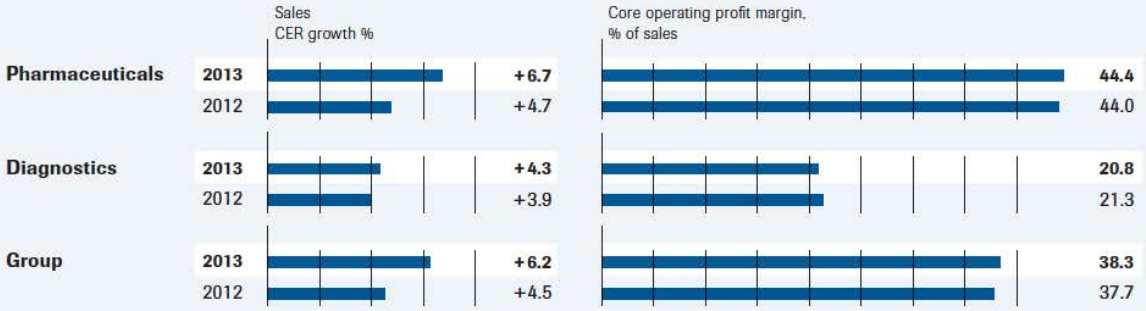
Finance Report

2013

Finance in brief

Key results



	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)	% of sales 2013	% of sales 2012
IFRS results						
Sales	46,780	45,499	+3	+6		
Operating profit	16,376	14,125	+16	+20	35.0	31.0
Net income	11,373	9,660	+18	+22	24.3	21.2
Net income attributable to Roche shareholders	11,164	9,427	+18	+22	23.9	20.7
Diluted EPS (CHF)	12.93	11.03	+17	+22		
Dividend per share (CHF) [1]	7.80	7.35	+6			
Core results						
Research and development	8,700	8,475	+3	+5	18.6	18.6
Core operating profit	17,904	17,160	+4	+8	38.3	37.7
Core EPS (CHF)	14.27	13.49	+6	+10		
Free cash flow						
Operating free cash flow	16,381	16,135	+2	+5	35.0	35.5
Free cash flow	5,403	5,376	+1	+6	11.5	11.8

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
Net debt	(6,708)	(10,599)	–37	–38
Capitalisation	39,884	41,340	–4	+2
– Debt	18,643	24,590	–24	–22
– Equity	21,241	16,750	+27	+37

1) Proposed by the Board of Directors.

CER (Constant Exchange Rates): The percentage changes in Constant Exchange Rates are calculated using simulations by reconsolidating both the 2013 and 2012 results at constant currencies (the average rates for the year ended 31 December 2012).

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring charges and the amortisation and impairment of goodwill and intangible assets. This allows a transparent 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 144–147 and reconciliations between the IFRS and core results are given there.

