100
	BioVeris Corporation	Indianapolis	USD	(–)	100
	Genentech, Inc.	South San Francisco	USD	(–)	100
	Genentech USA, Inc.	South San Francisco	USD	(–)	100
	Hoffmann-La Roche Inc.	Nutley	USD	3.0	100
	BioFire Diagnostics, Inc.	Salt Lake City	USD	(–)	21.1
	IGEN International, Inc.	Pleasanton	USD	(–)	100
	Marcadia Biotech, Inc.	Nutley	USD	(–)	100
	Roche Carolina Inc.	Florence	USD	(–)	100
	Roche Diagnostics Corporation	Indianapolis	USD	(–)	100
	Roche Diagnostics Operations, Inc.	Indianapolis	USD	(–)	100
	Roche Holdings, Inc.	South San Francisco	USD	1.0	100
	Roche Insulin Delivery Systems Inc.	Fishers	USD	(–)	100
	Roche Laboratories Inc.	Nutley	USD	(–)	100
	Roche Molecular Systems, Inc.	Pleasanton	USD	(–)	100
	Roche NimbleGen Iceland, LLC	Reykjavik	USD	0.5	100
	Roche NimbleGen, Inc.	Madison	USD	(–)	100
	Roche TCRC, Inc.	Nutley	USD	(–)	100
	Spring Bioscience Corp.	Pleasanton	USD	(–)	100
	Ventana Medical Systems, Inc.	Tucson	USD	(–)	100
Uruguay	Roche International Ltd. – Montevideo Branch	Hamilton	UYU	(–)	100
Venezuela	Productos Roche S.A.	Caracas	VEF	78.2	100
Vietnam	Roche Diagnostics Vietnam Co., Ltd.	Ho Chi Minh City	USD	3.0	100

(–) = share capital of less than 100,000 local currency units.

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Novartis Exhibit 2274.00138
Regeneron v. Novartis, IPR2021-00816

Report of Roche Management on Internal Control over Financial Reporting

Report of Roche Management on Internal Control over Financial Reporting

The Board of Directors and management of Roche Holding Ltd are responsible for establishing and maintaining adequate control over financial reporting. The internal control system was designed to provide reasonable assurance over the reliability of financial reporting and the preparation and fair presentation of consolidated financial statements in accordance with International Financial Reporting Standards.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of its system of internal control over financial reporting as of 31 December 2012 based on the criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the system of internal control over financial reporting was effective as of 31 December 2012.

The Statutory Auditor KPMG AG have audited the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2012, in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA). They have also issued a report on the effectiveness of the Group's system of internal control over financial reporting. This report is set out on pages 140 to 141.

Franz B. Humer
Chairman of the Board of Directors

Alan Hippe
Chief Financial Officer

Basel, 28 January 2013

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Novartis Exhibit 2274.00139
Regeneron v. Novartis, IPR2021-00816

Report of the Statutory Auditor on the Consolidated Financial Statements

Report of the Statutory Auditor on the Consolidated Financial Statements to the Annual General Meeting of Roche Holding Ltd, Basel

As statutory auditor, we have audited the accompanying consolidated financial statements of Roche Holding Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 44 to 136 for the year ended 31 December 2012.

Board of Directors' Responsibility. The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation 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, Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 judgement, 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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. 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 for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS), and comply with Swiss law.

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Novartis Exhibit 2274.00140
Regeneron v. Novartis, IPR2021-00816

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 paragraph 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.

KPMG
KPMG AG

Ian Starkey	François Rouiller
Licensed Audit Expert	Licensed Audit Expert
Auditor in Charge	

Basel, 28 January 2013

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Novartis Exhibit 2274.00141
Regeneron v. Novartis, IPR2021-00816

Report of the Independent Auditor on Internal Control over Financial Reporting

Report of the Independent Auditor on Internal Control over Financial Reporting to the Annual General Meeting of Roche Holding Ltd, Basel

We have examined the Roche Group's system of internal control over financial reporting as of 31 December 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Board of Directors and management of Roche Holding Ltd are responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting as included in the accompanying Report of Roche Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our examination. An entity's internal control over financial reporting is a process effected by the entity's Board of Directors, management, and other personnel, designed to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with the applicable financial reporting framework; and (3) provide reasonable assurance regarding the prevention or timely detection of the unauthorised acquisition, use, or disposition of the entity's assets that could have a material effect on the entity's financial statements.

We conducted our examination in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000). This standard requires that we plan and perform our examination to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our examination included obtaining an understanding of internal control over financial reporting, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of the inherent limitations of internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting to future periods are subject to the risk that internal control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

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Novartis Exhibit 2274.00142
Regeneron v. Novartis, IPR2021-00816

In our opinion, the Roche Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2012 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Swiss Auditing Standards and International Standards on Auditing, the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2012 and our report dated 28 January 2013 expressed an unqualified opinion on those consolidated financial statements.

KPMG
KPMG AG

Ian Starkey Licensed Audit Expert Auditor in Charge	François Rouiller Licensed Audit Expert

Basel, 28 January 2013

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Novartis Exhibit 2274.00143
Regeneron v. Novartis, IPR2021-00816

