

Finance Report 2018

PATIENTS

In cancer, modern care helps where no effective treatments were available previously. Innovative therapies allow this woman on the cover picture to carry on with her life. See back cover for more.

INNOVATION

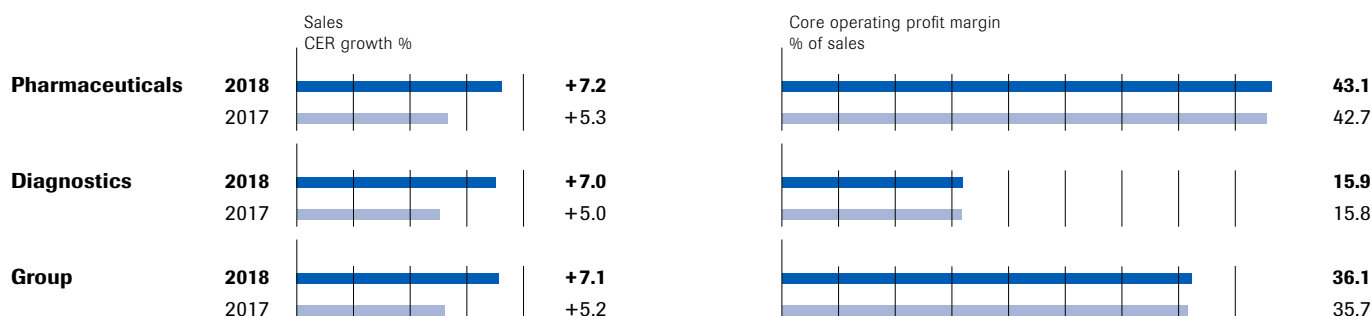
Advanced analytics enable us to create a wealth of new data insights and opportunities across the entire product lifecycle and R&D value chain to ultimately improve outcomes for patients.

PARTNERS

Roche is expanding its collaborations, combining its own strengths with the unique tools of its partners to elevate personalised healthcare to a new level for many more patients.

Finance in Brief

Key results



	2018 (CHF m)	2017 (CHF m)	(CHF)	% change (CER)	2018	% of sales 2017
IFRS results						
Sales	56,846	53,299	+7	+7		
Operating profit	14,769	13,003	+14	+15	26.0	24.4
Net income	10,865	8,825	+23	+24	19.1	16.6
Net income attributable to Roche shareholders	10,500	8,633	+22	+23	18.5	16.2
Diluted EPS (CHF)	12.21	10.04	+22	+23		
Dividend per share (CHF)	8.70 ¹⁾	8.30	+5			
Core results						
Research and development	11,047	10,392	+6	+6	19.4	19.5
Core operating profit	20,505	19,012	+8	+9	36.1	35.7
Core EPS (CHF)	18.14	15.34	+18	+19		
Free cash flow						
Operating free cash flow	18,741	17,827	+5	+5	33.0	33.4
Free cash flow	14,811	13,420	+10	+11	26.1	25.2

	2018 (CHF m)	2017 (CHF m)	(CHF)	% change (CER)
Net debt	(5,652)	(6,963)	-19	-19
Capitalisation	49,136	47,967	+2	+4
- Debt	18,770	18,960	-1	-1
- Equity	30,366	29,007	+5	+6

1) Proposed by the Board of Directors.

CER (Constant Exchange Rates): The percentage changes at constant exchange rates are calculated using simulations by reconstituting both the 2018 and 2017 results at constant exchange rates (the average rates for the year ended 31 December 2017). For the definition of CER see page 162.

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows an assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 155–158 and reconciliations between the IFRS and core results are given there.

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. The free cash flow concept is fully described on pages 158–160 and reconciliations between the IFRS cash flow and free cash flow are given there.

Finance – 2018 in Brief

Roche in 2018

The **Roche Group** reported very strong overall results in 2018. Sales grew by 7% at constant exchange rates (CER). IFRS net income increased by 24% (CER) and core earnings per share increased by 19% (CER). A major driver was the US tax reform and, excluding this, core earnings per share grew by 8%.

Sales

Group sales increased by 7% (CER) to CHF 56.8 billion (7% growth in CHF terms).

Pharmaceuticals sales growth was 7% (CER) due to the new medicines Ocrevus, Perjeta, Tecentriq, Alecensa and Hemlibra. In oncology there was continued growth in the HER2 franchise and Avastin. MabThera/Rituxan sales fell following biosimilar launches in Europe while biosimilar entry in the US was delayed. Immunology sales increased, led by Actemra/RoActemra and Xolair.

Diagnostics sales showed growth of 7% (CER) with the immunodiagnostics business being the major contributor.

Operating results

Core operating profit increased by 9% (CER) to CHF 20.5 billion (8% increase in CHF terms).

Research and development expenditure grew by 6% (CER) to CHF 11.0 billion on a core basis, with focus on the oncology, neuroscience and immunology therapeutic areas. Research and development costs represented 19.4% of Group sales.