Finance – 2013 in brief

Roche in 2013	The **Roche Group** reported strong overall results in 2013. Core operating profit grew ahead of sales, and core earnings per share increased by 10% at constant exchange rates (CER). The Swiss franc was stronger at average rates against some major currencies, notably the Japanese yen and US dollar, which had a negative overall impact on the income statement and cash flows expressed in Swiss francs.
Sales	**Group sales** increased by 6% (CER) to 46.8 billion Swiss francs (+3% growth in Swiss franc terms). **Pharmaceuticals sales** growth was 7% (CER). The strong growth in both established and new oncology products, Actemra/RoActemra in rheumatoid arthritis and Lucentis in ophthalmology was partially offset by decreases in sales of Pegasys and Bonviva/Boniva as well as the loss of Evista sales in Japan. **Diagnostics sales** grew by 4% (CER), ahead of the market, with Professional Diagnostics being the major contributor.
Operating results	**Core operating profit** increased by 8% (CER) to 17.9 billion Swiss francs (+4% growth in Swiss franc terms). The sales growth and cost savings from various global restructuring plans offset the higher operating costs from investments in key markets as well as the impacts from price pressure and increased competition. The core operating margin increased by 0.6 percentage points to 38.3%. **Research and development** expenditure grew by 5% (CER) to 8.7 billion Swiss francs on a core basis, driven by investments in the oncology and neuroscience therapeutic areas. R&D costs were 18.6% of Group sales. **IFRS operating results** include non-core items of 1.5 billion Swiss francs. This includes 1.2 billion Swiss francs for the amortisation and impairment of goodwill and intangible assets and 0.5 billion Swiss francs of income from the reversal of previous property, plant and equipment impairment.
Non-operating results	**Net financial expenses** decreased by 0.3 billion Swiss francs to 1.7 billion Swiss francs driven by lower interest expenses partially offset by higher net foreign exchange losses.
Net income	**IFRS net income** increased by 22% at CER to 11.4 billion Swiss francs (+18% in Swiss franc terms), due to the strong core operating results, lower financing costs and lower global restructuring charges. **Core earnings per share** increased by 10% in constant currencies (+6% in Swiss francs).
Cash flows	**Operating free cash flow** of 16.4 billion Swiss francs, up 5% at CER due to higher operating profit. **Free cash flow** of 5.4 billion Swiss francs, up 6% at CER due to higher operating free cash flow and lower interest paid. **Repayment of debt** is ahead of schedule with 67% of the notes and bonds issued in 2009 to finance the Genentech transaction being repaid by the end of 2013.
Financial position	**Net working capital** increased by 1% (CER), as higher levels of inventories due to launches and growth of key products, higher safety stock levels and increased demand in key markets were mostly offset by increased payables and accrued liabilities. **Net debt** position improved by 3.9 billion Swiss francs to 6.7 billion Swiss francs. **Credit ratings** strong: Moody's at A1 and Standard & Poor's at AA.
Shareholder return	**Dividends.** A proposal will be made to increase dividends by 6% to 7.80 Swiss francs per share. This will represent the 27th consecutive year of dividend growth and will result in a pay-out ratio of 54.7%, subject to AGM approval. **Total Shareholder Return (TSR)** was 39% representing a combined performance of share and non-voting equity security.

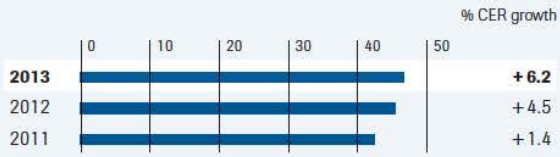
ROCHE GROUP

ROCHE HOLDING LTD, BASEL

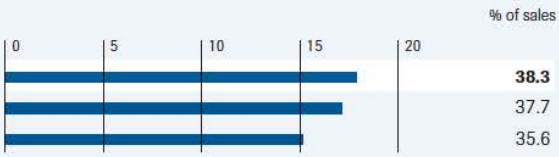
Financial Review

Roche Group results

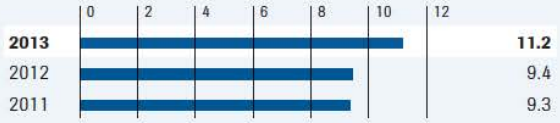
Sales in billions of CHF



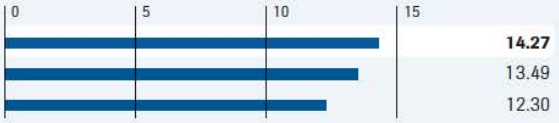
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



The Roche Group's results for 2013 showed growth in its core operating activities, with sales up by 6% and core operating profit up by 8% at constant exchange rates (CER), and sales increasing in all regions. Investments continued to develop the product pipeline and to secure future sales growth, notably through research and development, which increased by 5% on a core basis. The strong operating performance, combined with lower financing costs, resulted in an increase in Core EPS of 10% at constant exchange rates. The strong operating results were also evident in the operating free cash flow, which increased by 5% to 16.4 billion Swiss francs or 35% of sales.

Sales in the Pharmaceuticals Division rose by 7%, driven by 10% growth in the oncology portfolio with significant growth in recently launched medicines as well as established products. The key growth driver in oncology was the HER2 franchise with Avastin, MabThera/Rituxan and Zelboraf also making significant contributions. Sales of Actemra/RoActemra and Lucentis also increased. Key emerging markets showed growth of 12%, led by 21% sales growth in China. Diagnostics sales grew at 4%, consolidating the division's leading market position. The major growth area was Professional Diagnostics, while sales in Diabetes Care declined.

