

**Level 3 fair values**

Details of the determination of Level 3 fair value measurements are set out below.

**Contingent consideration arrangements** in millions of CHF

	2017	2016
At 1 January	(1,089)	(1,492)
Arising from business combinations <sup>5</sup>	(10)	–
Utilised for settlements <sup>5</sup>	146	69
Total unrealised gains and losses included in the income statement		
– Unused amounts reversed	366	447
– Additional amount created	(13)	(39)
– Discount unwind included in financing costs	(14)	(53)
Total gains and losses included in other comprehensive income		
– Currency translation effects	23	(21)
<b>At 31 December</b>	<b>(591)</b>	<b>(1,089)</b>

During 2017 contingent consideration provisions decreased mainly due to the reversal of some of the provisions and to the payment of milestones. There was CHF 353 million of income, net, mainly from the reversal of the remaining provision related to the Seragon acquisition and from the partial reversal of provisions mainly related to the Dutalys and Trophos acquisitions. Payments of CHF 146 million were made for milestones related to the Genia, CMI, Ariosa, Santaris and other acquisitions.

**Contingent consideration arrangements**

The Group is party to certain contingent consideration arrangements arising from business combinations. The fair values are determined considering the expected payments, discounted to present value using a risk-adjusted average discount rate of 3.1% (2016: 3.2%). The expected payments are determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales, other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rates were higher or the risk-adjusted discount rate was lower. At 31 December 2017 the total potential payments under contingent consideration arrangements could be up to CHF 1.4 billion (2016: CHF 2.9 billion) as follows:

**Potential payments under contingent consideration arrangements** in millions of CHF

Acquisition	Year acquired	Operating segment	2017	2016
Trophos	2015	Roche Pharmaceuticals	409	376
Dutalys	2014	Roche Pharmaceuticals	254	363
Santaris	2014	Roche Pharmaceuticals	148	203
Seragon	2014	Roche Pharmaceuticals	–	997
GeneWeave	2015	Diagnostics	166	198
Genia	2014	Diagnostics	164	230
Ariosa	2015	Diagnostics	147	179
CMI	2013	Diagnostics	–	184
Others	–	Diagnostics	135	144
<b>At 31 December</b>			<b>1,423</b>	<b>2,874</b>

**Derivative financial instruments**

The Group has entered into various currency swaps for certain non-US dollar debt instruments. Cash collateral agreements were entered into with the counterparties to the currency swaps to mitigate counterparty risk. The following table sets out the carrying value of derivative financial instruments and the amounts that are subject to master netting agreements.

## Derivative financial instruments in millions of CHF

			Assets		Liabilities	
	2017	2016	2015	2017	2016	2015
Foreign currency derivatives						
- Forward exchange contracts	92	162	134	(92)	(219)	(71)
- Cross-currency swaps	-	-	-	(9)	(220)	(561)
- Other	-	-	-	-	-	-
Interest rate derivatives						
- Swaps	5	23	35	(18)	(8)	(7)
- Other	-	-	-	-	-	-
Other derivatives	-	-	-	-	-	-
<b>Carrying value of derivative financial instruments<sup>15, 18</sup></b>	<b>97</b>	<b>185</b>	<b>169</b>	<b>(119)</b>	<b>(447)</b>	<b>(639)</b>
Derivatives subject to master netting agreements	(70)	(72)	(54)	70	72	54
Collateral arrangements	25	13	(42)	14	289	496
<b>Net amount</b>	<b>52</b>	<b>126</b>	<b>73</b>	<b>(35)</b>	<b>(86)</b>	<b>(89)</b>

## Collateral arrangements

On 17 November 2017 the Group completed a tender offer to repurchase EUR 176 million of the 6.5% fixed rate notes due 4 March 2021. As a result a hedge was terminated and cash was received by the Group from a counterparty.

## Movements in cash collateral other receivable (accrued liability) in millions of CHF

	2017	2016
At 1 January	302	454
Net cash delivered by (to) the Group	(252)	(152)
Fair value and other	1	-
Currency translation effects	(12)	-
<b>At 31 December</b>	<b>39</b>	<b>302</b>

## Hedge accounting

At 31 December 2017 the Group has the following cash flow hedges and fair value hedges which are designated in a qualifying hedge relationship.

**Cash flow hedges.** The Group has entered into cross-currency swaps to hedge foreign exchange and interest rate risk on some of the bonds and notes issued by the Group which are denominated in euro. At 31 December 2017 such instruments are recorded as a net fair value liability of CHF 9 million (2016: CHF 220 million). There was no ineffective portion.

Chugai has entered into foreign exchange forward contracts to hedge a part of its foreign translation exposure to Swiss franc and US dollar. At 31 December 2017 such instruments are recorded as fair value assets of CHF 4 million (2016: fair value assets of CHF 45 million). There was no ineffective portion.

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

	2017			2016		
	Total	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year
Cash inflows	3,005	1,488	1,517	3,509	1,568	1,941
Cash outflows	(3,111)	(1,493)	(1,618)	(3,899)	(1,576)	(2,323)
<b>Total cash inflow (outflow)</b>	<b>(106)</b>	<b>(5)</b>	<b>(101)</b>	<b>(390)</b>	<b>(8)</b>	<b>(382)</b>

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	2017		Total	2016	
		Less than 1 year	More than 1 year		Less than 1 year	More than 1 year
Cash inflows	258	64	194	419	84	335
Cash outflows	(297)	(74)	(223)	(550)	(111)	(439)
<b>Total cash inflow (outflow)</b>	<b>(39)</b>	<b>(10)</b>	<b>(29)</b>	<b>(131)</b>	<b>(27)</b>	<b>(104)</b>

The changes in the hedging reserve within equity are shown in Note 21.

**Fair value hedges.** The Group has entered into some interest rate swaps to hedge some of its fixed-term debt instruments.

At 31 December 2017 such instruments are recorded as fair value liabilities of CHF 18 million (2016: CHF 10 million) and fair value assets of CHF 5 million (2016: CHF 23 million). During 2017 a loss of CHF 28 million was recorded on these interest rate swaps (2016: loss of CHF 17 million). 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.

**Net investment hedges.** The Group does not have any net investment hedges.

## 30. 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.

At 31 December 2017 and 2016, 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, Dr 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, now holds 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 CHF 439,392 (2016: CHF 439,411) and Dr Oeri received remuneration totalling CHF 360,000 (2016: CHF 360,000).

There were no other transactions between the Group and the individual members of the above shareholder group with the exception of Dr Jörg Duschmalé who works as a post-doc at Roche.

### Subsidiaries and associates

A listing of the Group subsidiaries and associates is included in Note 31. This listing excludes the subsidiaries of Chugai and FMI as well as not material companies, notably companies that are inactive, dormant or in liquidation. 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 CHF 53 million (2016: CHF 54 million).

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, Dr Franz and members of the Corporate Executive Committee (CEC) 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 CEC. The members of the CEC also participate in certain equity compensation plans as described below. The terms, vesting conditions and fair value of these awards are disclosed in Note 26. New members of the CEC are included in the table below for the full calendar year in which they joined the CEC. Similarly, members of the CEC retiring part way through the year are included for the full calendar year in which they left the CEC.

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

	2017	2016
Salaries, including cash-settled bonus	24	25
Bonus Stock Awards	6	6
Social security costs	2	2
Pensions and other post-employment benefits	4	4
Equity compensation plans	12	12
Board fees	4	4
Other employee benefits	1	1
<b>Total</b>	<b>53</b>	<b>54</b>

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 26. 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 Remuneration Report included in the Annual Report on pages 120 to 146. 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

	2017	2016
Total remuneration of the members of the Board of Directors and Corporate Executive Committee (IFRS basis – see table above)	53	54
Deduct		
– Bonus Stock Awards (IFRS basis)	(6)	(6)
– Equity compensation plans (IFRS basis)	(12)	(12)
Add back		
– Bonus Stock Awards (Swiss legal basis)	3	3
– Equity compensation plans (Swiss legal basis)	14	15
<b>Total remuneration of the members of the Board of Directors and Corporate Executive Committee (Swiss legal basis)</b>	<b>52</b>	<b>54</b>
Of which (including social security costs)		
– Board of Directors (page 133 of the Annual Report)	10	10
– Corporate Executive Committee (page 141 of the Annual Report)	42	44

**Bonus Stock Awards.** The Chairman of the Board of Directors and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2017. These will be issued by the end of April 2018. The number of awards and fair value per award will be calculated at the grant date.



**Equity compensation plans.** The members of the Corporate Executive Committee received equity compensation as shown in the following tables.

**Number of rights, options and awards granted to members of the Corporate Executive Committee**

	2017	2016
Roche Stock-settled Stock Appreciation Rights	248,961	286,142
Roche Restricted Stock Unit Plan	0	0
Roche Performance Share Plan	33,682	29,865

**Contributions paid for members of the Corporate Executive Committee** in millions of CHF

	2017	2016
Roche Connect	0.3	0.3

**Transactions with former members of the Board of Directors and Corporate Executive Committee.** Pensions totalling CHF 2 million were paid by the Group to former Corporate Executive Committee members (2016: CHF 2 million).

**Defined benefit plans**

Transactions between the Group and the various defined benefit plans for the employees of the Group are described in Note 25.

## 31. List of subsidiaries and associates

The following is a listing of the Group subsidiaries and associates. It excludes the subsidiaries of Chugai and FMI as well as not material companies, notably companies that are inactive, dormant or in liquidation.

**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 <i>Genussschein</i> : 1203204 ISIN Share: CH0012032113 ISIN <i>Genussschein</i> : CH0012032048 Market capitalisation: CHF 210,426.0 million	Basel	CHF 160.0	
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo Stock Code: TSE:4519 ISIN: JP3519400000 Market capitalisation: JPY 3,154,897 million	Tokyo	JPY 335.2	61.3
United States	Foundation Medicine, Inc. Stock Exchange: Nasdaq Stock Code: FMI ISIN: US3504651007 Market capitalisation: USD 2,492,15 million	Cambridge	USD (-)	57.5
United States	Senseonics Holdings, Inc. Stock Exchange: New York Stock Exchange (NYSE-MKT) Stock Code: SENS ISIN: US81727U1051 Market capitalisation: USD 363,77 million	Germantown	USD 0,1	20,7

## Non-listed companies

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Algeria	Roche Algérie SPA	Hydra	DZD 1.0	48
Argentina	Productos Roche S.A. Química e Industrial	Tigre	ARS 844.1	100
	Roche Diabetes Care Argentina S.A.	Tigre	ARS 87.4	100
	Vanguardia en productos farmacéuticos (VANPROFARMA) S.A.	Buenos Aires	ARS 13.8	100
Australia	Roche Diabetes Care Australia Pty Limited	Bella Vista	AUD 14.1	100
	Roche Diagnostics Australia Pty. Limited	North Ryde	AUD 5.0	100
	Roche Products Pty. Limited	Dee Why	AUD 65.0	100
Austria	mySugr GmbH	Vienna	EUR 5.7	100
	Roche Austria GmbH	Vienna	EUR 14.5	100
	Roche Diabetes Care Austria GmbH	Vienna	EUR (-)	100
	Roche Diagnostics GmbH	Vienna	EUR 1.1	100
Bangladesh	Roche Bangladesh Limited	Dhaka	BDT 27.2	100
Belarus	FLLC "Roche Products Limited"	Minsk	USD 1.5	100
Belgium	N.V. Roche S.A.	Brussels	EUR 32.0	100
	Roche Diagnostics Belgium NV	Brussels	EUR 3.8	100
Bermuda	Chemical Manufacturing and Trading Company Limited	Hamilton	USD (-)	100
	Hoffmann-La Roche Products 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
	Sapac Corporation Ltd.	Hamilton	CAD (-)	100
	Syntex Pharmaceuticals International Limited	Hamilton	USD (-)	100
Bolivia	Roche Bolivia SRL	Santa Cruz	BOB 0.1	100
Bosnia and Herzegovina	Roche d.o.o. farmaceutsko drustvo – Roche Ltd. Pharmaceutical Company	Sarajevo	BAM 13.1	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL 41.7	100
	Roche Diabetes Care Brasil Ltda.	São Paulo	BRL 44.4	100
	Roche Diagnostica Brasil Ltda.	São Paulo	BRL 415.9	100
Bulgaria	Roche Bulgaria EOOD	Sofia	BGN 5.1	100
Cameroon	Roche Cameroun SARL	Douala	XAF 60.0	100
Canada	Hoffmann-La Roche Limited	Mississauga	CAD 40.3	100
Chile	Roche Chile Limitada	Santiago de Chile	CLP 70.9	100
China	Roche (China) Holding Ltd.	Shanghai	USD 37.3	100
	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD 10.0	100
	Roche Diagnostics (Shanghai) Ltd.	Shanghai	USD 31.0	100
	Roche Diagnostics (Suzhou) Limited	Suzhou	USD 100.0	100
	Roche Hong Kong Limited	Hong Kong	HKD 10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD 35.8	100
	Shanghai IEN Pharma Co., Ltd	Shanghai	USD 25.0	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD 278.7	70
Colombia	Productos Roche S.A.	Bogotá	COP 26,923.7	100
Costa Rica	Roche Servicios S.A.	Heredia	USD 8.1	100
Côte d'Ivoire	Roche Côte d'Ivoire SARL	Abidjan	XOF 50.0	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, Medicinalvarer og Kemikalier	Hvidovre	DKK 4.0	100
	Roche Diagnostics a/s	Hvidovre	DKK 1.3	100
	Roche Innovation Center Copenhagen A/S	Hoersholm	DKK 100.1	100
Dominican Republic	Productos Roche Dominicana, S.R.L.	Santo Domingo	DOP 0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD 28.1	100
Egypt	Roche Egypt for Manufacturing and Trading SAE	Cairo	EGP 1.0	100
	Roche Egypt LLC	Cairo	EGP 0.1	95
	RoDiagnostics Egypt for Trading S.A.E	Giza	EGP 5.0	100
El Salvador	Productos Roche (El Salvador) S.A. de C.V.	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 SAS	Boulogne-Billancourt	EUR (-)	100
	Roche Diabetes Care France SAS	Meylan	EUR 4.5	100
	Roche Diagnostics France SAS	Meylan	EUR 16.0	100
	Roche SAS	Boulogne-Billancourt	EUR 38.2	100
	Trophos SA	Marseille	EUR 1.9	100
Georgia	Roche Georgia LLC	Tbilisi	GEL 0.5	100