IFRS operating results include non-core expenses (pre-tax) of CHF 5.7 billion. The major factors were CHF 3.3 billion for the impairment of goodwill and intangible assets, notably CHF 1.8 billion relating to the InterMune acquisition.

Non-operating results

Financing costs (IFRS) decreased by 8% to CHF 0.8 billion due to the base effect of 2017 debt redemption losses.

Income tax expenses (IFRS) decreased by 3% at CER to CHF 3.3 billion. The effective core tax rate for 2018 was 19.7%, with the US tax reform decreasing this rate by more than 7 percentage points.

Net income

IFRS net income increased by 24% at CER to CHF 10.9 billion (23% increase in CHF terms).

Core earnings per share increased by 19% at CER (+18% in CHF terms).

Cash flows

Operating free cash flow increased to CHF 18.7 billion. The underlying cash generation in both divisions led to an increase of operating free cash flow of 5% at CER and in CHF terms.

Free cash flow increased by 11% at CER (+10% in CHF terms) to CHF 14.8 billion, driven by the higher operating free cash flow and lower income tax payments.

Financial position

Net working capital decreased by 10% (CER), driven by lower inventories in the Pharmaceuticals Division.

Net debt decreased to CHF 5.7 billion, the free cash flow more than covered the dividends and payments for mergers and acquisitions.

Net debt as a percentage of total assets was 7.2%.

Credit ratings strong: Moody's at Aa3 and Standard & Poor's at AA.

Shareholder return

Dividends. A proposal will be made to increase dividends by 5% to CHF 8.70 per share. This will represent the 32nd consecutive year of dividend growth and will result in a pay-out ratio of 48.0%, subject to AGM approval.

Total Shareholder Return (TSR) was 2% representing the combined performance of share and non-voting equity security.

Roche Group

Finance in Brief

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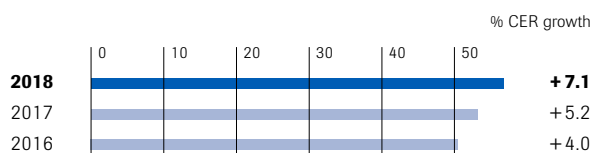
Roche Holding Ltd, Basel

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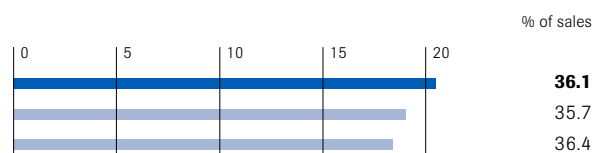
Financial Review

Roche Group results

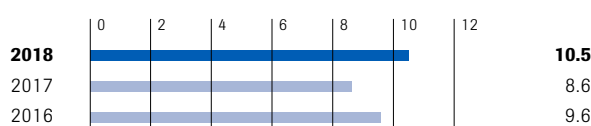
Sales in billions of CHF



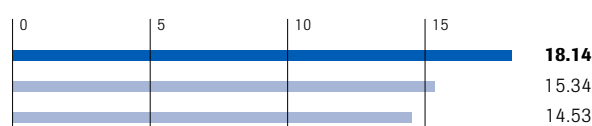
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



In 2018 the Roche Group reported sales growth of 7% at constant exchange rates (CER) and core operating profit growth of 9%. IFRS net income increased by 24% and Core EPS increased by 19% due to the growth of the business and the impact of the 2017 US tax reform. The sales growth was driven by the new Pharmaceuticals medicines, which more than compensated for the growing impacts of biosimilar competition in Europe, and by the immunodiagnostics business in the Diagnostics Division. The Group improved its operating profitability through various productivity initiatives, while supporting the launch of new products and continuing its investments in research and development. Operating free cash flow was CHF 18.7 billion, an increase of 5%, due to higher cash generated by the business partly offset by higher capital expenditure.

Divisional operating results for 2018

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
Sales	43,967	12,879	-	56,846
Core operating profit	18,942	2,046	(483)	20,505
- margin, % of sales	43.1	15.9	-	36.1
Operating profit	14,788	617	(636)	14,769
- margin, % of sales	33.6	4.8	-	26.0
Operating free cash flow	17,851	1,416	(526)	18,741
- margin, % of sales	40.6	11.0	-	33.0

Divisional operating results - Development of results compared to 2017

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
- % increase at CER	+7	+7	-	+7
Core operating profit				
- % increase at CER	+8	+9	-4	+9
- margin: percentage point increase	+0.5	+0.3	-	+0.5
Operating profit				
- % increase at CER	+13	+115	+16	+15
- margin: percentage point increase	+1.6	+2.6	-	+1.7
Operating free cash flow				
- % increase at CER	+6	-8	-3	+5
- margin: percentage point increase	-0.3	-1.8	-	-0.5

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