Multi-Year Overview and Supplementary Information

Multi-Year Overview

Statistics, as reported

	2003	2004	2005	
Statement of income in millions of CHF				
Sales	31,220	31,273	35,511	
EBITDA	8,609	9,566	11,404	
Operating profit	5,592	8,979	8,669	
Net income attributable to Roche shareholders	3,069	6,641	5,787	
Research and development	4,766	5,093	5,705	
Balance sheet in millions of CHF				
Non-current assets	29,820	28,670	33,739	
Current assets	29,666	29,406	35,626	
Total assets	59,486	58,076	69,365	
Non-current liabilities	(18,658)	(14,882)	(18,130)	
Current liabilities	(11,664)	(9,901)	(9,492)	
Total liabilities	(30,322)	(24,783)	(27,622)	
Net assets	29,164	33,293	41,743	
Capital and reserves attributable to Roche shareholders	23,570	28,223	34,922	
Equity attributable to non-controlling interests	5,594	5,070	6,821	
Additions to property, plant and equipment	2,265	2,357	3,428	
Personnel				
Number of employees at end of year	65,357	64,703	68,218	
Key ratios				
Net income attributable to Roche shareholders as % of sales	10	21	16	
Net income as % of equity, attributable to Roche shareholders	13	24	17	
Research and development as % of sales	15	16	16	
Current ratio %	254	297	375	
Equity and non-controlling interests as % of total assets	49	57	60	
Sales per employee in thousands of CHF	482	483	521	
Data on shares and non-voting equity securities				
Number of shares	160,000,000	160,000,000	160,000,000	
Number of non-voting equity securities *(Genussscheine)*	702,562,700	702,562,700	702,562,700	
Total shares and non-voting equity securities	862,562,700	862,562,700	862,562,700	
Total dividend in millions of CHF	1,423	1,725	2,156	
Earnings per share and non-voting equity security (diluted) in CHF	3.61	7.81	6.71	
Dividend per share and non-voting equity security in CHF	1.65	2.00	2.50	

Information in this table is stated as reported. Changes in accounting policies arising from changes in International Financial Reporting Standards are not applied retrospectively.

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Novartis Exhibit 2274.00144
Regeneron v. Novartis, IPR2021-00816

2006	2007	2008	2009	2010	2011	2012
42,041	46,133	45,617	49,051	47,473	42,531	45,499
14,436	17,068	16,637	18,028	18,517	16,933	19,040
11,730	14,468	13,924	12,277	13,486	13,454	14,125
7,880	9,761	8,969	7,784	8,666	9,343	9,539
6,589	8,385	8,845	9,874	10,026	8,326	9,552
33,519	35,349	37,485	36,086	33,408	33,344	33,434
40,895	42,834	38,604	38,479	27,612	28,232	31,371
74,414	78,183	76,089	74,565	61,020	61,576	64,805
(14,908)	(10,422)	(10,163)	(43,084)	(34,380)	(30,884)	(27,868)
(12,692)	(14,454)	(12,104)	(22,067)	(14,978)	(16,210)	(20,209)
(27,600)	(24,876)	(22,267)	(65,151)	(49,358)	(47,094)	(48,077)
46,814	53,307	53,822	9,414	11,662	14,482	16,728
39,444	45,347	44,479	7,366	9,469	12,095	14,494
7,370	7,960	9,343	2,048	2,193	2,387	2,234
3,878	3,648	3,187	2,837	2,633	2,006	2,130
74,372	78,604	80,080	81,507	80,653	80,129	82,089
19	21	20	16	18	22	21
20	22	20	106	92	77	66
16	18	19	20	21	20	21
322	296	319	174	184	174	155
63	68	71	13	19	24	26
565	587	570	602	589	531	554
160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700
2,933	3,968	4,313	5,175	5,693	5,865	6,340[a]
9.05	11.16	10.23	9.02	10.11	10.98	11.16
3.40	4.60	5.00	6.00	6.60	6.80	7.35[a]

a) Dividend 2012 as proposed by the Board of Directors.

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Regeneron v. Novartis, IPR2021-00816

Sales by division in millions of CHF

	2008	2009	2010	2011	2012
Pharmaceuticals	35,961	38,996	37,058	32,794	35,232
Diagnostics	9,656	10,055	10,415	9,737	10,267
Total	**45,617**	**49,051**	**47,473**	**42,531**	**45,499**

Sales by geographical area in millions of CHF

	2008	2009	2010	2011	2012
Switzerland	509	499	464	507	505
European Union	15,601	16,219	14,596	12,815	12,214
– *of which Germany*	*3,200*	*3,320*	*2,970*	*2,595*	*2,534*
Rest of Europe	1,521	1,568	1,630	1,486	1,628
Europe	**17,631**	**18,286**	**16,690**	**14,808**	**14,347**
United States	16,362	17,208	16,446	14,133	15,932
Rest of North America	932	948	1,051	1,047	1,035
North America	**17,294**	**18,156**	**17,497**	**15,180**	**16,967**
Latin America	2,975	2,940	3,397	3,115	3,410
Japan	3,532	5,036	4,718	4,314	4,735
Rest of Asia	2,920	3,166	3,591	3,616	4,368
Asia	**6,452**	**8,202**	**8,309**	**7,930**	**9,103**
Africa, Australia and Oceania	1,265	1,467	1,580	1,498	1,672
Total	**45,617**	**49,051**	**47,473**	**42,531**	**45,499**

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Regeneron v. Novartis, IPR2021-00816

Additions to property, plant and equipment by division in millions of CHF

	2008	2009	2010	2011	2012
Pharmaceuticals	1,940	1,644	1,464	1,049	1,049
Diagnostics	1,245	1,191	1,150	956	1,079
Corporate	2	2	49	1	2
Total	**3,187**	**2,837**	**2,663**	**2,006**	**2,130**

Additions to property, plant and equipment by geographical area in millions of CHF

	2008	2009	2010	2011	2012
Switzerland	421	315	413	381	398
European Union	960	972	890	679	652
– of which Germany	*591*	*646*	*577*	*352*	*318*
Rest of Europe	17	20	21	26	37
Europe	**1,398**	**1,307**	**1,324**	**1,086**	**1,087**
United States	1,212	866	658	401	411
Rest of North America	21	13	24	5	8
North America	**1,233**	**879**	**682**	**406**	**419**
Latin America	127	115	127	115	135
Japan	292	230	242	185	186
Rest of Asia	116	285	254	194	270
Asia	**408**	**515**	**496**	**379**	**456**
Africa, Australia and Oceania	21	21	34	20	33
Total	**3,187**	**2,837**	**2,663**	**2,006**	**2,130**

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Supplementary Core results and EPS information

The Group's basic and diluted earnings per share information is given in Note 28 to the Annual Financial Statements on pages 120 to 121. The Group has expanded the presentation of its core results in 2010. Previously only core EPS was shown, but now the full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. This allows a transparent assessment of both the actual results and the underlying performance of the business.