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Germany	Ascur Versicherungsvermittlungs GmbH	Grenzach-Wyhlen	EUR (-)	100
	Galenus Mannheim Pharma GmbH	Mannheim	EUR (-)	100
	Roche Beteiligungs GmbH	Grenzach-Wyhlen	EUR 3.6	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	EUR 6.0	100
	Roche Diabetes Care Deutschland GmbH	Mannheim	EUR (-)	100
	Roche Diabetes Care GmbH	Mannheim	EUR (-)	100
	Roche Diagnostics Deutschland GmbH	Mannheim	EUR 1.0	100
	Roche Diagnostics GmbH	Mannheim	EUR 94.6	100
	Roche Diagnostics IT Solutions GmbH	Berlin	EUR (-)	100
	Roche mtm Laboratories AG	Mannheim	EUR 1.4	100
	Roche Pharma AG	Grenzach-Wyhlen	EUR 61.4	100
	Roche PVT GmbH	Waiblingen	EUR (-)	100
	Roche Real Estate Services Mannheim GmbH	Mannheim	EUR 1.8	100
	Roche Registration GmbH	Grenzach-Wyhlen	EUR (-)	100
Signature Diagnostics GmbH	Potsdam	EUR 0.1	100	
Ghana	Roche Products Ghana Limited	Accra	GHS 1.2	100
Greece	Roche (Hellas) S.A.	Athens	EUR 80.1	100
	Roche Diagnostics (Hellas) S.A.	Athens	EUR 27.8	100
Guatemala	Productos Roche Guatemala (Sociedad Anónima)	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 Diabetes Care India Private Limited	Mumbai	INR 15.2	100
	Roche Diagnostics India Private Limited	Mumbai	INR 149.2	100
	Roche Products (India) Private Limited	Mumbai	INR 14.0	100
	Viewics India Private Limited	Pune	INR (-)	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR 1,323.0	98.6
Iran	Roche Pars Co. (Ltd.)	Tehran	IRR 41,610.0	100
Ireland	Roche Ireland Limited	Clarecastle	EUR 2.4	100
	Roche Products (Ireland) Limited	Dublin	EUR (-)	100
Israel	Medingo Ltd.	Yoqneam Illit	ILS 8.0	100
	Roche Pharmaceuticals (Israel) Ltd.	Hod Hasharon	ILS (-)	100
Italy	Roche Diabetes Care Italy S.p.A.	Monza	EUR 40.2	100
	Roche Diagnostics S.p.A.	Monza	EUR 18.1	100
	Roche S.p.A.	Monza	EUR 34.1	100
Japan	Roche DC Japan K. K.	Tokyo	JPY 10.0	100
	Roche Diagnostics K.K.	Tokyo	JPY 2,500.0	100
Jordan	F. Hoffmann-La Roche Ltd / Jordan P.S.C.	Amman	JOD (-)	100
Kazakhstan	Roche Kazakhstan LLP	Almaty	KZT 150.0	100
Kenya	Roche Kenya Limited	Nairobi	KES 40.0	100
Latvia	Roche Latvija SIA	Riga	EUR 1.7	100
Lebanon	Roche Lebanon SARL	Beirut	LBP 1,000.0	100
Lithuania	UAB Roche Lietuva	Vilnius	EUR 0.2	100
Macedonia	Roche Makedonija DOOEL	Skopje	EUR 0.3	100
Malaysia	Roche (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR 4.0	100
	Roche Diagnostics (Malaysia) Sdn. Bhd.	Petaling Jaya	MYR 0.9	100
	Roche Services (Asia Pacific) Sdn. Bhd.	Kuala Lumpur	MYR 0.5	100
	Syntex Pharmaceuticals Sdn. Bhd.	Kuala Lumpur	MYR (-)	100
Mauritius	Roche Products (Mauritius) Ltd	Quatre Bornes	MUR 4.0	100
Mexico	Productos Roche, S.A. de C.V.	Mexico City	MXN 82.6	100
	Roche DC México, S.A. de C.V.	Mexico City	MXN 3.9	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
Myanmar	Roche Myanmar Company Limited	Yangon	USD (-)	100
Netherlands	Roche Diabetes Care Nederland B.V.	Almere	EUR (-)	100
	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 0.9	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 and Al-Bireh	USD 1.2	100



Country	Company	City	Share capital (in millions)	Equity interest (in %)
Panama	Productos Roche (Panama), S.A.	Panama City	PAB (-)	100
	Productos Roche Interamericana S.A. (PRIISA)	Panama City	USD 0.1	100
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN 11.1	100
	Roche Farma (Peru) S.A.	Lima	PEN 38.1	100
Philippines	Roche (Philippines) Inc.	Taguig City	PHP 300.0	100
Poland	Roche Diabetes Care Polska sp. z o.o.	Warsaw	PLN 2.0	100
	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 Farmacéutica Química, Lda.	Amadora	EUR 1.1	100
	Roche Sistemas de Diagnósticos, Sociedade Unipessoal, Lda.	Amadora	EUR 2.6	100
Puerto Rico	Genentech P.R., Inc.	San Juan	USD (-)	100
	Roche Products Inc.	Ponce	USD 0.5	100
	Syntex Puerto Rico, Inc.	Ponce	USD (-)	100
Romania	Roche Romania S.R.L.	Bucharest	RON 472.2	100
Russian Federation	Limited Liability Company Roche Diabetes Care Rus	Moscow	RUB 100.0	100
	Limited Liability Company Roche Diagnostics Rus	Moscow	RUB 250.0	100
	Roche - Moscow Ltd.	Moscow	RUB 2.6	100
Saudi Arabia	Roche Products Saudi Arabia LLC	Jeddah	SAR 30.0	100
Serbia	Roche d.o.o. Beograd	Belgrade	EUR 9.6	100
Singapore	Roche Diabetes Care Asia Pacific Pte. Ltd.	Singapore	SGD 0.6	100
	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 35.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	EUR 0.3	100
Slovenia	Roche farmacevtska družba, d.o.o.	Ljubljana	EUR 0.2	100
South Africa	Kapa Biosystems (Pty) Ltd.	Cape Town	ZAR (-)	100
	Roche Diabetes Care South Africa Proprietary Limited	Midrand	ZAR 15.0	100
	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
Spain	Emminens Healthcare Services S.L.	Madrid	EUR 1.8	100
	Roche Diabetes Care Spain, S.L.	Sant Cugat del Vallès	EUR 1.0	100
	Roche Diagnostics S.L.	Sant Cugat del Vallès	EUR 17.0	100
	Roche Farma, S.A.	Madrid	EUR 45.0	100
Sri Lanka	Roche Products Colombo (Private) Limited	Colombo	LKR 14.0	100
Sweden	Roche AB	Solna	SEK 20.0	100
	Roche Diagnostics Scandinavia AB	Solna	SEK 9.0	100
Switzerland	Biopharm AG	Basel	CHF 0.3	100
	F. Hoffmann-La Roche Ltd	Basel	CHF 150.0	100
	Hoffmann-La Roche Ltd	Basel	CHF 0.5	100
	InterMune International AG	Basel	CHF 10.0	100
	Museum Tinguely AG	Basel	CHF 0.1	100
	Phaor AG	Basel	CHF 0.2	100
	Rabbit-Air Ltd	Bachenbülach	CHF 3.0	100
	Roche Capital Market Ltd	Basel	CHF 1.0	100
	Roche Chemische Unternehmungen AG	Basel	CHF 1.3	100
	Roche Diabetes Care (Switzerland) Ltd	Rotkreuz	CHF 0.1	100
	Roche Diabetes Care Ltd.	Rotkreuz	CHF 0.9	100
	Roche Diagnostics (Switzerland) Ltd	Rotkreuz	CHF 1.0	100
	Roche Diagnostics International Ltd	Rotkreuz	CHF 20.0	100
	Roche Finance Ltd	Basel	CHF 409.2	100
	Roche Forum Buonas Ltd	Buonas	CHF 0.1	100
	Roche Glycart Ltd	Schlieren	CHF 0.3	100
	Roche Long Term Foundation	Basel	CHF 0.5	100
	Roche Pharma (Switzerland) Ltd	Reinach	CHF 2.0	100
	Syntex Pharm AG	Rotkreuz	CHF 0.5	100
	Tavero AG	Basel	CHF 0.1	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD 299.6	100
	Roche Products Ltd.	Taipei	TWD 1,000.0	100
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB 103.0	100
	Roche Thailand Limited	Bangkok	THB 12.0	100
Tunisia	Roche Tunisie SA	Tunis	TND 0.8	100
Turkey	Infogenetik Moleküler Bilgi Hizmetleri Anonim Şirketi	Istanbul	TRY 1.5	100
	Roche Diagnostics Turkey Anonim Şirketi	Istanbul	TRY 80.0	100
	Roche Müstahzarları Sanayi Anonim Şirketi	Istanbul	TRY 249.5	100
Ukraine	Roche Ukraine LLC	Kiev	UAH 124.0	100

Country	Company	City	Share capital (in millions)	Equity interest (in %)
United Arab Emirates	Roche Diabetes Care Middle East FZCO	Dubai	AED 0.5	100
	Roche Diagnostics Middle East FZCO	Dubai	AED 19.0	100
	Roche Pharmaceuticals Middle East FZCO	Dubai	AED 0.5	100
United Kingdom	InterMune Holdings Limited	Welwyn Garden City	GBP (-)	100
	InterMune UK & I Limited	Welwyn Garden City	GBP (-)	100
	Kapa Biosystems Ltd	London	GBP (-)	100
	Roche Diabetes Care Limited	Burgess Hill	GBP 0.4	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	Adheron Therapeutics Inc.	Wilmington	USD (-)	100
	Anadys Pharmaceuticals, Inc.	South San Francisco	USD (-)	100
	Ariosa Diagnostics, Inc.	San Jose	USD (-)	100
	Bina Technologies, Inc.	Belmont	USD (-)	100
	BioVeris Corporation	Indianapolis	USD (-)	100
	ForSight VISION4, Inc.	South San Francisco	USD (-)	100
	Genentech USA, Inc.	South San Francisco	USD (-)	100
	Genentech, Inc.	South San Francisco	USD (-)	100
	GeneWEAVE Biosciences Inc.	Los Gatos	USD (-)	100
	Genia Technologies, Inc.	Santa Clara	USD (-)	100
	HLR Consumer Health, Inc.	Little Falls	USD (-)	100
	Hoffmann-La Roche Inc.	Little Falls	USD 3.0	100
	IGEN International, Inc.	Pleasanton	USD (-)	100
	IGEN LS LLC	Pleasanton	USD (-)	100
	InterMune, Inc.	South San Francisco	USD (-)	100
	IQuum, Inc.	Marlborough	USD (-)	100
	Kapa Biosystems, Inc.	Wilmington	USD (-)	100
	Memory Pharmaceuticals Corp.	Little Falls	USD (-)	100
	mySugr Inc.	Encinitas	USD (-)	100
	Roche Diabetes Care, Inc.	Indianapolis	USD (-)	100
	Roche Diagnostics Corporation	Indianapolis	USD (-)	100
	Roche Diagnostics Hematology, Inc.	Westborough	USD (-)	100
	Roche Diagnostics Operations, Inc.	Indianapolis	USD (-)	100
	Roche Health Solutions Inc.	Indianapolis	USD (-)	100
	Roche Holdings, Inc.	South San Francisco	USD 1.0	100
	Roche Laboratories Inc.	Little Falls	USD (-)	100
	Roche Molecular Systems, Inc.	Pleasanton	USD (-)	100
	Roche Palo Alto LLC	South San Francisco	USD (-)	100
	Roche Sequencing Solutions, Inc.	Pleasanton	USD (-)	100
	Roche TCRC, Inc.	New York	USD (-)	100
	Seragon Pharmaceuticals Inc.	South San Francisco	USD (-)	100
	Spring Bioscience Corp.	Pleasanton	USD (-)	100
	Tanox, Inc.	South San Francisco	USD (-)	100
	Tensha Therapeutics, Inc.	South San Francisco	USD (-)	100
	Therapeutics Human Polyclonals, Inc.	South San Francisco	USD (-)	100
	Ventana Medical Systems, Inc.	Tucson	USD (-)	100
Viewics, Inc.	San Jose	USD (-)	100	
Uruguay	Roche International Ltd. (Montevideo Branch)	Montevideo	UYU (-)	100
Venezuela	Productos Roche S.A.	Caracas	VEF 156.9	100
Vietnam	Roche Vietnam Co., Ltd.	Ho Chi Minh City	USD 15.0	100

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

## 32. Significant accounting policies

### Consolidation policy

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Subsidiaries are all companies over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group. Intercompany balances, transactions and resulting unrealised income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. Associates are companies over which the Group exercises, or has the power to exercise, significant influence, but which it does not control and they are accounted for using the equity method.