Core operating profit increased by 8%, with the Pharmaceuticals Division growing at 7% and Diagnostics at 4%. In the Pharmaceuticals Division cost of sales grew at 9% due to higher sales volumes, initial costs of implementing supply chain strategies for future growth, compliance costs and negative exchange rate impacts. The 3% increase in marketing and distribution costs was driven by investments to expand the business in emerging markets and to increase patient access to medicines. In research and development the 5% increase arose mainly in the oncology and neuroscience franchises, with the focus on new indications for recently launched products and other developments, such as PD-L1 targeted therapy and the advancement of programmes for Alzheimer's disease. In the Diagnostics Division profitability remained stable as increased sales were offset by higher operating costs. These were driven by pricing impacts and growth in instrument placements, especially in the US, higher research and development costs and the new Medical Device Tax in the US.

In 2013 there were two major one-off impacts in the core results. The release of previously accrued reserves for the 340B Drug Discount Program had a positive impact of 182 million Swiss francs on US pharmaceuticals sales and 145 million Swiss francs on core operating profit. There were also 302 million Swiss francs of income from changes to the Group's pension plans in the core operating profit.

During 2013 the Group has continued the implementation of a number of major restructuring initiatives to position the business for the future. The operational closure of the Nutley site in the US, which was announced in 2012, was completed on schedule at the end of 2013. On 14 October 2013 the Pharmaceuticals Division published details of investments to increase its global biologic medicine manufacturing network capacity. As part of this a bulk drug production unit at the Vacaville site in California that had been discontinued and fully written down in 2009 will be brought back into service, resulting in a reversal of the previously incurred impairment charges of 531 million Swiss francs. The Diagnostics Division continued the implementation of various global programmes in the Diabetes Care and Applied Science businesses to address long-term profitability. On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the other business areas of the Diagnostics Division. Overall, the costs of the Group's restructuring activities in 2013 were over 1.9 billion Swiss francs lower compared to those in 2012. Impairment charges of 0.6 billion Swiss francs were recorded for goodwill and intangible assets, notably for product intangibles in the Pharmaceuticals Division's hepatitis C virus (HCV) franchise and goodwill in the Tissue Diagnostics business. Taken together with the growth of the underlying business, there was an increase in IFRS net income of 22% at constant exchange rates.

Operating free cash flow was 16.4 billion Swiss francs, an increase of 5% at constant exchange rates. This increase reflects the cash generation of both divisions, partly offset by higher capital expenditure for property, plant and equipment and investments in intangible assets. Free cash flow was 5.4 billion Swiss francs, 6% higher than in 2012. This was primarily due to a higher operating free cash flow and lower interest payments as the Group's debt continues to be repaid. These were partially offset by the higher annual dividend.

In 2013 the Swiss franc appreciated against some currencies, in particular the Japanese yen and US dollar, but weakened against the euro. The overall impact is negative on the results expressed in Swiss francs compared to constant exchange rates, with impacts of 3–4 percentage points on sales, core operating profit and core EPS. The exchange rates used and currency sensitivities are given on page 34.

Income statement

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	46,780	45,499	+3	+6
Royalties and other operating income	1,832	1,945	–6	–4
Cost of sales	(11,948)	(12,175)	–2	+2
Marketing and distribution	(8,373)	(8,539)	–2	+1
Research and development	(9,270)	(9,552)	–3	–1
General and administration	(2,645)	(3,053)	–13	–12
Operating profit	**16,376**	**14,125**	**+16**	**+20**
Financing costs	(1,580)	(1,923)	–18	–17
Other financial income (expense)	(119)	(43)	+177	+240
Profit before taxes	**14,677**	**12,159**	**+21**	**+25**
Income taxes	(3,304)	(2,499)	+32	+37
Net income	**11,373**	**9,660**	**+18**	**+22**
Attributable to				
– Roche shareholders	11,164	9,427	+18	+22
– Non-controlling interests	209	233	–10	+9
EPS – Basic (CHF)	13.16	11.12	+18	+23
EPS – Diluted (CHF)	12.93	11.03	+17	+22
Core results				
Sales	46,780	45,499	+3	+6
Royalties and other operating income	1,832	1,945	–6	–4
Cost of sales	(11,892)	(11,444)	+4	+8
Marketing and distribution	(8,241)	(8,392)	–2	+2
Research and development	(8,700)	(8,475)	+3	+5
General and administration	(1,875)	(1,973)	–5	–3
Operating profit	**17,904**	**17,160**	**+4**	**+8**
Financing costs	(1,580)	(1,923)	–18	–17
Other financial income (expense)	(119)	(43)	+177	+240
Profit before taxes	**16,205**	**15,194**	**+7**	**+10**
Income taxes	(3,679)	(3,429)	+7	+11
Net income	**12,526**	**11,765**	**+6**	**+10**
Attributable to				
– Roche shareholders	12,316	11,531	+7	+10
– Non-controlling interests	210	234	–10	+9
Core EPS – Basic (CHF)	14.52	13.60	+7	+11
Core EPS – Diluted (CHF)	14.27	13.49	+6	+10