The core results concept, which is used in the internal management of the business, is based on the IFRS results, with the following adjustments:

- Global restructuring plans (see Note 7) are excluded.
- Amortisation and impairment of intangible assets (see Note 13) and impairment of goodwill (see Note 12) are excluded.
- Acquisition accounting and other one-time impacts from Alliance arrangements and Business Combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) would be excluded.
- Legal and environmental expenses (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control are excluded. In 2011 this includes the directly attributable costs of the earthquake that occurred in Japan on 11 March 2011 (see Note 3). There were no such items in 2012.
- Material one-time treasury items such as major debt restructurings or settlement of pension plans (both currently none) would be excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 5).

The core results concept was further described on 22 October 2010 at an Investor Update teleconference, which is available for download at: http://www.roche.com/investors/ir_agenda/csr_151010.htm

The Group's IFRS results, including the divisional breakdown, are reconciled to the core results in the tables below. The calculation of core EPS is also given in the tables below. Additional commentary to the adjustment items is given in the Financial Review.

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Core results reconciliation – 2012 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Global issues	Normali-sation of ECP tax benefit	Core
Sales	45,499	–	–	–	–	–	–	–	45,499
Royalties and other operating income	1,945	–	–	–	–	–	–	–	1,945
Cost of sales	(12,175)	203	487	41	–	–	–	–	(11,444)
Marketing and distribution	(8,539)	141	6	–	–	–	–	–	(8,392)
Research and development	(9,552)	556	37	484	–	–	–	–	(8,475)
General and administration	(3,053)	536	–	187	(32)	389	–	–	(1,973)
Operating profit	**14,125**	**1,436**	**530**	**712**	**(32)**	**389**	**–**	**–**	**17,160**
Associates	–	–	–	–	–	–	–	–	–
Financial income	471	–	–	–	–	–	–	–	471
Financing costs	(2,273)	–	–	–	–	–	–	–	(2,273)
Profit before taxes	**12,323**	**1,436**	**530**	**712**	**(32)**	**389**	**–**	**–**	**15,358**
Income taxes	(2,550)	(399)	(181)	(173)	(5)	(146)	–	(26)	(3,480)
Net income	**9,773**	**1,037**	**349**	**539**	**(37)**	**243**	**–**	**(26)**	**11,878**
Attributable to									
– Roche shareholders	9,539	1,037	348	539	(37)	243	–	(26)	11,643
– Non-controlling interests	234	–	1	–	–	–	–	–	235

Core results reconciliation – 2011 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Global issues	Normali-sation of ECP tax benefit	Core
Sales	42,531	–	–	–	–	–	–	–	42,531
Royalties and other operating income	1,582	–	–	–	–	–	–	–	1,582
Cost of sales	(11,942)	194	498	86	–	–	47	–	(11,117)
Marketing and distribution	(8,049)	70	5	–	–	–	7	–	(7,967)
Research and development	(8,326)	184	17	52	–	–	–	–	(8,073)
General and administration	(2,342)	492	–	–	(42)	82	3	–	(1,807)
Operating profit	**13,454**	**940**	**520**	**138**	**(42)**	**82**	**57**	**–**	**15,149**
Associates	12	–	–	–	–	–	–	–	12
Financial income	647	–	–	–	–	–	–	–	647
Financing costs	(2,228)	–	–	–	–	–	–	–	(2,228)
Profit before taxes	**11,885**	**940**	**520**	**138**	**(42)**	**82**	**57**	**–**	**13,580**
Income taxes	(2,341)	(268)	(181)	(41)	(2)	(30)	(24)	(8)	(2,895)
Net income	**9,544**	**672**	**339**	**97**	**(44)**	**52**	**33**	**(8)**	**10,685**
Attributable to									
– Roche shareholders	9,343	672	339	97	(44)	51	20	(8)	10,470
– Non-controlling interests	201	–	–	–	–	1	13	–	215

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Divisional core results reconciliation – 2012 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Global issues	Core
Pharmaceuticals								
Sales	35,232	–	–	–	–	–	–	35,232
Royalties and other operating income	1,794	–	–	–	–	–	–	1,794
Cost of sales	(7,348)	92	146	13	–	–	–	(7,097)
Marketing and distribution	(5,914)	63	–	–	–	–	–	(5,851)
Research and development	(8,529)	489	35	476	–	–	–	(7,529)
General and administration	(1,558)	466	–	–	(45)	76	–	(1,061)
Operating profit	**13,677**	**1,110**	**181**	**489**	**(45)**	**76**	**–**	**15,488**
Diagnostics								
Sales	10,267	–	–	–	–	–	–	10,267
Royalties and other operating income	151	–	–	–	–	–	–	151
Cost of sales	(4,827)	111	341	28	–	–	–	(4,347)
Marketing and distribution	(2,625)	78	6	–	–	–	–	(2,541)
Research and development	(1,023)	67	2	8	–	–	–	(946)
General and administration	(659)	50	–	187	12	13	–	(397)
Operating profit	**1,284**	**306**	**349**	**223**	**12**	**13**	**–**	**2,187**
Corporate								
General and administration	(836)	20	–	–	1	300	–	(515)
Operating profit	**(836)**	**20**	**–**	**–**	**1**	**300**	**–**	**(515)**

Divisional core results reconciliation – 2011 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Global issues	Core
Pharmaceuticals								
Sales	32,794	–	–	–	–	–	–	32,794
Royalties and other operating income	1,453	–	–	–	–	–	–	1,453
Cost of sales	(7,436)	167	137	32	–	–	47	(7,053)
Marketing and distribution	(5,636)	65	–	–	–	–	7	(5,564)
Research and development	(7,397)	162	15	47	–	–	–	(7,173)
General and administration	(1,527)	456	–	–	(39)	56	3	(1,051)
Operating profit	**12,251**	**850**	**152**	**79**	**(39)**	**56**	**57**	**13,406**
Diagnostics								
Sales	9,737	–	–	–	–	–	–	9,737
Royalties and other operating income	129	–	–	–	–	–	–	129
Cost of sales	(4,506)	27	361	54	–	–	–	(4,064)
Marketing and distribution	(2,413)	5	5	–	–	–	–	(2,403)
Research and development	(929)	22	2	5	–	–	–	(900)
General and administration	(362)	18	–	–	(3)	26	–	(321)
Operating profit	**1,656**	**72**	**368**	**59**	**(3)**	**26**	**–**	**2,178**
Corporate								
General and administration	(453)	18	–	–	–	–	–	(435)
Operating profit	**(453)**	**18**	**–**	**–**	**–**	**–**	**–**	**(435)**