### Segment reporting

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For the purpose of segment reporting the Group's Corporate Executive Committee (CEC) is considered to be the Group's Chief Operating Decision Maker. The determination of the Group's operating segments is based on the organisation units for which information is reported to the CEC on a regular basis. The information provided is used as the basis of the segment revenue and profit disclosures reported in Note 2, with the geographic analysis based on the location of customers. Selected segment balance sheet information is also routinely provided to the CEC.

Transfer prices between operating segments are set on an arm's length basis. Operating assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables/payables, inventories and other assets and liabilities, such as provisions, which can be reasonably attributed to the reported operating segments. Non-operating assets and liabilities mainly include current and deferred income tax balances, post-employment benefit assets/liabilities and financial assets/liabilities such as cash, marketable securities, investments and debt.

### Foreign currency translation

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The Annual Financial Statements are presented in Swiss francs. Most Group companies use their local currency as their functional currency. Certain Group companies use other currencies (such as US dollar, Swiss franc or euro) as their functional currency where this is the currency of the primary economic environment in which the entity operates. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges or arise on monetary items that, in substance, form part of the Group's net investment in a foreign entity. In such cases the gains and losses are deferred into other comprehensive income.

Upon consolidation, assets and liabilities of Group companies using functional currencies other than Swiss francs are translated into Swiss francs using year-end rates of exchange. The income statement and statement of cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to other comprehensive income.

### Revenues

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Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts and volume rebates, and exclude value added taxes and other taxes directly linked to sales. Revenues from the sale of products are recognised upon transfer to the customer of significant risks and rewards. Trade discounts, cash discounts and volume rebates are recorded on an accrual basis consistent with the recognition of the related sales. Estimates of expected sales returns, chargebacks and other rebates, including Medicaid in the US and similar rebates in other countries, are also deducted from sales and recorded as accrued liabilities or provisions or as a deduction from accounts receivable. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience. If the circumstances are such that the level of sales returns, and hence revenues, cannot be reliably measured, then sales are only recognised when the right of return expires, which is generally upon prescription of the products to patients. Other revenues are recorded as earned or as the services are performed. Single transactions are split into separately identifiable components to reflect the substance of the transaction, where necessary. Conversely, two or more transactions may be considered together for revenue recognition purposes, where the commercial effect cannot be understood without reference to the series of transactions as a whole.



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## Cost of sales

Cost of sales includes the corresponding direct production costs and related production overheads of goods sold and services rendered. Royalties, alliance and collaboration expenses, including all collaboration profit-sharing arrangements are also reported as part of cost of sales. Start-up costs between validation and the achievement of normal production capacity are expensed as incurred.

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## Research and development

Internal research and development activities are expensed as incurred for the following:

- Internal research costs incurred for the purpose of gaining new scientific or technical knowledge and understanding.
- Internal development costs incurred for the application of research findings or other knowledge to plan and develop new products for commercial production. The development projects undertaken by the Group are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalisation as intangible assets are not met prior to obtaining marketing approval by the regulatory authorities in major markets.
- Post-marketing studies after regulatory approval, such as phase IV costs in the pharmaceuticals business, generally involve safety surveillance and ongoing technical support of a drug after it receives marketing approval to be sold. They may be required by regulatory authorities or may be undertaken for safety or commercial reasons. The costs of such post-marketing studies are not capitalised as intangible assets as, in the opinion of management, they do not generate separately identifiable incremental future economic benefits that can be reliably measured.

Acquired in-process research and development resources obtained through in-licensing arrangements, business combinations or separate asset purchases are capitalised as intangible assets. The acquired asset must be controlled by the Group, be separately identifiable and expected to generate future economic benefits, even if uncertainty exists as to whether the research and development will ultimately result in a marketable product. Consequently, upfront and milestone payments to third parties for pharmaceutical products or compounds before regulatory marketing approval are recognised as intangible assets. Assets acquired through such arrangements are measured on the basis set out in the 'Intangible assets' policy. Subsequent internal research and development costs incurred post-acquisition are treated in the same way as other internal research and development costs. If research and development are embedded in contracts for strategic alliances, the Group carefully assesses whether upfront or milestone payments constitute funding of research and development work or acquisition of an asset.

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## Licensing, milestone and other upfront receipts

Royalty income is recognised on an accrual basis in accordance with the substance of the respective licensing agreements. If the collectability of a royalty amount is not reasonably assured, those royalties are recognised as revenue when the cash is received. Certain Group companies receive upfront, milestone and other similar payments from third parties relating to the sale or licensing of products or technology. Revenue associated with performance milestones is recognised based on achievement of the deliverables as defined in the respective agreements. Upfront payments and licence fees for which there are subsequent deliverables are initially reported as deferred income and are recognised in income as earned over the period of the development collaboration or the manufacturing obligation.

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## Employee benefits

Short-term employee benefits include wages, salaries, social security contributions, paid annual leave and sick leave, profit sharing and bonuses, and non-monetary benefits for current employees. The costs are recognised within the operating results when the employee has rendered the associated service. The Group recognises a liability for profit sharing and bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Long-term employee benefits include long-service or sabbatical leave, long-service benefits and long-term disability benefits. The expected costs of these benefits are accrued over the period of employment. Any changes in the carrying value of other long-term employee benefit liabilities are recognised within the operating results.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination costs are recognised at the earlier of when the Group can no longer withdraw the offer of the benefits or when the Group recognises any related restructuring costs.

### Pensions and other post-employment benefits

For defined contribution plans the Group contributions are recognised within the operating results when the employee has rendered the associated service. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

For defined benefit plans the liability recognised in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets. All changes in the net defined benefit liability are recognised as they occur as follows:

Recognised in the income statement:

- Current service costs are charged to the appropriate income statement heading within the operating results.
- Past service costs, including curtailment gains or losses, are recognised immediately in general and administration within the operating results.
- Settlement gains or losses are recognised in general and administration within the operating results.
- Net interest on the net defined benefit liability is recognised in financing costs.

Recognised in other comprehensive income:

- Actuarial gains and losses arising from experience adjustments (the difference between previous assumptions and what has actually occurred) and changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability.
- Any change in the limit on the recognition of plan assets, excluding amounts included in net interest on the net defined benefit liability.

Net interest on the net defined benefit liability is comprised of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the limit on the recognition of pension assets. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking account of any changes from contribution or benefit payments.

Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

### Equity compensation plans

The fair value of all equity compensation awards granted to employees is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results. For equity-settled plans, an increase in equity is recorded for this expense and any subsequent cash flows from exercises of vested awards are recorded as changes in equity.

### Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs, and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction. Interest and other borrowing costs incurred with respect to qualifying assets are capitalised and included in the carrying value of the assets. Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:

Land improvements	40 years
Buildings	10–50 years
Machinery and equipment	4–15 years
Diagnostic instruments	3–5 years
Office equipment	3–6 years
Motor vehicles	5–8 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components. The estimated useful lives of the assets are regularly reviewed and, if necessary, the future depreciation charges are accelerated. Repairs and maintenance costs are expensed as incurred.

## Leases

**Where the Group is the lessee.** Finance leases exist when substantially all of the risks and rewards of ownership are transferred to the Group. Finance leases are capitalised at the start of the lease at fair value, or the present value of the minimum lease payments, if lower. The rental obligation, net of finance charges, is reported within debt. Finance lease assets are depreciated over the shorter of the lease term and its useful life. The interest element of the lease payment is charged against income over the lease term based on the effective interest rate method. Operating leases exist when substantially all of the risks and rewards of ownership are not transferred to the Group. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

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

## Business combinations

Business combinations are accounted for using the acquisition method of accounting. At the date of acquisition the Group initially recognises the fair value of the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The consideration transferred is measured at fair value at the date of acquisition. Where the Group does not acquire 100% ownership of the acquired business, non-controlling interests are recorded either at fair value or as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Directly attributable acquisition-related costs are expensed as incurred within general and administration expenses.

## Goodwill

Goodwill arises in a business combination and is the excess of the consideration transferred to acquire the business over the underlying fair value of the net identified assets acquired. Goodwill is not amortised but is tested for impairment at least annually and upon the occurrence of an indication of impairment.

## Intangible assets

Purchased patents, licences, trademarks and other intangible assets are initially recorded at cost. Assets that have been acquired through a business combination are initially recorded at fair value. Once available for use, intangible assets are amortised on a straight-line basis over their useful lives. Intangible assets are reviewed for impairment at each reporting date. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed. Estimated useful lives of major classes of amortisable intangible assets are as follows:

Product intangibles in use	up to 20 years
Marketing intangibles in use	up to 10 years
Technology intangibles in use	up to 14 years

## Impairment of property, plant and equipment and intangible assets

An impairment assessment is carried out when there is evidence that an asset may be impaired. In addition, intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs of disposal and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows, generally over a five-year period, with extrapolating projections for subsequent years. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset is reviewed and, if necessary, the future depreciation/amortisation charge is accelerated. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement as an impairment reversal.



### **Impairment of goodwill**

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Goodwill is assessed for impairment at each reporting date and is additionally tested annually for impairment. Goodwill is allocated to cash-generating units and when the recoverable amount of the cash-generating unit, being the higher of its fair value less costs of disposal or its value in use, is less than its carrying value, then the carrying value of the goodwill is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. When an acquired business that is included within a cash-generating unit permanently ceases to operate then it is treated as a disposal of that business. For separately identifiable goodwill that was generated on the initial acquisition of that business and where all of the factors that made up that goodwill are entirely unrelated to the continuing operations of the cash-generating unit, then the goodwill is deemed to have been disposed of and is fully impaired. The impairment testing methodology is further described in Note 8.

### **Inventories**

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Inventories are stated at the lower of cost and net realisable value. The cost of finished goods, work in process and intermediates includes raw materials, direct labour and other directly attributable costs and overheads based upon the normal capacity of production facilities. Cost is determined using the weighted average method. Net realisable value is the estimated selling price less cost to completion and selling expenses.

### **Accounts receivable**

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Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates and similar allowances. An allowance for doubtful accounts is recorded where there is objective evidence that the Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the ageing of customer balances, specific credit circumstances and the Group's historical experience, taking also into account economic conditions. Expenses for doubtful trade receivables are recognised within marketing and distribution expenses. Trade discounts, cash discounts, volume rebates and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and the Group's experience.

### **Cash and cash equivalents**

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Cash and cash equivalents include cash on hand and time, call and current balances with banks and similar institutions. Such balances are only reported as cash equivalents if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value and have a maturity of three months or less from the date of acquisition.

### **Provisions and contingencies**

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Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reliably estimated. In particular, restructuring provisions are recognised when the Group has a detailed formal plan that has either commenced implementation or has been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise and are discounted when the time value of money is material. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

### **Fair values**

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flow method if quoted prices in an active market are not available.

## Financial instruments

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Financial instruments are classified into the following categories which are disclosed in Note 29.

**Available-for-sale.** These are non-derivative financial assets that are either designated as such or are not classified in any other financial asset category. Available-for-sale assets are initially recorded and subsequently carried at fair value. Changes in fair value are recorded in other comprehensive income, except for impairments and interest and foreign exchange components. When an investment is derecognised, the cumulative gains and losses in equity are reclassified to financial income (expense). Available-for-sale assets are mainly comprised of marketable securities.

**Fair value – hedging instruments.** These are derivative financial instruments that are used to manage the exposures to foreign currency, interest rate, equity market and credit risks. Derivative financial instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as other financial income (expense).

**Fair value – designated.** These are non-derivative financial instruments that are designated as fair value through profit or loss on initial recognition. Designated fair value instruments are initially recorded and subsequently carried at fair value with changes in fair value recorded in the income statement. Designated fair value instruments are mainly comprised of contingent consideration liabilities with changes in fair value recorded in general and administration within the operating results.

**Loans and receivables.** These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest rate method, less any impairment losses. Loans and receivables are mainly comprised of accounts receivable and cash and cash equivalents.

**Other financial liabilities.** These are non-derivative financial liabilities. Other financial liabilities are initially recorded at fair value and subsequently carried at amortised cost using the effective interest rate method. Other financial liabilities are mainly comprised of debt and trade payables.

A financial asset is derecognised when the contractual cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognised when the contractual obligations are discharged, cancelled or expire.

## Impairment of financial assets

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Financial assets are individually assessed for possible impairment at each reporting date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. Available-for-sale equity securities that have a market value of more than 25% below their original cost, or have a market value below their original cost for a sustained six-month period will be considered as impaired.

For financial assets carried at amortised cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in other comprehensive income for the difference between the original cost and the fair value.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For debt securities measured at amortised cost or available-for-sale, the reversal is recognised in income. For equity securities held as available-for-sale, the reversal is recognised directly in other comprehensive income.

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**Hedge accounting**

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The Group uses derivatives 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 and options. The Group generally limits the use of hedge accounting to certain significant transactions. To qualify for hedge accounting, the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. 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 (expense).

**Cash flow hedge.** This is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The hedging instrument is recorded at fair value. The effective portion of the hedge is included in other comprehensive income and any ineffective portion is reported in financial income (expense). If the hedging relationship is the hedge of the foreign currency risk of a firm commitment or highly probable forecasted transaction that results in the recognition of a non-financial item, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in the initial carrying value of the non-financial item at the date of recognition. For all other cash flow hedges, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in financial income (expense) when the forecasted transaction affects net income.