As disclosed in Note 32 to the Consolidated Financial Statements and as discussed below on page 45, the income statement for 2012 has been restated following the accounting policy changes which were adopted in 2013. In the restated results of 2012 this causes a reduction in net financial income of 164 million Swiss francs. See also the Investor Update from 21 March 2013. A reconciliation to the previously published income statement is provided in Note 32 to the Consolidated Financial Statements.

Sales

In 2013 sales increased by 6% at constant exchange rates (+3% in Swiss francs; +4% in US dollars) to 46.8 billion Swiss francs. Sales in the Pharmaceuticals Division rose 7% with the HER2 franchise, Avastin, MabThera/Rituxan, Actemra/RoActemra and Lucentis all growing strongly. Emerging market (E7) sales in Pharmaceuticals grew by 12%, led by 21% growth in China, and now represent 11% of the division's sales. The Diagnostics Division recorded sales of 10.5 billion Swiss francs, an increase of 4% at constant exchange rates, consolidating its leading market position. The major growth area was Professional Diagnostics, which represents more than half of the division's sales and grew by 8%, while Diabetes Care sales decreased by 3%.

Divisional operating results for 2013

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	36,304	10,476	–	46,780
Core operating profit	16,108	2,177	(381)	17,904
– margin, % of sales	44.4	20.8	–	38.3
Operating profit	15,633	1,241	(498)	16,376
– margin, % of sales	43.1	11.8	–	35.0
Operating free cash flow	14,976	1,962	(557)	16,381
– margin, % of sales	41.3	18.7	–	35.0

Divisional operating results – Development of results compared to 2012

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase at CER	+7	+4	–	+6
Core operating profit				
– % increase at CER	+7	+4	–26	+8
– margin: percentage point increase	+0.1	0	–	+0.6
Operating profit				
– % increase at CER	+18	+5	–41	+20
– margin: percentage point increase	+4.0	0	–	+4.1
Operating free cash flow				
– % increase at CER	+5	+9	+20	+5
– margin: percentage point increase	–0.9	+0.9	–	–0.5

Core operating results

The Group's core operating profit increased by 8% at constant exchange rates (4% in Swiss francs) and the Group's core operating profit margin improved by 0.6 percentage points to 38.3% of sales. In 2013 there were two major one-off impacts in the core results. There was the release of sales reserves previously accrued for the 340B Drug Discount Program in the US which had a positive impact of 182 million Swiss francs on sales and 145 million Swiss francs on core operating profit. There was also income of 302 million Swiss francs recorded from changes to the Group's pension plans. At constant exchange rates, these effects had a combined positive margin impact of 0.8 percentage points for the Group, 0.5 percentage points for the Pharmaceuticals Division and 0.7 percentage points for the Diagnostics Division. Excluding these two factors, core operating profit grew by 5% for the Group and the Pharmaceuticals Division and by 1% in the Diagnostics Division. Currency translation had a negative impact of 3.4 percentage points on the operating results. There was a minor currency effect on the Group's core operating margin, as the positive effect of 0.3 percentage points for the Pharmaceuticals Division was offset by a negative effect of 0.5 percentage points for the Diagnostics Division.

Pharmaceuticals Division. The division increased its core operating profit by 7% at constant exchange rates, driven by growth of the underlying business with a 7% increase in sales. Cost of sales increased by 9% due to higher sales volumes, initial costs of implementing supply chain strategies for future growth, compliance costs and negative exchange rate impacts. Research and development costs increased by 5%, mainly in the oncology and neuroscience franchises, and while there was a 4% increase of general and administration costs they were stable as a percentage of sales.