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Regeneron v. Novartis, IPR2021-00816

Core EPS

	2012	2011
Core net income (CHF millions)		
Core net income attributable to Roche shareholders	11,643	10,470
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised	(1)	(1)
Net income used to calculate diluted earnings per share	**11,642**	**10,469**
Per share information (millions of shares and non-voting equity securities)		
Weighted average number of shares and non-voting equity securities in issue	848	849
Adjustment for assumed exercise of equity compensation plans, where dilutive	7	2
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	**855**	**851**
Core earnings per share (diluted) (CHF)	**13.62**	**12.30**

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Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

	Pharmaceuticals 2012	Pharmaceuticals 2011	Diagnostics 2012	Diagnostics 2011	Corporate 2012	Corporate 2011	Group 2012	Group 2011
Depreciation, amortisation and impairment								
Depreciation of property, plant and equipment	1,057	1,079	828	763	6	6	1,891	1,848
Amortisation of intangible assets	181	152	349	368	–	–	530	520
Impairment of property, plant and equipment	444	93	18	3	–	–	462	96
Impairment of goodwill	–	–	187	–	–	–	187	–
Impairment of intangible assets	489	79	36	59	–	–	525	138
Impairment of net assets-held-for-sale	–	117	–	–	–	–	–	117
Total	**2,171**	**1,520**	**1,418**	**1,193**	**6**	**6**	**3,595**	**2,719**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	306	316	35	36	22	18	363	370
– Net (income) expense for provisions	847	525	209	10	307	1	1,363	536
– Net gain (loss) from disposals	(129)	34	39	6	–	(4)	(90)	36
– Non-cash working capital and other items	122	452	166	139	1	–	289	591
Deduct								
– Net cash flow from equity-settled equity compensation plans	(658)	(36)	(64)	(11)	(24)	(6)	(746)	(53)
– Utilisation of provisions	(687)	(877)	(133)	(65)	(8)	(6)	(828)	(948)
– Proceeds from disposals	180	352	67	47	–	–	247	399
Total	**(19)**	**766**	**319**	**162**	**298**	**3**	**598**	**931**
Operating profit cash adjustments	**2,152**	**2,286**	**1,737**	**1,355**	**304**	**9**	**4,193**	**3,650**
EBITDA								
Core operating profit	15,488	13,406	2,187	2,178	(515)	(435)	17,160	15,149
Depreciation and impairment of property, plant and equipment – Core basis	1,050	1,016	824	762	6	6	1,880	1,784
EBITDA	**16,538**	**14,422**	**3,011**	**2,940**	**(509)**	**(429)**	**19,040**	**16,933**
– margin, % of sales	46.9	44.0	29.3	30.2	–	–	41.8	39.8

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Regeneron v. Novartis, IPR2021-00816

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation 2012 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	10,704	4,572	126	–	15,402
Goodwill	2,164	5,316	–	–	7,480
Intangible assets	2,094	2,120	–	–	4,214
Inventories	3,584	1,958	–	–	5,542
Provisions	(2,249)	(530)	(421)	–	(3,200)
Associates	–	–	–	24	24
Current income tax net assets	–	–	–	(1,871)	(1,871)
Deferred income tax net assets	–	–	–	3,462	3,462
Post-employment benefit net assets	–	–	–	(6,585)	(6,585)
Marketable securities	–	–	–	9,461	9,461
Cash and cash equivalents	–	–	–	4,530	4,530
Debt	–	–	–	(24,590)	(24,590)
Other net assets					
– Net working capital	1,964	1,389	(71)	–	3,282
– Long-term net operating assets	242	(96)	(14)	–	132
– Other	–	–	–	(555)	(555)
Total net assets	**18,503**	**14,729**	**(380)**	**(16,124)**	**16,728**

Net operating assets to balance sheet reconciliation 2011 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	11,586	4,484	131	–	16,201
Goodwill	2,233	5,610	–	–	7,843
Intangible assets	2,618	2,508	–	–	5,126
Inventories	3,177	1,883	–	–	5,060
Provisions	(2,124)	(481)	(128)	–	(2,733)
Associates	–	–	–	24	24
Current income tax net assets	–	–	–	(1,984)	(1,984)
Deferred income tax net assets	–	–	–	2,158	2,158
Post-employment benefit net assets	–	–	–	(4,952)	(4,952)
Marketable securities	–	–	–	7,433	7,433
Cash and cash equivalents	–	–	–	3,854	3,854
Debt	–	–	–	(26,853)	(26,853)
Other net assets					
– Net working capital	2,268	1,618	(42)	–	3,844
– Long-term net operating assets	250	(99)	(1)	–	150
– Other	–	–	–	(689)	(689)
Total net assets	**20,008**	**15,523**	**(40)**	**(21,009)**	**14,482**

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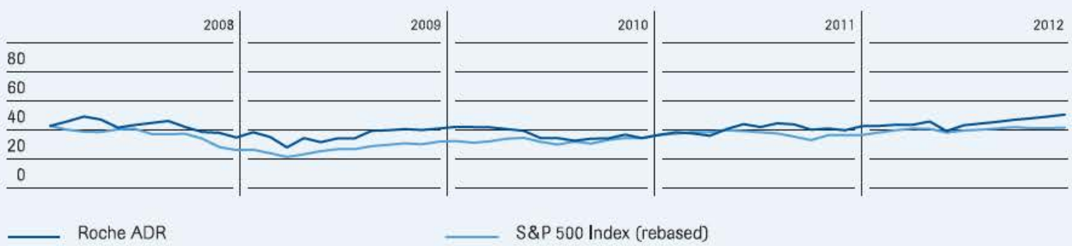
Roche Securities

Price development of share in CHF

Price development of non-voting equity security *(Genussschein)* in CHF

Price development of American Depositary Receipt (ADR) in USD



Four Roche American Depositary Receipts (ADRs) are equivalent to one non-voting equity security *(Genussschein)*. ADRs have been traded in the United States over-the-counter market since July 1992.
Information in these tables is restated for the change in the ratio for the ADRs from 1:1 to 2:1 effective 24 January 2005 and the change in the ratio for the ADRs from 2:1 to 4:1 effective 9 January 2009.