**Fair value hedge.** This is a hedge of the exposure to changes in fair value of a recognised asset or liability, or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Changes in the fair values are reported in financial income (expense).

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**Debt**

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Debt instruments are initially recorded at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortised cost. Any discount between the net proceeds received and the principal value due on redemption is amortised over the duration of the debt instrument and is recognised as part of financing costs using the effective interest rate method.

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**Taxation**

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Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the distribution of retained earnings within the Group. Other taxes not based on income, such as property and capital taxes, are included within general and administration expenses.

Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognised where it is probable that such earnings will be remitted in the foreseeable future. Where the amount of tax liabilities is uncertain, accruals are recorded within income tax liabilities for management's best estimate of the ultimate liability that is expected to arise based on the specific circumstances and the Group's historical experience.

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases of assets and liabilities and their carrying values. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Group operates.

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**Own equity instruments**

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The Group's holdings in its own equity instruments are recorded as a deduction from equity. The original purchase cost, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. These instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans.



### Changes in accounting policies

In 2017 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

### Future new and revised standards

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2018 which the Group has not yet applied, as summarised below. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position, and furthermore no restatements of the 2017 comparative results will be necessary when the new standards are applied in 2018.

The Group is also assessing other new and revised standards which are not mandatory until after 2018.

### IFRS 9 'Financial Instruments'

The Group will implement the new standard effective 1 January 2018. The new standard will replace IAS 39 'Financial Instruments: Recognition and Measurement'. The standard deals with the classification, recognition and measurement (including impairment) of financial instruments and also introduces a new hedge accounting model. The new standard will result in an increased volume of disclosure information in the Annual Financial Statements.

**Classification and measurement of financial instruments.** Currently all marketable securities are classified as available-for-sale under IAS 39. Under the new standard equity securities will be classified as fair value through profit and loss, debt securities and money market instrument as fair value through other comprehensive income ('OCI') and time accounts over three months as amortised cost. The Group will elect to classify certain strategic equity investments at fair value through OCI. Additionally it is expected that there will be a reclassification within equity, with unrealised gains of CHF 110 million, net of tax, being transferred from fair value reserves to retained earnings on 1 January 2018.

**Impairment of financial assets.** On 1 January 2018 the Group will change the methodology of assessing impairment of its financial assets from the incurred loss model (used in IAS 39) to the expected credit loss model (used in IFRS 9). In accordance with the transitional provisions of IFRS 9, the Group will not restate prior periods but it will reassess the impairment allowances under the new approach as of 1 January 2018. As a result the allowance for doubtful accounts on accounts receivable is expected to increase by CHF 8 million and the loss allowance for other financial assets to increase by CHF 1 million. This will be recognised, together with the related deferred tax impact, as an adjustment of retained earnings on 1 January 2018.

**Hedge accounting.** The new standard introduces a new hedge accounting model which requires hedge accounting relationships to be based upon the Group's own risk management strategy and objectives and to be discontinued only when the relationships no longer qualify for hedge accounting. The Group will apply the revised hedge accounting guidance to its hedging relationships prospectively with effect from 1 January 2018. All hedge accounting relationships designated under the previous IAS 39 guidance are expected to continue to be valid hedge accounting relationships in accordance with IFRS 9.

**Presentational changes.** As a result of implementing IFRS 9, the Group will make a number of presentational changes to the statement of comprehensive income, statement of changes in equity, Note 3 within 'Other financial income (expense)' and Note 29 within 'Level 3 fair values' and within 'Hedge accounting'.



## IFRS 15 'Revenues from Contracts with Customers'

The Group will implement the new standard effective 1 January 2018. The new standard will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, and also contains new requirements related to presentation. The core principle in that framework is that revenue should be recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognising revenue when or as performance obligations are satisfied. Judgement will need to be applied, including making estimates and assumptions, for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation and to lease components (if any), particularly in the Diagnostics business and for out-licensing agreements. The new standard will result in an increased volume of disclosure information in the Annual Financial Statements.

**Changes introduced by the standard relevant to the Roche Group.** The new standard provides new requirements and additional guidance that are relevant to the Group, notably on the following areas:

- Revenue from licences of intellectual property, including sales-based royalties, on constraining estimates of variable consideration such as development milestones, and on providing a material right to receive additional goods free of charge under certain patient access programmes that may be regarded as a separate performance obligation involving variable consideration. The Group does not anticipate a material impact from these changes.
- The new standard also clarifies how to allocate sales, including the treatment of discounts, to each element in multiple-elements contracts and when to recognise sales for each of those elements. Such contracts are entered into in the Diagnostics Division and typically include obligations for instruments (including those provided under leasing arrangements), reagents and other consumables, and services. It requires the use of estimates and assumptions and some judgement to apply this guidance in practice. The Group does not anticipate a material impact from this guidance.
- Out-licensing contracts in the Pharmaceuticals Division may be entered into with no further obligation or may include commitments to research, late-stage development, regulatory approval, co-marketing or manufacturing. These may be settled by a combination of up-front payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15, is not straight-forward and requires some judgement. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognised at once or spread over the term of a longer performance obligation. The answers under the new standard may be different from those currently used. The new standard provides an exemption for sales-based royalties for licences of intellectual property which will continue to be recognised as revenue as underlying sales are incurred.

**Transition approach and use of practical expedients.** The Group will apply the full retrospective method for the transition. Certain practical expedients permitted by the standard during the transition will also be used, notably the relief to not restate contracts that began and were completed in 2017 or were completed before 1 January 2017 and to not provide in 2018 the disclosure requirement as per IFRS 15 paragraph 120 for the comparative 2017 period ('amount of the transaction price allocated to the remaining performance obligations'). Since the new standard, including the use of practical expedients, does not modify the timing or amounts of revenue recognised for 2017 no restatement will be necessary.

**Presentational changes.** As a result of implementing IFRS 15, the Group will make a presentational change to the income statement in 2018 to include a subtotal 'Revenue', and will create a new note for 'Revenue' to include the increased volume of required disclosure information.

## IFRS 16 'Leases'

The Group will implement the new standard effective 1 January 2019 and will apply the cumulative catch-up method for the transition, meaning that the comparative 2018 results will not be restated when the new standard is applied. The new standard will result in an increased volume of disclosure information in the Annual Financial Statements.

The main impact of the new standard will be to bring operating leases on-balance sheet. The Group is assessing the potential impact, but currently anticipates that the new standard will result in the carrying value of leased assets being increased by approximately CHF 1.2 billion, with lease liabilities increased by a similar amount at the date of implementation. The application of the new standard will result in part of what are currently reported as operating lease costs being recorded as interest expenses. Given the leases involved and the current low interest rate environment, the Group does not currently expect this effect to be material.

# Report of Roche Management on Internal Control over Financial Reporting

## Report of Roche Management on Internal Control over Financial Reporting

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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 2017 based on the criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework 2013* 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 2017.

The Statutory Auditor KPMG AG has audited the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2017, 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 136 to 137.



Christoph Franz  
Chairman of the Board of Directors



Alan Hippe  
Chief Financial Officer

Basel, 29 January 2018



# Statutory Auditor's Report

To the General Meeting of Roche Holding Ltd, Basel

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Roche Holding Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 40 to 126) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

### Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and Standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with those requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters



**Chargebacks, other rebates and sales returns in the US pharmaceuticals business**



**Carrying value of goodwill relating to the Diagnostics Division**



**Carrying value of product-related intangible assets**



**Provisions and contingent liabilities in respect of litigations**



**Uncertain tax positions**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.





## Chargebacks, other rebates and sales returns in the US pharmaceuticals business

### Key Audit Matter

The Group's pharmaceuticals business makes sales to various customers in the US that fall under certain commercial and government-mandated contracts, purchasing and reimbursement arrangements, of which the most significant are Medicaid and the 340B Drug Discount Program. The Group also provides a right of return to its US customers for certain products, with return periods that in some cases extend several years into the future. These arrangements result in deductions to gross amounts invoiced in arriving at revenue and create obligations for the Group to provide customers with chargebacks or other rebates and to give credit for sales returns. The estimated amounts are deducted from gross sales and recorded as accrued liabilities (rebates) or provisions for sales returns, or as a deduction from accounts receivable (chargebacks). These estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience.

Management has determined accrued liabilities and deductions to accounts receivable for expected chargebacks and other rebates, predominantly Medicaid, of CHF 1,108 million to be necessary at 31 December 2017. Additionally, provisions for sales returns mainly relating to products at or near loss of exclusivity of CHF 337 million were recorded at 31 December 2017.

We focused on this area because the arrangements are complex and because establishing an appropriate year-end position requires significant judgement and estimation by management. The assumptions required for estimating provisions for sales returns are also made more complicated given the recent or impending loss of exclusivity in the US for some of the Group's pharmaceutical products.

For further information on chargebacks, other rebates and sales returns in the US pharmaceuticals business refer to the following:

Page 118 (Significant accounting policies, note 32), page 46 (General accounting principles – Key accounting judgements, estimates and assumptions, note 1) and pages 69 and 72–78 (Financial disclosures, note 11 Accounts receivable, note 18 Other current liabilities and note 19 Provisions and contingent liabilities).

### Our response

Our audit procedures included, amongst others, the testing of the Group's key controls relating to the deductions made to gross sales for chargebacks, other rebates and sales returns, including those controls over accrual rates used within management's calculations for accrued liabilities, provisions or deductions from accounts receivable.

On a sample basis, we obtained management's calculations for accrued liabilities, provisions and accounts receivable deductions, recalculated the amounts and validated the reasonableness of key assumptions used by reference to internal and external sources including the terms of the applicable contracts, US government pricing information, historical chargebacks and other rebates, historical sales returns levels and to current trends.

We considered the accuracy of management's estimates in previous years by comparing historical accrued liabilities, provisions and accounts receivable deductions recorded to the actual settlements. We also assessed changes in the accrual rates used within the estimates for 2017, including responding to an increase in the utilisation of the 340B Drug Discount Program in 2017, by comparing the accrual rates to current chargeback, other rebate payment and sales return trends.

We considered the adequacy of the Group's revenue recognition accounting policies, including the recognition and measurement of deductions to gross sales relating to chargebacks, other rebates and sales returns and related disclosures.





## Carrying value of goodwill relating to the Diagnostics Division

### Key Audit Matter

The Group has goodwill of CHF 5,207 million arising from past acquisitions of the Diagnostics Division, principally Corange/Boehringer Mannheim, Ventana and several businesses in the sequencing business area. Goodwill is assessed for impairment at each reporting date and is additionally tested annually for impairment.

Impairment testing uses projections of future cash flows based on the most recent long-term forecasts approved by management, including estimated sales volumes and pricing. The long-term forecasts are projected over five years, except for the sequencing business, which is projected over ten years reflecting the long period required for the development of the technologies and products necessary to grow this business.

Management needs to apply considerable judgement in allocating the goodwill to the appropriate businesses as well as in assessing the future performance and prospects of each cash-generating unit (CGU) and the discount rates to apply. Certain businesses face uncertainties in the technical and commercial viability of leading-edge next-generation technologies and products that are being developed.

We focused on this area in light of the amount of judgement and estimation required, the history of impairments recorded in previous years and the amounts of headroom for some CGUs.

### Our response

Our audit procedures included, amongst others, testing the Group's key controls surrounding the carrying value of goodwill relating to the Diagnostics Division.

Our audit of goodwill included assessing the Group's budgeting procedures upon which the forecasts are based and the integrity of the discounted cash flow models which management used to prepare the valuations. We challenged the robustness of the key assumptions used to determine the recoverable amounts, including identification of and allocation to the CGU, forecast cash flows, growth rates and the discount rates based on our understanding of the commercial prospects of the Diagnostics businesses and the markets in which they operate.

We did this by using our own valuation specialists to assist us in evaluating the assumptions and methodologies used by management, in particular those relating to the discount rates, by comparing relevant assumptions to industry and economic forecasts. In addition, we identified and analysed changes in assumptions from prior periods, made an assessment of the consistency of assumptions, and performed a comparison of assumptions with publicly available data. We also performed a retrospective assessment of the accuracy of management's past projections by comparing historical forecasts to actual results.

Where the forecasts supporting the carrying value of the goodwill exceeded the usual period of five years, which was the case for the goodwill relating to the sequencing business, we challenged management on the reasons for this and made an assessment of management's ability to forecast cash flows over such longer periods with reasonable accuracy.

We reviewed the forecasts relating to the value in use of the sequencing business, for which an impairment of CHF 674 million was recorded in 2017. We considered the factors that contributed to that impairment and whether they related to events in the period. We also considered the continued use of the ten-year forecast period of business development.

We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflect the risks inherent in the valuation of goodwill.

For further information on the carrying value of goodwill relating to the Diagnostics Division refer to the following:

Page 118 (Significant accounting policies, note 32), page 46 (General accounting principles – Key accounting judgements, estimates and assumptions, note 1) and pages 64–65 (Financial disclosures, note 8 Goodwill).



## Carrying value of product-related intangible assets

### Key Audit Matter

The Group has significant product-related intangible assets (31 December 2017 – CHF 8,091 million) acquired through business combinations or in-licensing arrangements. These comprise product intangibles in use (CHF 5,419 million) being amortised and product intangibles not available for use (CHF 2,672 million) not being amortised. An impairment assessment is carried out for all product-related intangibles when there is evidence that an asset may be impaired, with intangible assets that are not yet available for use also being tested for impairment annually.