Diagnostics Division. Core operating profit increased 4%, again driven by growth of the underlying business, with a 4% increase in sales. Cost of sales increased by 6%, more than the sales growth, due to pricing impacts. There was also a growth in instrument placements, especially in the US. Marketing and distribution costs decreased by 2% as a result of lower spending in the Diabetes Care and former Applied Science businesses and due to lower bad debt expenses. Research and development costs increased by 7% due to continuing investments into next-generation platforms. General and administration costs increased by 8% due to the costs of the new Medical Device Tax in the US and ongoing IT systems projects. These increases were partly offset by income recorded for changes to the Group's pension plans.

Global restructuring plans

During 2013 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the reorganisation of research and development in the Pharmaceuticals Division and programmes to address the long-term profitability in the Diabetes Care and former Applied Science businesses in Diagnostics. Additionally, there was income of 531 million Swiss francs from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics [1]	Pharma R&D [2]	Other plans [3]	Total
2013				
Global restructuring costs				
– Employee-related costs	89	44	132	265
– Site closure costs	48	38	(491)	(405)
– Other reorganisation expenses	83	157	66	306
Total global restructuring costs	**220**	**239**	**(293)**	**166**
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	(53)	–	(50)
Total costs	**270**	**186**	**(293)**	**163**

1) Includes restructuring of the Diabetes Care and former Applied Science business areas.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes the Operational Excellence programme (Pharmaceuticals and Diagnostics).

Diagnostics Division – Diabetes Care and Applied Science restructuring. On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the other business areas of the Diagnostics Division. This will streamline decision-making and enhance technology flow from research use to the clinical setting. On 26 September 2013 Roche Diabetes Care announced its 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. In 2013 total costs of 220 million Swiss francs were incurred, mainly for headcount reductions, IT-related costs and site closure costs. In addition, goodwill impairment charges of 35 million Swiss francs were incurred for the write-off of the goodwill from the Innovatis and 454 Life Sciences acquisitions in the former Applied Science business area.

Pharmaceuticals Division – Research and Development reorganisation. On 26 June 2012 the Group announced a streamlining of the research and development activities within the Pharmaceuticals Division. The planned operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013. During 2013 total costs of 239 million Swiss francs were incurred. These costs include additional provisions of 88 million Swiss francs to cover site running costs until the expected divestment in 2015. There was a further impairment of 35 million Swiss francs to the carrying value of the Nutley site, based on the most recent external property market data. Costs for other employee-related, site closure and reorganisational matters were 116 million Swiss francs. The first results of the environmental investigations showed that the expected cost of remediation may be lower than originally expected and accordingly the environmental provisions were reduced by 53 million Swiss francs.

Other global restructuring plans. On 14 October 2013 the Pharmaceuticals Division announced investments to increase its global biologic medicine manufacturing network capacity to meet the rising demand for licensed biologics and expected pipeline growth. A part of this a bulk drug production unit at the Vacaville site in California that had been discontinued and fully written down in 2009 will be put back into service. This resulted in income of 531 million Swiss francs from the reversal of previously incurred impairment charges. During 2013 costs of 126 million Swiss francs were incurred for the previously announced Operational Excellence programme, mainly for employee-related and site closure costs in the Pharmaceuticals Division and employee-related and site closure costs in the Diagnostics Division for the sites in Burgdorf, Switzerland and Graz, Austria. Other plans totalled 112 million Swiss francs.

Merger and acquisitions

On 1 July 2013 the Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI is now reported in the Diagnostics operating segment as part of the Professional Diagnostics business area. The purchase consideration was 220 million US dollars in cash and up to 255 million US dollars from a contingent consideration arrangement.

Impairment of goodwill and intangible assets

In 2013 impairment charges for goodwill and intangible assets of 35 million Swiss francs and 12 million Swiss francs were incurred for the Applied Science restructuring initiative described above. Based on the latest business plans prepared during the second half of 2013, a goodwill impairment of 253 million Swiss francs was recorded in the Tissue Diagnostics business area within the Diagnostics Division. The main factor leading to this impairment was reduced revenue expectations in the US. These follow from recent changes in the College of American Pathologists guidelines for the use of negative reagent controls in immunohistochemistry testing which reduced volumes and changes which reduced the reimbursement amount to laboratories. In addition, unrelated to global restructuring, impairments totalling 286 million Swiss francs were recorded in the Pharmaceuticals Division following a portfolio reassessment within the hepatitis C virus (HCV) franchise. Further impairment charges of 64 million Swiss francs were recorded by the Pharmaceuticals Division for various smaller projects. Further details are given in Notes 8 and 9 to the Consolidated Financial Statements.