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Regeneron v. Novartis, IPR2021-00816

Number of shares and non-voting equity securities [a]

	2008	2009	2010	2011	2012
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**
Number of own non-voting equity securities *(Genussscheine)* held	(2,958,402)	(6,682,120)	(11,214,765)	(15,084,967)	(14,093,890)
Total in issue	**859,604,298**	**855,880,580**	**851,347,935**	**847,477,733**	**848,468,810**

Data per share and non-voting equity security in CHF

		2008	2009	2010	2011	2012
Earnings (diluted)		10.23	9.02	10.11	10.98	11.16
Equity attributable to Roche shareholders		51.74	8.61	11.12	14.27	17.08
Dividend		5.00	6.00	6.60	6.80	7.35[c]
Stock price of share [b]	Opening	213.00	168.70	181.00	142.80	166.60
	High	229.50	182.10	191.70	167.00	191.70
	Low	155.20	130.30	134.30	123.80	157.10
	Year-end	168.70	181.00	142.80	166.60	186.90
Stock price of non-voting equity security *(Genussschein)* [b]	Opening	195.60	162.50	175.80	137.00	159.20
	High	208.60	179.00	186.00	159.70	188.60
	Low	148.20	124.10	130.20	117.00	149.20
	Year-end	162.50	175.80	137.00	159.20	184.00

Market capitalisation in millions of CHF

	2008	2009	2010	2011	2012
Year-end	140,678	151,296	117,563	136,102	156,582

Key ratios (year-end)

	2008	2009	2010	2011	2012
Dividend yield of shares in %	3.0	3.3	4.6	4.1	3.9
Dividend yield of non-voting equity securities *(Genussscheine)* in %	3.1	3.4	4.8	4.3	4.0
Price/earnings of shares	16	20	14	15	17
Price/earnings of non-voting equity securities *(Genussscheine)*	16	19	14	15	16

a) Each non-voting equity security *(Genussschein)* confers the same rights as any of the shares to participate in the available earnings and any remaining proceeds from liquidation following repayment of the nominal value of the shares and the participation certificate capital (if any). Shares and non-voting equity securities are listed on the SIX Swiss Exchange. Roche Holding Ltd has no restrictions as to ownership of its shares or non-voting equity securities.

b) All stock price data reflect daily closing prices.

c) Dividend 2012 as proposed by the Board of Directors.

Ticker symbols

	Share	Non-voting equity security	American Depositary Receipt (ADR)
SIX Swiss Exchange	RO	ROG	–
Bloomberg	RO SW	ROG VX	RHHBY US
Reuters	RO.S	ROG.VX	RHHBY.PK

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Novartis Exhibit 2274.00155
Regeneron v. Novartis, IPR2021-00816

ROCHE HOLDING LTD, BASEL

Financial Statements 155

Notes to the Financial Statements 157

1. Summary of significant accounting policies 157
2. Equity 157
3. Contingent liabilities 158
4. Significant shareholders 158
5. Risk management 158
6. Board and Executive remuneration 159
7. Board and Executive shareholdings 162

Appropriation of Available Earnings 165

Report of the Statutory Auditor on the Financial Statements 166

https://www.roche.com/dam/jcr:13c45df4-9cf6-4545-a23d-874d398aa788/en/fb12e.pdf

Financial Statements

Income statement in millions of CHF

	2012	Year ended 31 December 2011
Income		
Income from participations	5,060	8,450
Interest income from loans to Group companies	48	51
Interest and investment income	5	7
Guarantee fee income from Group companies	189	203
Other income	26	26
Total income	**5,328**	**8,737**
Expenses		
Financial expenses	(27)	(2)
Administration expenses	(32)	(29)
Other expenses	(32)	(32)
Total expenses	**(91)**	**(63)**
Profit for the year before taxes	**5,237**	**8,674**
Taxes	(21)	(26)
Net profit for the year	**5,216**	**8,648**

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Balance sheet in millions of CHF

	31 December 2012	31 December 2011
Non-current assets		
Participations	10,025	10,266
Long-term loans to Group companies	554	578
Total non-current assets	**10,579**	**10,844**
Current assets		
Accounts receivable from Group companies	1,674	813
Other accounts receivable	11	1
Marketable securities	2,271	3,746
Liquid funds	1,389	1,070
Total current assets	**5,345**	**5,630**
Total assets	**15,924**	**16,474**
Equity		
Share capital	160	160
Non-voting equity securities *(Genussscheine)*	p.m.	p.m.
General legal reserve	300	300
Free reserve	6,000	4,706
Special reserve	2,152	2,152
Available earnings:		
– Balance brought forward from previous year	1,926	437
– Net profit for the year	5,216	8,648
Total equity	**15,754**	**16,403**
Non-current liabilities		
Provisions	35	35
Total non-current liabilities	**35**	**35**
Current liabilities		
Accounts payable to Group companies	112	4
Unrealised foreign currency gains	–	4
Other liabilities	23	28
Total current liabilities	**135**	**36**
Total liabilities	**170**	**71**
Total equity and liabilities	**15,924**	**16,474**

p.m. = pro memoria. Non-voting equity securities have no nominal value.

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Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation of the financial statements

The financial statements of Roche Holding Ltd, Basel, are prepared in accordance with the provisions of Swiss law.

Participations

The major participations of the company are listed in Note 33 to the Roche Group Annual Financial Statements.

Valuation methods and translation of foreign currencies

Marketable securities are reported at the lower of cost or market value. All other assets, including participations, are reported at cost less appropriate write-downs. Assets and liabilities denominated in foreign currencies are translated into Swiss francs using year-end rates of exchange, except participations which are translated at historical rates. Transactions during the year which are denominated in foreign currencies are translated at the exchange rates effective at the relevant transaction dates. Resulting exchange gains and losses are recognised in the income statement with the exception of unrealised gains which are deferred.