Product intangibles in use (CHF 5,419 million) predominantly relate to acquired products that have been launched, with the key risk being the ability to successfully commercialise the products concerned. The largest single intangible asset arose on the acquisition of InterMune in 2014 and relates to Esbriet (CHF 2,878 million). We focused on this product intangible in use because assessing recoverability involves forecasting and discounting future cash flows, which are inherently highly judgemental and because the headroom is low. Key estimates and assumptions include revenue growth, the timing and impact of loss of exclusivity, discount rates and the development and commercialisation of competing products. The drivers of revenue growth include persistence rate, treatment rate and market share.

Product intangibles not available for use (CHF 2,672 million) mostly represent in-process research and development assets. Due to the inherent uncertainties in the research and development processes, intangible assets not available for use are particularly at risk of impairment. The impairment assessment requires management to make key assumptions and judgements on the clinical, technical and commercial viability of the new products. Accordingly, we also focused our audit work on these areas. Risks include an inability to achieve successful trial results, obtain required clinical and/or regulatory approvals and a highly competitive business environment in the therapeutic areas where the Group has significant assets in research or development.

For further information on the carrying value of product-related intangible assets refer to the following:

Page 118 (Significant accounting policies, note 32), page 46 (General accounting principles – Key accounting judgements, estimates and assumptions, note 1) and pages 66–69 (Financial disclosures, note 9 Intangible assets).

### Our response

Our audit procedures included, amongst others, testing the Group's key controls over the carrying value of product-related intangible assets.

Our audit of product-related intangible assets in use included assessing the Group's process and key controls for identifying triggering events. In circumstances where there was evidence that an asset may be impaired we challenged the robustness of the key assumptions used to determine the recoverable amounts, including forecast revenues, useful lives and the discount rates. Our challenge was based on our understanding of the commercial prospects of the individual products, as well as the relevant business areas and markets in which they operate. We used our valuation specialists to assist us in evaluating the assumptions and methodologies used by management in relation to the discount rates. We made our own assessments in relation to key inputs such as projected pricing and volumes, and the products' projected share of the therapeutic area or *in vitro* diagnostic market, by comparing relevant assumptions to industry forecasts, reviewing analyst commentaries and by retrospective assessment of the accuracy of previous projections. We compared management's assumptions with external data where it was available, for example in the case of Esbriet. Where we considered there to be a higher risk of impairment, we performed sensitivity analysis over individual intangible asset impairment models to assess the level of sensitivity to key assumptions so we could focus our work on those areas and assess management's allowance for risk.

For product-related intangibles not yet available for use, our audit included assessing the reasonableness of management's assumptions regarding the probability of obtaining regulatory approval through comparison to industry practice, past history, and consideration of the Group's internal governance and approval processes. We also interviewed a number of senior research, development and commercial personnel in order to understand and challenge those assumptions.





## Provisions and contingent liabilities in respect of litigations

### Key Audit Matter

The pharmaceuticals industry is heavily regulated which increases the inherent litigation risk. In the normal course of business, liabilities may arise from product-specific and general legal proceedings, or from anti-trust and other government investigations. At 31 December 2017, the Group held provisions of CHF 485 million in respect of legal actions. Given the highly complex nature of regulatory and legal cases, management applies significant judgement when considering whether, and how much, to provide for the potential exposure of each matter. These estimates could change substantially over time as new facts emerge and each legal case progresses.

We focused on this area given the number, complexity and magnitude of potential exposures across the Group, and the judgement necessary to determine whether and what amounts to provide for and/or to disclose.

### Our response

We discussed the status of significant known actual and potential litigation with in-house legal counsel, management and directors who have knowledge of these matters. We challenged the decisions and rationale for provisions held or for decisions not to record provisions or make disclosures. For the most significant of the matters, we assessed relevant historical and recent judgments passed by the court authorities and considered legal opinion obtained by management from external lawyers to challenge the basis used for the provisions recorded and the disclosures made by the Group. Where relevant we also obtained formal confirmation from the Group's external lawyers.

We assessed the Group's internal audit reports and compliance logs and reports prepared by management to identify actual and potential non-compliance with laws and regulations, both those specific to the Group's business and those relating to the conduct of business generally.

For those matters where management concluded that no provisions should be recorded, we also considered the adequacy and completeness of the Group's disclosures made in relation to contingent liabilities.

For further information on provisions and contingent liabilities in respect of litigations refer to the following:

Page 118 (Significant accounting policies, note 32), page 46 (General accounting principles – Key accounting judgements, estimates and assumptions, note 1) and pages 73–78 (Financial disclosures, note 19 Provisions and contingent liabilities).



## Uncertain tax positions

### Key Audit Matter

The Group operates across a wide range of different tax jurisdictions around the world and is thus subject to occasional challenges by local tax authorities including cross-border transfer pricing arrangements for goods and services, financing and transaction-related tax matters in connection with the integration of investments, divestments and licensing contracts. Areas of particular focus include transfer pricing arrangements such as those relating to the Group's manufacturing and supply chains.

Where the amount of tax liabilities is uncertain, the Group recognises accruals that reflect management's best estimate of the outcome based on the facts known in the relevant jurisdiction. The Group has open tax and transfer pricing matters with various tax authorities where the range of possible outcomes is broad. At 31 December 2017, the Group has recognised current income tax liabilities of CHF 3,408 million which includes accruals for uncertain tax positions.

We focused on this area as the estimates of the amounts of tax receivable or payable require a significant level of expertise and judgement.

For further information on uncertain tax positions refer to the following:

Page 118 (Significant accounting policies, note 32), page 46 (General accounting principles – Key accounting judgements, estimates and assumptions, note 1) and pages 53–55 (Financial disclosures, note 4 Income taxes).

### Our response

For significant items we challenged management's judgement regarding the eventual resolution with national tax authorities of double taxation conflicts, pending tax audits and estimates of tax exposures with the assistance of our local country tax specialists. For the most significant uncertain tax positions, our work included the assessment of third-party opinions and the use, where available, of past experience with the tax authorities in the respective jurisdiction. Additionally we used our own tax specialists' expertise to assess the appropriateness of the key assumptions made by management and to conclude on a best estimate of the outcome.

Our audit approach included additional audit procedures performed at Group level to consider the more significant uncertain tax positions in particular for transfer prices applied for goods and services and intellectual property rights.





### **Other Information in the Annual Report**

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of the company, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibility of the Board of Directors for the Consolidated Financial Statements**

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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 AG

Ian Starkey  
Licensed Audit Expert  
Auditor in Charge

Marc Ziegler  
Licensed Audit Expert

Basel, 29 January 2018

KPMG AG, Viaduktstrasse 42, PO Box 3456, CH-4002 Basel

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# Independent Reasonable Assurance Report on Internal Control over Financial Reporting

## To the Board of Directors of Roche Holding Ltd, Basel

We were engaged by the Board of Directors to carry out a reasonable assurance engagement on the design, implementation and operating effectiveness of the system of internal control over financial reporting of the Roche Group as it was in place at 31 December 2017. Management of Roche Holding Ltd assessed the effectiveness of its system of internal control over financial reporting as of 31 December 2017 based on the criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework 2013*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

## Responsibilities of the Board of Directors and Management

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.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). An entity's internal control over financial reporting 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.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

## Our Responsibilities

Our responsibility is to examine the design, implementation and effectiveness of the company's internal control over financial reporting and to report thereon in the form of an independent, reasonable assurance conclusion, based on the evidence obtained. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether effective internal control over financial reporting was maintained, in all material respects.

The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the design, implementation and effectiveness of the company's internal control over financial reporting. Our examination included obtaining an understanding of internal control over financial reporting, testing and evaluating the design, implementation and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances.



### Our Independence and Quality Control

The firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

### Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion, the Roche Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2017 based on criteria established in *Internal Control – Integrated Framework 2013* 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 2017 and our report dated 29 January 2018 expressed an unqualified opinion on those consolidated financial statements.

KPMG AG

Ian Starkey  
Licensed Audit Expert

Basel, 29 January 2018

Marc Ziegler  
Licensed Audit Expert

KPMG AG, Viaduktstrasse 42, PO Box 3456, CH-4002 Basel

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# Multi-Year Overview and Supplementary Information

## Multi-Year Overview

Statistics, as reported

	2008	2009	2010
<b>Income statement</b> in millions of CHF			
Sales	45,617	49,051	47,473
EBITDA	16,637	18,028	18,517
Operating profit	13,924	12,277	13,486
Net income attributable to Roche shareholders	8,969	7,784	8,666
Research and development	8,845	9,874	10,026
<b>Balance sheet</b> in millions of CHF			
Non-current assets	37,485	36,086	33,408
Current assets	38,604	38,479	27,612
Total assets	76,089	74,565	61,020
Non-current liabilities	(10,163)	(43,084)	(34,380)
Current liabilities	(12,104)	(22,067)	(14,978)
Total liabilities	(22,267)	(65,151)	(49,358)
Net assets	53,822	9,414	11,662
Capital and reserves attributable to Roche shareholders	44,479	7,366	9,469
Equity attributable to non-controlling interests	9,343	2,048	2,193
Additions to property, plant and equipment	3,187	2,837	2,633
<b>Personnel</b>			
Number of employees at end of year	80,080	81,507	80,653
<b>Key ratios</b>			
Net income attributable to Roche shareholders as % of sales	20	16	18
Net income attributable to Roche shareholders as % of equity	20	106	92
Research and development as % of sales	19	20	21
Current ratio %	319	174	184
Equity and non-controlling interests as % of total assets	71	13	19
Human capital return on investment ratio	2.25	2.02	2.13
<b>Data on shares and non-voting equity securities</b>			
Number of shares	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities ( <i>Genussscheine</i> )	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	4,313	5,175	5,693
Earnings per share and non-voting equity security (diluted) in CHF	10.23	9.02	10.11
Dividend per share and non-voting equity security in CHF	5.00	6.00	6.60

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

2011	2012	2013	2014	2015	2016	2017
42,531	45,499	46,780	47,462	48,145	50,576	53,299
16,933	19,040	19,802	19,558	19,479	20,483	21,201
13,454	14,125	16,376	14,090	13,821	14,069	13,003
9,343	9,539	11,164	9,332	8,863	9,576	8,633
8,326	9,552	9,270	9,895	9,581	11,532	11,292
33,344	33,434	33,003	44,426	47,581	48,149	45,104
28,232	31,371	29,164	31,114	28,182	28,670	31,572
61,576	64,805	62,167	75,540	75,763	76,819	76,676
(30,884)	(27,868)	(25,166)	(30,874)	(28,695)	(27,817)	(25,509)
(16,210)	(20,209)	(15,760)	(23,108)	(23,768)	(22,600)	(22,160)
(47,094)	(48,077)	(40,926)	(53,982)	(52,463)	(50,417)	(47,669)
14,482	16,728	21,241	21,558	23,300	26,402	29,007
12,095	14,494	19,294	19,586	20,979	23,911	26,441
2,387	2,234	1,947	1,972	2,321	2,491	2,566
2,006	2,130	2,458	2,905	4,077	3,790	3,477
80,129	82,089	85,060	88,509	91,747	94,052	93,734
22	21	24	20	18	19	16
77	66	58	48	42	40	33
20	21	20	21	20	23	21
174	155	185	135	119	127	142
24	26	34	29	31	34	38
2.31	2.25	2.45	2.16	2.06	2.06	1.89
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
5,865	6,340	6,728	6,901	6,987	7,073	7,159 <sup>a)</sup>
10.98	11.16	12.93	10.81	10.28	11.13	10.04
6.80	7.35	7.80	8.00	8.10	8.20	8.30 <sup>a)</sup>

a) 2017 dividend proposed by the Board of Directors.

## Sales by division in millions of CHF

	2013	2014	2015	2016	2017
Pharmaceuticals	36,304	36,696	37,331	39,103	41,220
Diagnostics	10,476	10,766	10,814	11,473	12,079
<b>Total</b>	<b>46,780</b>	<b>47,462</b>	<b>48,145</b>	<b>50,576</b>	<b>53,299</b>

## Sales by geographical area in millions of CHF

	2013	2014	2015	2016	2017
Switzerland	526	526	497	577	574
Germany	2,729	2,900	2,734	3,004	3,041
Rest of Europe	11,341	11,119	10,046	10,264	10,135
<b>Europe</b>	<b>14,596</b>	<b>14,545</b>	<b>13,277</b>	<b>13,845</b>	<b>13,750</b>
United States	17,169	18,041	20,164	21,192	23,122
Rest of North America	1,042	962	855	851	897
<b>North America</b>	<b>18,211</b>	<b>19,003</b>	<b>21,019</b>	<b>22,043</b>	<b>24,019</b>
Latin America	3,363	3,285	2,832	2,681	3,024
Japan	3,936	3,755	3,648	4,211	4,214
Rest of Asia	5,129	5,327	6,006	6,461	6,824
<b>Asia</b>	<b>9,065</b>	<b>9,082</b>	<b>9,654</b>	<b>10,672</b>	<b>11,038</b>
Africa, Australia and Oceania	1,545	1,547	1,363	1,335	1,468
<b>Total</b>	<b>46,780</b>	<b>47,462</b>	<b>48,145</b>	<b>50,576</b>	<b>53,299</b>

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

	2013	2014	2015	2016	2017
Pharmaceuticals	1,294	1,674	2,706	2,154	2,030
Diagnostics	1,158	1,228	1,363	1,629	1,443
Corporate	6	3	8	7	4
<b>Total</b>	<b>2,458</b>	<b>2,905</b>	<b>4,077</b>	<b>3,790</b>	<b>3,477</b>

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

	2013	2014	2015	2016	2017
Switzerland	487	691	964	892	846
Germany	456	527	602	759	541
Rest of Europe	317	335	349	315	322
<b>Europe</b>	<b>1,260</b>	<b>1,553</b>	<b>1,915</b>	<b>1,966</b>	<b>1,709</b>
United States	515	683	1,382	1,060	844
Rest of North America	51	6	4	7	7
<b>North America</b>	<b>566</b>	<b>689</b>	<b>1,386</b>	<b>1,067</b>	<b>851</b>
Latin America	104	113	132	133	110
Japan	137	154	230	192	331
Rest of Asia	362	371	379	387	422
<b>Asia</b>	<b>499</b>	<b>525</b>	<b>609</b>	<b>579</b>	<b>753</b>
Africa, Australia and Oceania	29	25	35	45	54
<b>Total</b>	<b>2,458</b>	<b>2,905</b>	<b>4,077</b>	<b>3,790</b>	<b>3,477</b>



## Alternative Performance Measures

The financial information included in the Financial Review includes certain Alternative Performance Measures (APMs) which are not accounting measures as defined by IFRS, in particular the core results, net working capital, net operating assets, free cash flow and constant exchange rates. These APMs should not be used instead of, or considered as alternatives to, the Group's consolidated financial results based on IFRS. These APMs may not be comparable to similarly titled measures disclosed by other companies. All APMs presented in the Financial Review relate to the performance of the current year and comparative periods.

### Core results

Core results allow for an assessment of both the Group's actual results as defined by IFRS 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 6) are excluded.
- Amortisation and impairment of intangible assets (see Note 9) and impairment of goodwill (see Note 8) are excluded.
- Acquisition accounting and other impacts from the accounting for alliance arrangements and business combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) are excluded.
- Legal and environmental cases (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control are excluded.
- Material treasury items such as major debt restructurings (currently none) are excluded.
- Pension plan settlements (see Note 25) are excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to the 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 4).

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](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.

## Core results reconciliation – 2017 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Pension plan settlements	Global issues	Normalisation of ECP tax benefit	Core
Sales	53,299	-	-	-	-	-	-	-	-	53,299
Royalties and other operating income	2,447	-	-	-	-	-	-	-	-	2,447
Cost of sales	(18,179)	484	1,545	1,784	-	-	-	-	-	(14,366)
Marketing and distribution	(9,847)	326	9	-	-	-	-	-	-	(9,512)
Research and development	(11,292)	87	137	676	-	-	-	-	-	(10,392)
General and administration	(3,425)	311	-	1,058	(350)	(80)	22	-	-	(2,464)
<b>Operating profit</b>	<b>13,003</b>	<b>1,208</b>	<b>1,691</b>	<b>3,518</b>	<b>(350)</b>	<b>(80)</b>	<b>22</b>	-	-	<b>19,012</b>
Financing costs	(839)	2	-	-	14	4	-	-	-	(819)
Other financial income (expense)	84	-	-	-	(9)	-	-	-	-	75
<b>Profit before taxes</b>	<b>12,248</b>	<b>1,210</b>	<b>1,691</b>	<b>3,518</b>	<b>(345)</b>	<b>(76)</b>	<b>22</b>	-	-	<b>18,268</b>
Income taxes	(3,423)	(248)	(513)	(867)	(2)	46	(4)	116	31	(4,864)
<b>Net income</b>	<b>8,825</b>	<b>962</b>	<b>1,178</b>	<b>2,651</b>	<b>(347)</b>	<b>(30)</b>	<b>18</b>	<b>116</b>	<b>31</b>	<b>13,404</b>
Attributable to										
- Roche shareholders	8,633	962	1,162	2,645	(347)	(28)	18	116	31	13,192
- Non-controlling interests	192	-	16	6	-	(2)	-	-	-	212

## Core results reconciliation – 2016 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Pension plan settlements	Global issues	Normalisation of ECP tax benefit	Core
Sales	50,576	-	-	-	-	-	-	-	-	50,576
Royalties and other operating income	2,060	-	-	-	-	-	-	-	-	2,060
Cost of sales	(16,180)	837	1,637	70	167	-	-	-	-	(13,469)
Marketing and distribution	(9,140)	128	5	-	-	-	-	-	-	(9,007)
Research and development	(11,532)	133	141	1,343	-	-	-	-	-	(9,915)
General and administration	(1,715)	135	-	95	(401)	77	(16)	-	-	(1,825)
<b>Operating profit</b>	<b>14,069</b>	<b>1,233</b>	<b>1,783</b>	<b>1,508</b>	<b>(234)</b>	<b>77</b>	<b>(16)</b>	-	-	<b>18,420</b>
Financing costs	(1,099)	2	-	-	53	10	-	-	-	(1,034)
Other financial income (expense)	37	-	-	-	-	-	-	-	-	37
<b>Profit before taxes</b>	<b>13,007</b>	<b>1,235</b>	<b>1,783</b>	<b>1,508</b>	<b>(181)</b>	<b>87</b>	<b>(16)</b>	-	-	<b>17,423</b>
Income taxes	(3,274)	(270)	(871)	(362)	(41)	(30)	5	-	108	(4,735)
<b>Net income</b>	<b>9,733</b>	<b>965</b>	<b>912</b>	<b>1,146</b>	<b>(222)</b>	<b>57</b>	<b>(11)</b>	-	<b>108</b>	<b>12,688</b>
Attributable to										
- Roche shareholders	9,576	961	897	1,141	(222)	57	(11)	-	108	12,507
- Non-controlling interests	157	4	15	5	-	-	-	-	-	181

## Divisional core results reconciliation – 2017 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Pension plan settlements	Core
<b>Pharmaceuticals</b>								
Sales	41,220	–	–	–	–	–	–	41,220
Royalties and other operating income	2,284	–	–	–	–	–	–	2,284
Cost of sales	(11,978)	377	1,230	1,664	–	–	–	(8,707)
Marketing and distribution	(6,960)	234	6	–	–	–	–	(6,720)
Research and development	(9,704)	21	123	524	–	–	–	(9,036)
General and administration	(1,620)	245	–	384	(324)	(143)	18	(1,440)
<b>Operating profit</b>	<b>13,242</b>	<b>877</b>	<b>1,359</b>	<b>2,572</b>	<b>(324)</b>	<b>(143)</b>	<b>18</b>	<b>17,601</b>
<b>Diagnostics</b>								
Sales	12,079	–	–	–	–	–	–	12,079
Royalties and other operating income	163	–	–	–	–	–	–	163
Cost of sales	(6,201)	107	315	120	–	–	–	(5,659)
Marketing and distribution	(2,887)	92	3	–	–	–	–	(2,792)
Research and development	(1,588)	66	14	152	–	–	–	(1,356)
General and administration	(1,262)	27	–	674	(27)	58	4	(526)
<b>Operating profit</b>	<b>304</b>	<b>292</b>	<b>332</b>	<b>946</b>	<b>(27)</b>	<b>58</b>	<b>4</b>	<b>1,909</b>
<b>Corporate</b>								
General and administration	(543)	39	–	–	1	5	–	(498)
<b>Operating profit</b>	<b>(543)</b>	<b>39</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>5</b>	<b>–</b>	<b>(498)</b>

## Divisional core results reconciliation – 2016 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Pension plan settlements	Core
<b>Pharmaceuticals</b>								
Sales	39,103	–	–	–	–	–	–	39,103
Royalties and other operating income	1,944	–	–	–	–	–	–	1,944
Cost of sales	(10,393)	737	1,314	–	167	–	–	(8,175)
Marketing and distribution	(6,391)	26	3	–	–	–	–	(6,362)
Research and development	(10,156)	90	135	1,343	–	–	–	(8,588)
General and administration	(822)	82	–	95	(376)	18	(10)	(1,013)
<b>Operating profit</b>	<b>13,285</b>	<b>935</b>	<b>1,452</b>	<b>1,438</b>	<b>(209)</b>	<b>18</b>	<b>(10)</b>	<b>16,909</b>
<b>Diagnostics</b>								
Sales	11,473	–	–	–	–	–	–	11,473
Royalties and other operating income	116	–	–	–	–	–	–	116
Cost of sales	(5,787)	100	323	70	–	–	–	(5,294)
Marketing and distribution	(2,749)	102	2	–	–	–	–	(2,645)
Research and development	(1,376)	43	6	–	–	–	–	(1,327)
General and administration	(464)	66	–	–	(26)	28	(6)	(402)
<b>Operating profit</b>	<b>1,213</b>	<b>311</b>	<b>331</b>	<b>70</b>	<b>(26)</b>	<b>28</b>	<b>(6)</b>	<b>1,921</b>
<b>Corporate</b>								
General and administration	(429)	(13)	–	–	1	31	–	(410)
<b>Operating profit</b>	<b>(429)</b>	<b>(13)</b>	<b>–</b>	<b>–</b>	<b>1</b>	<b>31</b>	<b>–</b>	<b>(410)</b>



## Core EPS (basic)

	2017	2016
Core net income attributable to Roche shareholders (CHF millions)	13,192	12,507
Weighted average number of shares and non-voting equity securities in issue (millions) <sup>27</sup>	853	852
<b>Core earnings per share (basic) (CHF)</b>	<b>15.47</b>	<b>14.68</b>

## Core EPS (diluted)

	2017	2016
Core net income attributable to Roche shareholders (CHF millions)	13,192	12,507
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
<b>Net income used to calculate diluted earnings per share (CHF millions)</b>	<b>13,191</b>	<b>12,506</b>
<b>Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)<sup>27</sup></b>	<b>860</b>	<b>860</b>
<b>Core earnings per share (diluted) (CHF)</b>	<b>15.34</b>	<b>14.53</b>

## Free cash flow

Free cash flow is used to assess the Group's ability to generate the cash required to conduct and maintain its operations. It also indicates the Group's ability to generate cash to finance dividend payments, repay debt and to undertake merger and acquisition activities. The free cash flow concept is used in the internal management of the business.

Operating free cash flow is calculated based on the IFRS operating profit and adjusted for certain cash items, movements in net working capital and capital expenditures (investments in property, plant and equipment and intangible assets). Operating free cash flow is different from cash flows from operating activities as defined by IAS 7 in that it includes capital expenditures (which is within the responsibility of divisional management) and excludes income taxes paid (which is not within the responsibility of divisional management). Cash outflows from defined benefit plans are allocated to the operating free cash flow based on the current service cost with the residual allocated to treasury activities.

Free cash flow is calculated as the operating free cash flow adjusted for treasury activities and taxes paid. Free cash flow is different from total cash flows as defined by IAS 7 in that it excludes dividend payments, cash inflows/outflows from financing activities such as issuance/repayment of debt, purchase/sale of marketable securities and cash inflows/outflows from mergers, acquisitions and divestments.

Operating free cash flow and free cash flow are calculated as shown in the tables below. Additional commentary to the adjustment items is given in the Financial Review.

**Operating free cash flow reconciliation** in millions of CHF

	2017	2016
<b>Cash flows from operating activities (IFRS basis in accordance with IAS 7)</b>	<b>18,024</b>	<b>15,001</b>
Add back		
- Income taxes paid	3,909	3,738
Deduct		
- Investments in property, plant and equipment	(3,509)	(4,144)
- Investments in intangible assets	(704)	(1,001)
- Disposal of property, plant and equipment	100	151
- Disposal of intangible assets	-	-
Pensions and other post-employment benefits		
- Add back total payments for defined benefit plans	538	880
- Deduct allocation of payments to operating free cash flow	(532)	(539)
Other operating items	1	-
<b>Operating free cash flow</b>	<b>17,827</b>	<b>14,086</b>

**Free cash flow reconciliation** in millions of CHF

	2017	2016
<b>Cash flows from operating activities (IFRS basis in accordance with IAS 7)</b>	<b>18,024</b>	<b>15,001</b>
Deduct		
- Investments in property, plant and equipment	(3,509)	(4,144)
- Investments in intangible assets	(704)	(1,001)
- Disposal of property, plant and equipment	100	151
- Disposal of intangible assets	-	-
- Interest paid	(648)	(849)
Other operating items	1	-
Other treasury items	156	(28)
<b>Free cash flow</b>	<b>13,420</b>	<b>9,130</b>

Supplementary information used to calculate the divisional operating free cash flow is shown in the table below.

Divisional operating free cash flow information in millions of CHF

	Pharmaceuticals			Diagnostics		Corporate		Group 2016
	2017	2016	2017	2016	2017	2016	2017	
<b>Depreciation, amortisation and impairment</b>								
Depreciation of property, plant and equipment	1,165	1,212	1,024	938	7	8	2,196	2,158
Amortisation of intangible assets	1,359	1,452	332	331	–	–	1,691	1,783
Impairment of property, plant and equipment	184	256	37	35	12	–	233	291
Impairment of goodwill	384	95	674	–	–	–	1,058	95
Impairment of intangible assets	2,188	1,343	272	70	–	–	2,460	1,413
<b>Total</b>	<b>5,280</b>	<b>4,358</b>	<b>2,339</b>	<b>1,374</b>	<b>19</b>	<b>8</b>	<b>7,638</b>	<b>5,740</b>
<b>Other adjustments</b>								
Add back								
– Expenses for equity-settled equity compensation plans	388	371	73	69	34	33	495	473
– Net (income) expense for provisions	102	(85)	152	145	16	60	270	120
– Net (gain) loss from disposals	(308)	(155)	9	5	–	(60)	(299)	(210)
– Non-cash working capital and other items	473	485	145	47	(1)	(38)	617	494
Deduct								
– Utilisation of provisions	(405)	(504)	(140)	(107)	(76)	(151)	(621)	(762)
– Proceeds from disposals	460	189	50	43	–	98	510	330
<b>Total</b>	<b>710</b>	<b>301</b>	<b>289</b>	<b>202</b>	<b>(27)</b>	<b>(58)</b>	<b>972</b>	<b>445</b>
<b>Operating profit cash adjustments</b>	<b>5,990</b>	<b>4,659</b>	<b>2,628</b>	<b>1,576</b>	<b>(8)</b>	<b>(50)</b>	<b>8,610</b>	<b>6,185</b>

## EBITDA

The Group does not use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) in either its internal management reporting or its external communications. In the opinion of the Group's management, operating free cash flow gives a more useful and consistent measurement of 'cash earnings' than EBITDA, which includes many non-cash items such as provisions, allowances for trade receivables and inventories, and certain non-cash entries arising from acquisition accounting and pension accounting.