Taxes

The tax charge includes corporate income and capital taxes.

2. Equity

Share capital

As in the previous year, share capital amounts to 160 million Swiss francs. The share capital consists of 160,000,000 bearer shares with a nominal value of 1 Swiss franc each. Included in equity are 702,562,700 non-voting equity securities *(Genussscheine)*. They are not part of the share capital and confer no voting rights. However each non-voting equity security confers the same rights as any of the shares to participate in the available earnings and in any remaining proceeds from liquidation following repayment of the nominal value of the share capital and, if any, participation certificates.

Movement in recognised amounts in millions of CHF

	Share capital	General legal reserve	Free reserve	Special reserve	Available earnings	Total equity
As at 1 January 2010	160	300	4,706	2,152	5,386	12,704
– Net income	–	–	–	–	5,919	5,919
– Dividends	–	–	–	–	(5,175)	(5,175)
As at 31 December 2010	**160**	**300**	**4,706**	**2,152**	**6,130**	**13,448**
– Net income	–	–	–	–	8,648	8,648
– Dividends	–	–	–	–	(5,693)	(5,693)
As at 31 December 2011	**160**	**300**	**4,706**	**2,152**	**9,085**	**16,403**
– Net income	–	–	–	–	5,216	5,216
– Dividends	–	–	–	–	(5,865)	(5,865)
– Transfer to free reserve	–	–	1,294	–	(1,294)	–
As at 31 December 2012	**160**	**300**	**6,000**	**2,152**	**7,142**	**15,754**

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3. Contingent liabilities

Guarantees

The company has issued guarantees for certain bonds and notes, commercial paper and credit facilities of Group companies. The nominal amount outstanding at 31 December 2012 was 22.8 billion Swiss francs (2011: 25.2 billion Swiss francs). These are described in Note 26 to the Roche Group Annual Financial Statements on pages 111 to 116.

4. Significant shareholders

All shares in the Company are bearer shares, and for this reason the Company does not keep a register of shareholders. The following figures are based on information from shareholders, the shareholder validation check at the Annual General Meeting of 6 March 2012 and on other information available to the Company.

Controlling shareholders

As of 31 December 2012, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, holds now 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

As of 31 December 2012, based on information supplied to the Group, 53,332,863 shares (2011: 53,332,863 shares) are owned by Novartis Ltd, Basel, including affiliates thereof (participation below 33⅓%).

5. Risk management

The detailed disclosures regarding risk management that are required by Swiss law are included in the Roche Group Annual Financial Statements on pages 123 to 130.

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6. Board and Executive remuneration

Board of Directors

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees.

Remuneration of members of the Board of Directors in thousands of CHF

	2012	2011
B. Gehrig	400	400
A. Hoffmann	400	400
P. Baschera	330	330
J.I. Bell	330	390
P. Bulcke [b)]	330	280
W.M. Burns	353	352
L.J.R. de Vink	330	330
C. Franz [b)]	330	280
W. Frey [a)]	–	50
D. Julius	360	360
A.D. Levinson	681	683
A. Oeri	360	360
W. Ruttenstorfer [a)]	–	50
P.R. Voser [b)]	330	280
B. Weder di Mauro	330	330
Total remuneration of Board of Directors	**4,864**	**4,875**

a) At the Annual General Meeting on 1 March 2011, Mr. Frey and Dr Ruttenstorfer did not stand for re-election.
b) At the Annual General Meeting on 1 March 2011, Mr Bulcke, Dr Franz and Mr Voser were elected as new members of the Board of Directors.

The remuneration for Dr Levinson includes payments for his consulting work and for his Board membership of Genentech totalling 351 thousand Swiss francs (2011: 353 thousand Swiss francs). The Chairman of the Board of Directors, Dr Franz B. Humer, received remuneration as shown in the table below.

Remuneration of the Chairman of the Board of Directors in thousands of CHF

	2012	2011	2010
Annual salary, including cash-settled bonus	6,500	5,600	6,707
Bonus Stock Awards	–	–	–
Pensions and other post-employment benefits	1,808	2,984	2,996
Equity compensation plans	75	75	75
Other employee benefits	279	226	255
Total remuneration received	**8,662**	**8,885**	**10,033**
Social security costs	291	370	566
Total	**8,953**	**9,255**	**10,599**

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Corporate Executive Committee

Members of the Corporate Executive Committee ('CEC') of Roche Holding Ltd receive remuneration, indirect benefits and participate in certain equity compensation plans as shown in the table below. The Group's CEO, Dr Severin Schwan, was the member of the Corporate Executive Committee with the highest total remuneration and his remuneration is also disclosed. New members of the Corporate Executive Committee (Mr Diggelmann in 2012, Dr Hippe in 2011 and Mr O'Day in 2010) are included for the full calendar year in which they joined the CEC. Similarly, members of the Corporate Executive Committee retiring part way through the year (Dr Soriot in 2012 and Dr Hunziker in 2011) are included for the full calendar year in which they left the CEC.

Remuneration of the members of the Corporate Executive Committee in thousands of CHF

		2012		2011		2010
	Total CEC	– of which S. Schwan	Total CEC	– of which S. Schwan	Total CEC	– of which S. Schwan
Annual salary, including cash-settled bonus	21,573	4,000	18,488	5,500	22,962	6,750
Bonus Stock Awards	3,143	2,513	3,610	929	–	–
Pensions and other post-employment benefits	4,457	747	4,318	459	3,210	456
Equity compensation plans	12,921	5,237	11,285	4,480	12,272	4,152
Retirement awards	–	–	4,000	–	–	–
Other employee benefits	768	40	832	35	315	39
Total remuneration received	**42,862**	**12,537**	**42,533**	**11,403**	**38,759**	**11,397**
Social security costs	1,871	675	1,392	371	1,200	351
Total	**44,733**	**13,212**	**43,925**	**11,774**	**39,959**	**11,748**

Bonus Stock Awards. Certain members of the Corporate Executive Committee will be granted Bonus Stock Awards in lieu of part or all of their cash-settled bonus for the financial year 2012. These will be issued by the end of April 2013 with a total fair value for the employee of 3,143 thousand Swiss francs. The fair value of these awards for the employee is calculated taking into account the period in which they are blocked (3 years: 83.962%, 10 years: 55.839%). The number of awards and fair value per award will be calculated at the grant date.