For the convenience of those readers that do use EBITDA, this is provided in the table below. As the starting point this uses the core results, which already exclude the amortisation and impairment of goodwill and intangible assets.

EBITDA (using core results) in millions of CHF

	Pharmaceuticals			Diagnostics		Corporate		Group 2016
	2017	2016	2017	2016	2017	2016	2017	
<b>EBITDA</b>								
Core operating profit	17,601	16,909	1,909	1,921	(498)	(410)	19,012	18,420
Depreciation and impairment of property, plant and equipment – Core basis	1,145	1,112	1,025	943	19	8	2,189	2,063
<b>EBITDA</b>	<b>18,746</b>	<b>18,021</b>	<b>2,934</b>	<b>2,864</b>	<b>(479)</b>	<b>(402)</b>	<b>21,201</b>	<b>20,483</b>
– margin, % of sales	45.5	46.1	24.3	25.0	–	–	39.8	40.5



**Net operating assets**

Net operating assets allow for an assessment of the Group's operating performance of the business independently from financing and tax activities. Net operating assets are calculated as property, plant and equipment, goodwill, intangible assets, net working capital and long-term net operating assets minus provisions.

The calculation of the net operating assets disclosed in Note 2 of the Annual Financial Statements is shown in the tables below.

**Net operating assets reconciliation – 2017** in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Group
Property, plant and equipment	14,358	6,431	123	–	20,912
Goodwill	4,870	5,207	–	–	10,077
Intangible assets	6,326	2,042	–	–	8,368
Inventories	5,126	2,280	1	–	7,407
Provisions	(2,449)	(842)	(299)	–	(3,590)
Current income tax net liabilities	–	–	–	(3,060)	(3,060)
Deferred tax net assets	–	–	–	3,081	3,081
Defined benefit plan net liabilities	–	–	–	(6,620)	(6,620)
Marketable securities	–	–	–	7,278	7,278
Cash and cash equivalents	–	–	–	4,719	4,719
Debt	–	–	–	(18,960)	(18,960)
Other net assets (liabilities)					
– Net working capital	(1,706)	314	(120)	–	(1,512)
– Long-term net operating assets	434	11	(2)	–	443
– Other	–	–	–	464	464
<b>Total net operating assets</b>	<b>26,959</b>	<b>15,443</b>	<b>(297)</b>	<b>(13,098)</b>	<b>29,007</b>

**Net operating assets reconciliation – 2016** in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Group
Property, plant and equipment	13,944	5,873	140	–	19,957
Goodwill	5,439	5,843	–	–	11,282
Intangible assets	9,430	2,616	–	–	12,046
Inventories	5,634	2,294	–	–	7,928
Provisions	(2,751)	(950)	(347)	–	(4,048)
Current income tax net liabilities	–	–	–	(2,378)	(2,378)
Deferred tax net assets	–	–	–	1,988	1,988
Defined benefit plan net liabilities	–	–	–	(6,940)	(6,940)
Marketable securities	–	–	–	4,944	4,944
Cash and cash equivalents	–	–	–	4,163	4,163
Debt	–	–	–	(22,355)	(22,355)
Other net assets (liabilities)					
– Net working capital	(1,052)	502	(104)	–	(654)
– Long-term net operating assets	112	10	(6)	–	116
– Other	–	–	–	353	353
<b>Total net operating assets</b>	<b>30,756</b>	<b>16,188</b>	<b>(317)</b>	<b>(20,225)</b>	<b>26,402</b>

**Net debt**

Net debt is used to monitor the Group's overall short- and long-term liquidity. Net debt is calculated as the sum of total debt (long-term and short-term) less marketable securities, cash and cash equivalents.

Net debt calculations, including details of movements during the current year, are shown in the table on page 32 in the Financial Review.

### **Net working capital**

---

Net working capital is used to assess the Group's efficiency in utilising assets and short-term liquidity. Net trade working capital is calculated as trade receivables and inventories minus trade payables. Net working capital is calculated as net trade working capital adjusted for other receivables and other payables.

Net working capital and net trade working capital calculations are shown in the tables on page 19 (Pharmaceuticals Division), page 25 (Diagnostics Division) and page 27 (Corporate) in the Financial Review.

### **Constant exchange rates**

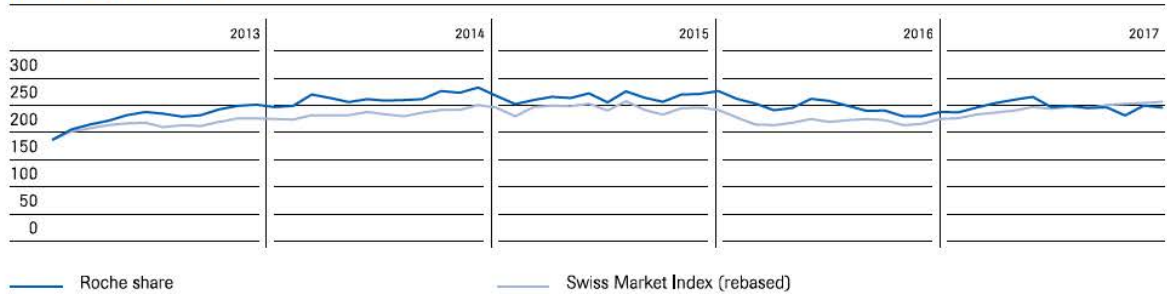
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Certain percentage changes in the Financial Review have been calculated using constant exchange rates (CER) which allow for an assessment of the Group's financial performance with the effects of exchange rate fluctuations eliminated. The percentage changes at constant exchange rates are calculated using simulations by reconsolidating both the current reported period and the prior period numbers at constant currency exchange rates, equalling the average exchange rates for the prior year. For example, a CER change between a 2017 line item and its 2016 equivalent is calculated using the average exchange rate for the year ended 31 December 2016 for both the 2017 line item and the 2016 line item and subsequently calculating the change in percent with respect to the two recalculated numbers.

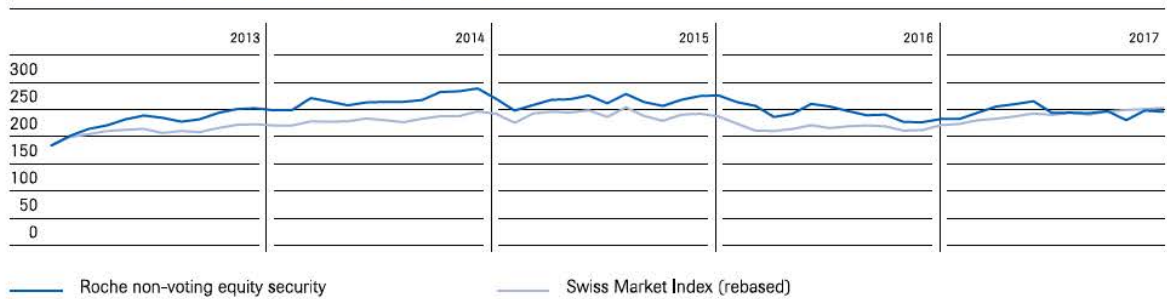
Foreign exchange gains and losses are excluded from the calculation of CER growth rates in the earnings per share calculations. In countries where there is a significant devaluation in the local currency in the current year, the simulations use the average exchange rate of the current year instead of the prior year to avoid that CER growth rates are artificially inflated.

# Roche Securities

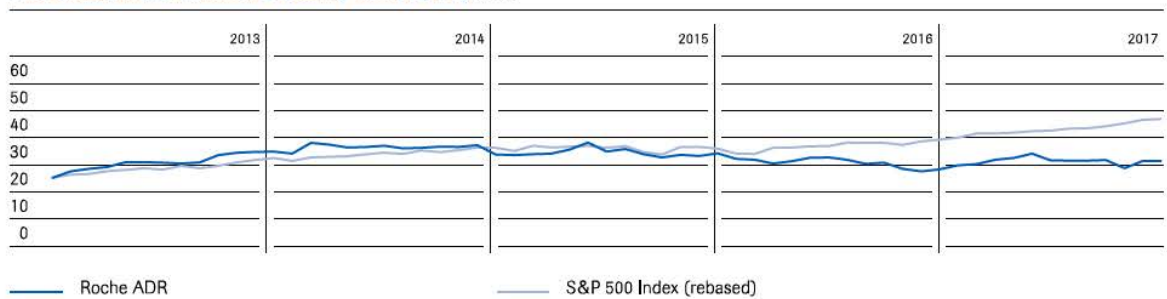
Price development of share in CHF



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



Price development of American Depositary Receipt (ADR) in USD



Eight Roche American Depositary Receipts (ADRs) are equivalent to one non-voting equity security (*Genussschein*). ADRs have been traded in the US 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, the change in the ratio for the ADRs from 2:1 to 4:1 effective 9 January 2009 and the change in the ratio for the ADRs from 4:1 to 8:1 effective 27 February 2014.



Number of shares and non-voting equity securities<sup>a)</sup>

	2013	2014	2015	2016	2017
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 ( <i>Genussscheine</i> ) (no nominal value)	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
<b>Total</b>	<b>862,562,700</b>	<b>862,562,700</b>	<b>862,562,700</b>	<b>862,562,700</b>	<b>862,562,700</b>
Number of own shares and non-voting equity securities ( <i>Genussscheine</i> ) held	(13,537,704)	(12,819,364)	(10,542,434)	(10,635,070)	(8,712,977)
<b>Total in issue</b>	<b>849,024,996</b>	<b>849,743,336</b>	<b>852,020,266</b>	<b>851,927,630</b>	<b>853,849,723</b>

## Data per share and non-voting equity security in CHF

	2013	2014	2015	2016	2017
Earnings (basic)	13.16	10.99	10.42	11.24	10.12
Earnings (diluted)	12.93	10.81	10.28	11.13	10.04
Core earnings (basic)	14.52	14.53	13.66	14.68	15.47
Core earnings (diluted)	14.27	14.29	13.49	14.53	15.34
Equity attributable to Roche shareholders	22.73	23.05	24.62	28.07	30.97
Dividend	7.80	8.00	8.10	8.20	8.30 <sup>c)</sup>
Stock price of share <sup>b)</sup>					
Opening	186.90	247.40	267.75	276.75	238.00
High	258.50	289.00	284.50	276.75	271.75
Low	186.90	239.40	244.40	223.50	230.40
Year-end	247.40	267.75	276.75	238.00	246.20
Stock price of non-voting equity security ( <i>Genussschein</i> ) <sup>b)</sup>					
Opening	184.00	249.20	269.90	276.40	232.60
High	258.50	294.60	286.20	276.40	272.60
Low	184.00	239.00	241.70	220.10	227.70
Year-end	249.20	269.90	276.40	232.60	246.50

## Market capitalisation in millions of CHF

	2013	2014	2015	2016	2017
Year-end	211,291	229,003	235,554	199,022	210,426

## Key ratios (year-end)

	2013	2014	2015	2016	2017
Dividend yield of shares in %	3.2	3.0	2.9	3.4	3.4
Dividend yield of non-voting equity securities ( <i>Genussscheine</i> ) in %	3.1	3.0	2.9	3.5	3.4
Price/earnings of shares	19	25	27	21	25
Price/earnings of non-voting equity securities ( <i>Genussscheine</i> )	19	25	27	21	25

- 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) 2017 dividend proposed by the Board of Directors.