Employer contribution to social security schemes and pension plans. The Group pays social insurance contributions in respect of the above remuneration and pays contributions to pension and other post-employment benefit plans for the Chairman of the Board of Directors and members of the Corporate Executive Committee.

Equity Compensation Plans. The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms and vesting conditions of these awards are disclosed in Note 10 to the Roche Group Annual Financial Statements. The fair values used in the Roche Group Annual Financial Statements represent the cost to the company at grant date and reflect amongst other matters the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions. For the purposes of these remuneration disclosures the values are calculated based on the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions.

The Chairman of the Board of Directors and members of the Corporate Executive Committee are eligible to participate in Roche Connect, a programme that enables employees to make regular deductions from their salaries to purchase non-voting equity securities. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%).

During 2012 members of the Corporate Executive Committee were granted 408,288 Stock-settled Stock Appreciation Rights (S-SARs). The individual awards relating to 2012 are shown in the table below. The fair value of these awards for the employees was 9,966 thousand Swiss francs, which was calculated using the Trinomial model for American options.

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Members of the Corporate Executive Committee and other members of senior management participate in the Roche Performance Share Plan (PSP). The Group has three overlapping three-year PSPs. The target awards for the three-year cycle are defined at the beginning of the cycle and the awards are considered to form part of the employee's remuneration in three equal annual amounts over the three-year cycle. Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets, and the discretion of the Board of Directors. The individual awards relating to 2012 are shown in the table below. The number of the awards is calculated as follows:

- PSP 2010–2012: At the end of the cycle the performance targets were not achieved and accordingly the participants received none of the originally targeted non-voting equity securities.
- PSP 2011–2013: One non-voting equity security per award.
- PSP 2012–2014: One non-voting equity security per award.
- The resulting allocations are multiplied by the non-voting equity security price at 31 December 2012 of 184 Swiss francs to give the fair value for the remuneration received by the employee.

Remuneration from equity compensation plans in 2012 in thousands of CHF

	Roche Connect employer contributions	S-SAR (number)	S-SAR awards S-SAR fair value	PSP '10–'12 (number)	PSP '11–'13 (number)	PSP '12–'14 (number)	PSP awards PSP fair value	Total fair value
Total CEC	200	408,288	9,966	–	22,088	22,825	2,755	12,921
– of which S. Schwan	100	163,869	4,000	–	9,460	9,079	1,137	5,237

Other employee benefits. These include tax advisory costs and other incidental benefits.

Transactions with former members of the Corporate Executive Committee. Pensions totalling 2 million Swiss francs were paid by the Group in 2012 to former Corporate Executive Committee members (2011: 2 million Swiss francs, 2010: 2 million Swiss francs).

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7. Board and Executive shareholdings

Board of Directors

Directors Mr André Hoffmann and Dr Andreas Oeri and other members of the founder's families who are closely associated with them belong to a shareholder group with pooled voting rights. At the end of 2012 and 2011 this group held 72,018,000 shares (45.01% of issued shares). Detailed information about this group is given in Note 4. In addition at the end of the year the members of the Board of Directors and persons closely associated with them held shares and non-voting equity securities *(Genussscheine)* as shown in the table below.

Shareholdings of members of the Board of Directors

	Shares		Non-voting equity securities *(Genussscheine)*		
	2012	2011	2012	2011	Other
F.B. Humer	7,492	7,492	85,216	192,680	b), f)
B. Gehrig	50	50	300	300	
A. Hoffmann	– a)	– a)	200	200	c)
P. Baschera	1	1	4,600	–	
J.I. Bell	300	300	1,647	1,647	
P. Bulcke	–	–	1,350	850	
W.M. Burns	3	3	83,990	83,784	b)
L.J.R. de Vink	–	–	–	–	d)
C. Franz	–	–	350	350	
D. Julius	350	350	1,550	–	e)
A.D. Levinson	–	–	–	–	
A. Oeri	– a)	– a)	187,793	307,793	c)
P.R. Voser	–	–	3,600	3,600	
B. Weder di Mauro	200	200	800	800	
Total	**8,396**	**8,396**	**371,396**	**592,004**	

a) Does not include shares held in the shareholder group with pooled voting rights.
b) Equity compensation awards: Roche Option Plan, S-SARs and Roche Performance Share Plan. See below.
c) Mr Hoffmann and Dr Oeri each held 250,000 UBS Long/Short Certificates on Roche shares (RO) versus Roche non-voting equity securities *(Genussscheine)* (ROG).
d) Mr de Vink held 31,600 Roche American Depositary Receipts (ADRs) (2011: 31,600).
e) In 2011 close relatives of Dame DeAnne Julius held 1,550 Roche non-voting equity securities *(Genussscheine)*.
f) In 2011 Dr Humer held 2,500 ROGTPK Tracker-plus certificates from Zürcher Kantonalbank on underlying Roche non-voting equity securities *(Genussscheine)* (ROG).

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Corporate Executive Committee

Members of the Corporate Executive Committee and persons closely associated with them held shares and non-voting equity securities as shown in the table below.

Shareholdings of members of the Corporate Executive Committee

	Shares 2012	Shares 2011	Non-voting equity securities (Genussscheine) 2012	Non-voting equity securities (Genussscheine) 2011	Other
S. Schwan	7,000	3	47,813	39,867	a), b)
S. Ayyoubi	3	3	15,832	12,329	a)
R. Diggelmann	–	n/a	802	n/a	a)
A. Hippe	–	–	8,892	2,708	a)
G.A. Keller	2,153	2,153	25,783	28,168	a), c)
D. O'Day	3	3	5,492	674	a)
P. Soriot	n/a	2	n/a	6,373	a)
Total	**9,159**	**2,164**	**104,614**	**90,119**	

a) Equity compensation awards: Roche Option Plan, S-SARs and Roche Performance Share Plan.
b) In 2011 close relatives of Dr Schwan held 570 Roche non-voting equity securities *(Genussscheine)*.
c) Close relatives of Dr Keller held 1,100 Roche shares (2011: 1,100 Roche shares).

At 31 December 2012 the Chairman of the Board of Directors, Mr Burns and members of the Corporate Executive Committee held Roche Option Plan awards (ROPs) and Stock-settled Stock Appreciation Rights (S-SARs) as shown in the table below. The awards held by Dr Humer, the current Chairman of the Board of Directors, and Mr Burns, a current member of the Board of Directors, were issued to them in their previous capacities as members of the Corporate Executive Committee. The terms and vesting conditions of these awards are disclosed in Note 10 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report, which is included in the Business Report (Part 1 of this Annual Report) on pages 132 to 145.

ROPs and S-SARs awards held at 31 December 2012

Year of issue	2012	2011	2010	2009	2008	2007	2006	Total
S. Schwan	163,869	154,322	154,443	–	105,576	29,190	15,696	623,096
S. Ayyoubi	49,161	46,298	46,335	43,842	21,117	3,243	2,517	212,513
R. Diggelmann	15,000	12,732	6,489	4,263	5,295	–	–	43,779
A. Hippe	65,547	7,178	–	–	–	–	–	72,725
G.A. Keller	61,452	57,872	57,918	–	63,345	24,327	15,696	280,610
D. O'Day	53,259	38,582	38,613	–	20,133	10,269	5,856	166,712
Total CEC	**408,288**	**316,984**	**303,798**	**48,105**	**215,466**	**67,029**	**39,765**	**1,399,435**
F.B. Humer	–	–	–	–	–	48,651	52,317	100,968
W.M. Burns	–	–	–	109,602	105,576	48,651	26,160	289,989
Total	**408,288**	**316,984**	**303,798**	**157,707**	**321,042**	**164,331**	**118,242**	**1,790,392**
Strike price (CHF)	157.50	140.10[a]	175.50	145.40	195.80[b]	229.60	195.00	–
Expiry date	Mar. 2019	Feb. 2018[a]	Feb. 2017	Feb. 2016	Jan. 2015[b]	Feb. 2014	Feb. 2013	–

a) Dr Hippe's 2011 awards have a strike price of CHF 140.30 and expire in April 2018.
b) Mr Diggelmann's 2008 awards have a strike price of CHF 188.90 and expire in July 2015.

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At 31 December 2012 members of the Corporate Executive Committee as shown in the table below held PSP awards from the PSP performance cycles 2011–2013 and 2012–2014. The terms and vesting conditions of these awards are disclosed in Note 10 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report on pages 132 to 145 of the Business Report (Part 1 of this Annual Report). Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets and the discretion of the Board of Directors. At the end of the 2010–2012 cycle the performance targets were not achieved and accordingly the participants received none of the originally targeted non-voting equity securities. The total target number of awards for the other outstanding performance cycles as at 31 December 2012 are shown in the table below.

Roche Performance Share Plan awards held at 31 December 2012

	PSP 2011–2013	PSP 2012–2014
S. Schwan	9,460	9,079
S. Ayyoubi	2,838	2,723
R. Diggelmann	1,040	1,038
A. Hippe	2,838	3,631
G.A. Keller	3,547	3,404
D. O'Day	2,365	2,950
Total CEC	**22,088**	**22,825**
Allocation date	Feb. 2014	Feb. 2015

At 31 December 2011 the Chairman of the Board of Directors, Mr Burns and members of the Corporate Executive Committee at that time held a total of 2,146,149 Stock-settled Stock Appreciation Rights, and had outstanding a total of 42,352 awards granted under the Roche Performance Share Plan.

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Appropriation of Available Earnings

Proposals to the Annual General Meeting in CHF

	2012	2011
Available earnings		
Balance brought forward from previous year	1,925,766,591	436,741,030
Net profit for the year	5,216,009,268	8,647,901,921
Total available earnings	**7,141,775,859**	**9,084,642,951**
Appropriation of available earnings		
Distribution of an ordinary dividend of CHF 7.35 gross per share and non-voting equity security *(Genussschein)* as against CHF 6.80 last year	(6,339,835,845)	(5,865,426,360)
Transfer to free reserve	–	(1,293,450,000)
Total appropriation of available earnings	**(6,339,835,845)**	**(7,158,876,360)**
To be carried forward on this account	**801,940,014**	**1,925,766,591**

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Report of the Statutory Auditor on the Financial Statements

Report of the Statutory Auditor on the Financial Statements to the Annual General Meeting of Roche Holding Ltd, Basel

As statutory auditor, we have audited the accompanying financial statements of Roche Holding Ltd, which comprise the income statement, balance sheet and notes on pages 155 to 165 for the year ended 31 December 2012.

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

Opinion. In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

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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 paragraph 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 further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG
KPMG AG

Ian Starkey Licensed Audit Expert Auditor in Charge	François Rouiller Licensed Audit Expert

Basel, 28 January 2013

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Next Annual General Meeting:
5 March 2013

Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements. These forward-looking statements may be identified by words such as 'believes', 'expects', 'anticipates', 'projects', 'intends', 'should', 'seeks', 'estimates', 'future' or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions. Various factors may cause actual results to differ materially in the future from those reflected in forward-looking statements contained in this Annual Report, among others: (1) pricing and product initiatives of competitors; (2) legislative and regulatory developments and economic conditions; (3) delay or inability in obtaining regulatory approvals or bringing products to market; (4) fluctuations in currency exchange rates and general financial market conditions; (5) uncertainties in the discovery, development or marketing of new products or new uses of existing products, including without limitation negative results of clinical trials or research projects, unexpected side effects of pipeline or marketed products; (6) increased government pricing pressures; (7) interruptions in production; (8) loss of or inability to obtain adequate protection for intellectual property rights; (9) litigation; (10) loss of key executives or other employees; and (11) adverse publicity and news coverage.

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2012 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

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