## Ticker symbols

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

# Roche Holding Ltd, Basel

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# Financial Statements

Balance sheet in millions of CHF

	31 December 2017	31 December 2016
<b>Current assets</b>		
Cash and cash equivalents	843	1,294
Marketable securities	1,440	823
Accounts receivable from Group companies	5,104	2,510
Short-term loans to Group companies	1,200	2,500
Other current receivables	-	1
<b>Total current assets</b>	<b>8,587</b>	<b>7,128</b>
<b>Non-current assets</b>		
Long-term loans to Group companies	612	652
Investments	8,852	8,852
<b>Total non-current assets</b>	<b>9,464</b>	<b>9,504</b>
<b>Total assets</b>	<b>18,051</b>	<b>16,632</b>
<b>Short-term liabilities</b>		
Accounts payable to Group companies	10	14
Interest-bearing liabilities to Group companies	1,301	-
Other short-term liabilities	15	20
<b>Total short-term liabilities</b>	<b>1,326</b>	<b>34</b>
<b>Long-term liabilities</b>		
Provisions	35	35
<b>Total long-term liabilities</b>	<b>35</b>	<b>35</b>
<b>Total liabilities</b>	<b>1,361</b>	<b>69</b>
<b>Shareholders' equity</b>		
Share capital	160	160
Non-voting equity securities ( <i>Genussscheine</i> )	p.m.	p.m.
Legal retained earnings:		
- General legal retained earnings	300	300
Voluntary reserves and retained earnings:		
- Free reserve	6,000	6,000
- Special reserve	2,152	2,152
- Available earnings		
- Balance brought forward from previous year	878	884
- Net income for the year	7,200	7,067
<b>Total shareholders' equity</b>	<b>16,690</b>	<b>16,563</b>
<b>Total shareholders' equity and liabilities</b>	<b>18,051</b>	<b>16,632</b>

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

## Income statement in millions of CHF

	Year ended 31 December	
	2017	2016
<b>Income</b>		
Income from investments (dividend income)	7,189	6,967
Other financial income		
- Interest income from loans to Group companies	31	34
- Income from marketable securities and other	2	35
Guarantee fee income from Group companies	87	102
Other income	38	36
<b>Total income</b>	<b>7,347</b>	<b>7,174</b>
<b>Expenses</b>		
Administration expenses	(39)	(38)
Other expenses	(48)	(46)
Financial expenses	(52)	(8)
Direct taxes	(8)	(15)
<b>Total expenses</b>	<b>(147)</b>	<b>(107)</b>
<b>Net income</b>	<b>7,200</b>	<b>7,067</b>



# Notes to the Financial Statements

## 1. Summary of significant accounting policies

### Basis of preparation

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The financial statements of Roche Holding Ltd, Basel (the 'Company') have been prepared in accordance with the provisions of Swiss Law on Accounting and Financial Reporting (32<sup>nd</sup> title of the Swiss Code of Obligations, 'CO'). Where not prescribed by law, the significant accounting principles applied are described below.

The Company has prepared its consolidated financial statements in accordance with a recognised accounting standard (International Financial Reporting Standards). In accordance with the CO, the Company decided to forgo presenting additional information on audit fees in the notes as well as a cash flow statement.

### Valuation methods and translation of foreign currencies

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Marketable securities are reported at the lower of cost or market value. All other financial assets, including investments, are reported at cost less appropriate write-downs. Own equity instruments are recognised at cost and deducted from equity at the time of purchase. If the own equity instruments are sold, the gain or loss is recognised through the income statement. Assets and liabilities denominated in foreign currencies are translated into Swiss francs using year-end rates of exchange, except investments 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.

### Investments

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The direct and indirect investments of the Company are listed in Note 31 to the Roche Group Annual Financial Statements. This listing excludes the subsidiaries of Chugai and FMI as well as not material companies, notably companies that are inactive, dormant or in liquidation. Ownership interests equal voting rights.

### Taxes

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Direct taxes include corporate income and capital taxes.

## 2. Shareholders' equity

### Share capital

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As in the previous year, share capital amounts to CHF 160 million. The share capital consists of 160,000,000 bearer shares with a nominal value of CHF 1 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.

### Own equity instruments

At 31 December 2017 the Company did not hold any Roche shares (2016: none). During 2017 and 2016 the Company did not purchase any Roche shares. During 2017 the Company did not sell any Roche shares. In 2016 68,111 Roche shares were sold with an average sales price of CHF 250.00 per share and with a net gain of CHF 2 million. In 2017 no dividend income was received (2016: CHF 1 million).

Company's subsidiaries that meet the definitions and requirements of Article 659b CO do not hold equity instruments. Within the Roche Group Annual Financial Statements some entities (mainly foundations) are included in the consolidation which do not qualify as subsidiaries under Article 659b CO.

Movement in recognised amounts in millions of CHF

	Share capital	Legal retained earnings	Voluntary reserves and retained earnings Free reserve	Special reserve	Available earnings	Own equity instruments	Total equity
As at 1 January 2015	160	300	6,000	2,152	7,766	(88)	16,290
Net income	-	-	-	-	7,004	-	7,004
Dividends	-	-	-	-	(6,900)	-	(6,900)
Transactions in own equity instruments	-	-	-	-	-	73	73
<b>As at 31 December 2015</b>	<b>160</b>	<b>300</b>	<b>6,000</b>	<b>2,152</b>	<b>7,870</b>	<b>(15)</b>	<b>16,467</b>
Net income	-	-	-	-	7,067	-	7,067
Dividends	-	-	-	-	(6,986)	-	(6,986)
Transactions in own equity instruments	-	-	-	-	-	15	15
<b>As at 31 December 2016</b>	<b>160</b>	<b>300</b>	<b>6,000</b>	<b>2,152</b>	<b>7,951</b>	<b>-</b>	<b>16,563</b>
Net income	-	-	-	-	7,200	-	7,200
Dividends	-	-	-	-	(7,073)	-	(7,073)
Transactions in own equity instruments	-	-	-	-	-	-	-
<b>As at 31 December 2017</b>	<b>160</b>	<b>300</b>	<b>6,000</b>	<b>2,152</b>	<b>8,078</b>	<b>-</b>	<b>16,690</b>

## 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 2017 was CHF 18.6 billion (2016: CHF 21.5 billion). These are described in Note 20 to the Roche Group Annual Financial Statements.

## 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 14 March 2017 and on other information available to the Company.

## Controlling shareholders

At 31 December 2017 and 2016, 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, Dr 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, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

At 31 December 2017, based on information supplied to the Group, 53,332,863 shares (2016: 53,332,863 shares) are owned by Novartis Holding AG, Basel (participation below 33⅓%).

## 5. Full-time equivalent employees

The annual average number of full-time equivalent employees for 2017 and 2016 did not exceed ten people.

## 6. Board and Executive shareholdings

### Board of Directors

Directors Mr André Hoffmann and Dr Andreas Oeri and certain 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 2017 and 2016 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 ( <i>Genussscheine</i> )		Other
	2017	2016	2017	2016	
Ch. Franz	11,522	7,639	4,810	4,810	
A. Hoffmann	– <sup>a)</sup>	– <sup>a)</sup>	200	200	
P. Baschera	n/a	1	n/a	4,600	
J. Bell	1,115	300	1,647	1,647	
J. Brown	729	–	–	–	
P. Bulcke	–	–	4,000	2,500	
A. Hauser	–	n/a	150	n/a	<sup>d)</sup>
R.P. Lifton	–	–	–	–	<sup>e)</sup>
A. Oeri	– <sup>a)</sup>	– <sup>a)</sup>	187,793	187,793	
B. Poussot	500	–	500	–	
S. Schwan	–	–	–	–	<sup>b)</sup>
C. Suessmuth Dyckerhoff	–	–	621 <sup>c)</sup>	621 <sup>c)</sup>	
P.R. Voser	–	–	5,000	5,000	
<b>Total</b>	<b>13,866</b>	<b>7,940</b>	<b>204,721</b>	<b>207,171</b>	

a) Does not include shares held in the shareholder group with pooled voting rights.

b) As a member of the Corporate Executive Committee, Dr Schwan's shareholdings are disclosed in the tables below.

c) Jointly held with close relative.

d) Close relatives of A. Hauser held 20 non-voting equity securities (*Genussscheine*) (2016: n/a).

e) R.P. Lifton held 300 Roche American Depositary Receipts (ADRs) (2016: none). Eight ADRs are equivalent to one non-voting equity security (*Genussschein*). ADRs have been traded in the US over-the-counter market since July 1992.



### 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		Non-voting equity securities (Genussscheine)		Other
	2017	2016	2017	2016	
S. Schwan	153,428	138,011	27,040	29,836	a)
R. Diggelmann	-	-	8,058	5,776	a)
A. Hippe	6,970	6,970	16,585	13,305	a)
G.A. Keller	19,191	19,191	18,445	18,277	a), b)
D. O'Day	3,065	3,065	16,091	12,896	a)
C.A. Wilbur	-	-	3,141	1,714	a)
<b>Total</b>	<b>182,654</b>	<b>167,237</b>	<b>89,360</b>	<b>81,804</b>	

- a) Equity compensation awards: S-SARs, RSUs and Roche Performance Share Plan.  
b) Close relatives of Dr Keller held 1,100 Roche shares (2016: 1,100 Roche shares).

At 31 December 2017 members of the Corporate Executive Committee held Stock-settled Stock Appreciation Rights (S-SARs) as shown in the table below. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 120 to 146.

#### S-SARs awards held at 31 December 2017

Year of issue	2017	2016	2015	2014	2013	2012	2011	Total
S. Schwan	85,476	89,517	59,997	54,453	30,000	-	-	319,443
R. Diggelmann	27,786	29,100	18,006	16,338	17,874	15,000	12,732	136,836
A. Hippe	34,191	35,811	24,003	21,783	-	-	-	115,788
G.A. Keller	32,052	33,570	22,503	20,424	-	-	-	108,549
D. O'Day	53,424	55,950	30,000	27,231	-	-	-	166,605
C.A. Wilbur	16,032	15,339	4,164	5,754	4,594	2,122	-	48,005
<b>Total CEC</b>	<b>248,961</b>	<b>259,287</b>	<b>158,673</b>	<b>145,983</b>	<b>52,468</b>	<b>17,122</b>	<b>12,732</b>	<b>895,226</b>
Strike price (CHF)	251,90	251,50	256,10	263,20	214,00	157,50	140,10	
Expiry date	Mar. 2024	Mar. 2023	Mar. 2022	Mar. 2021	Mar. 2020	Mar. 2019	Feb. 2018	

At 31 December 2017 members of the Corporate Executive Committee held Restricted Stock Units (RSUs) as shown in the table below. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 120 to 146. In 2016, RSUs as remuneration component for the Corporate Executive Committee were replaced by awarding of corresponding Performance Share Plan (PSP) awards. RSU awards will be vested to the recipient after three years only. Thereafter, the non-voting equity securities may remain blocked for up to ten years.

#### RSU awards held at 31 December 2017

Year of issue	2017	2016	2015	Total
S. Schwan	n/a	n/a	5,466	5,466
R. Diggelmann	n/a	n/a	1,639	1,639
A. Hippe	n/a	n/a	2,186	2,186
G.A. Keller	n/a	n/a	2,049	2,049
D. O'Day	n/a	n/a	2,733	2,733
C.A. Wilbur	n/a	n/a	379	379
<b>Total CEC</b>	<b>n/a</b>	<b>n/a</b>	<b>14,452</b>	<b>14,452</b>



At 31 December 2017 members of the Corporate Executive Committee as shown in the table below held PSP awards from the PSP performance cycles 2016–2018 and 2017–2019. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 120 to 146. Each award will result in between zero and two non-voting equity securities or shares (before value adjustment), depending upon the achievement of the performance targets and the discretion of the Board of Directors. After vesting, the non-voting equity securities or shares may remain blocked for up to ten years. At the end of the 2015–2017 cycle the performance targets were not achieved and accordingly the participants received none of the originally targeted shares. The total target number of awards for the other outstanding performance cycles at 31 December 2017 are shown in the table below.

#### Roche Performance Share Plan awards held at 31 December 2017

	PSP 2017–2019	PSP 2016–2018
S. Schwan	11,565	9,968
R. Diggelmann	3,758	3,239
A. Hippe	4,626	3,987
G.A. Keller	4,337	3,738
D. O'Day	7,228	6,230
C.A. Wilbur	2,168	1,706
<b>Total CEC</b>	<b>33,682</b>	<b>28,868</b>
Allocation date	Feb. 2020	Feb. 2019

Information relating to the number and value of rights, options and awards granted to employees of the Roche Group and members of the Board of Directors and Corporate Executive Committee of the Company are disclosed in Note 26 and Note 30 to the Roche Group Annual Financial Statements.

# Appropriation of Available Earnings

Proposals to the Annual General Meeting in CHF

	2017	2016
<b>Available earnings</b>		
Balance brought forward from previous year	877,981,254	883,553,951
Net profit for the year	7,200,102,551	7,067,441,443
<b>Total available earnings</b>	<b>8,078,083,805</b>	<b>7,950,995,394</b>
<b>Appropriation of available earnings</b>		
Distribution of an ordinary dividend of CHF 8.30 gross per share and non-voting equity security ( <i>Genussschein</i> ) as against CHF 8.20 last year	(7,159,270,410)	(7,073,014,140)
<b>Total appropriation of available earnings</b>	<b>(7,159,270,410)</b>	<b>(7,073,014,140)</b>
<b>To be carried forward on this account</b>	<b>918,813,395</b>	<b>877,981,254</b>



# Statutory Auditor's Report

**To the General Meeting of Roche Holding Ltd, Basel**

## **Report on the Audit of the Financial Statements**

### **Opinion**

We have audited the financial statements of Roche Holding Ltd, which comprise the balance sheet as at 31 December 2017, the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements (pages 151 to 159) for the year ended 31 December 2017 comply with Swiss law and the company's articles of incorporation.

### **Basis for Opinion**

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Report on Key Audit Matters based on the circular 1/2015 of the Federal Audit Oversight Authority**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### **Responsibility of the Board of Directors for the Financial Statements**

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and the 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 AG

Ian Starkey  
Licensed Audit Expert  
Auditor in Charge

Basel, 29 January 2018

Marc Ziegler  
Licensed Audit Expert

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**Published by**

F. Hoffmann-La Roche Ltd  
Group Communications  
4070 Basel, Switzerland  
Tel.: +41 (0)61 688 11 11  
www.roche.com

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**Next Annual General Meeting:**

**13 March 2018**

**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 2018 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

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The Roche Finance Report is published in German and English. In case of doubt or differences of interpretation, the English version shall prevail over the German text.

Our reporting consists of the actual Annual Report and of the Finance Report and contains the annual financial statements and the consolidated financial statements. With regards to content, the Management Report as per the Articles of Incorporation consists of both aforementioned reports with the exception of the Remuneration Report.

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