Pensions and other post-employment benefits

During 2013 operating income of 302 million Swiss francs was recorded for past service costs from changes to the Group's pension plans in Switzerland, the United Kingdom and Germany. This represents the one-time impact of the adjustment of the pension liability for the plan changes. Of this amount, 131 million Swiss francs were recorded in the Pharmaceuticals Division and 67 million Swiss francs in the Diagnostics Division. The remaining 104 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses. In addition some of the US pension plans made an offer to deferred vested members to settle part of the defined benefit obligation for a lump sum payment, which resulted in a one-time settlement gain in the IFRS results of 19 million Swiss francs. Further details are given in Note 25 to the Consolidated Financial Statements.

Legal and environmental settlements

In addition to the reversal of environmental remediation costs of 53 million Swiss francs for the Nutley site mentioned above, a further 246 million Swiss francs of legal and environmental costs were recorded, unrelated to global restructuring plans. These include a further increase of 138 million Swiss francs to the estimated remediation costs of a landfill site near Grenzach, Germany, that was previously used by manufacturing operations that were closed some years ago.

Treasury and taxation

Financing costs were 1.6 billion Swiss francs, a decrease of 17%, with interest expenses being 23% lower at constant exchange rates as debt was repaid. Other financial income (expense) was a net expense of 119 million Swiss francs, mainly due to losses following the devaluation of the Venezuelan bolivar and foreign exchange hedge costs. Core tax expenses increased by 11% to 3.7 billion Swiss francs and the Group's effective core tax rate was stable at 22.7% (2012: 22.6%). The main factors were the higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group rate, notably in the US, mostly offset by the retrospective re-enactment of the 2012 US research and development tax credit rules in January 2013.

Net income and earnings per share

IFRS net income and diluted EPS both increased by 22% at constant exchange rates driven by the strong operating performance, significantly lower global restructuring expenses and lower financing costs. On a core basis, which excludes non-core items such as global restructuring costs and the amortisation and impairment of goodwill and intangible assets, net income and core EPS both increased by 10%. This was driven by the strong operating performance and lower financing costs. Core EPS grew by 7% when excluding the positive impacts from the 340B Drug Discount Program in the US and from the changes to the Group's pension plans.

Supplementary net income and EPS information is given on pages 144–147. This includes calculations of core EPS and reconciles the core results to the Group's published IFRS results.

Financial position

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	5,451	5,548	–2	+10
Long-term net operating assets	12,952	12,955	+0	+4
Diagnostics				
Net working capital	2,782	3,347	–17	–13
Long-term net operating assets	11,250	11,382	–1	0
Corporate				
Net working capital	(58)	(71)	–18	–18
Long-term net operating assets	(443)	(309)	+43	+43
Net operating assets	**31,934**	**32,852**	**–3**	**+2**
Net debt	(6,708)	(10,599)	–37	–38
Pensions	(5,426)	(6,553)	–17	–18
Income taxes	1,838	1,581	+16	+18
Other non-operating assets, net	(397)	(531)	–25	–29
Total net assets	**21,241**	**16,750**	**+27**	**+37**

Compared to the start of the year the Swiss franc appreciated significantly against the Japanese yen. There was also a slight appreciation against the US dollar and Brazilian real and a slight weakening against the euro. These effects resulted in a negative translation impact on the balance sheet positions at 31 December 2013. The exchange rates used are given on page 34.

In the Pharmaceuticals Division net working capital increased by 10% at constant exchange rates. This was mainly driven by an increase of 24% in inventories due to recent and upcoming product launches and expected higher sales demand. There were also higher levels of safety stock on selected products and temporary bridging stocks as a result of changes in supply chain strategy. Trade receivables decreased by 2% mainly as a result of continuing strong collections, which more than offset effects of underlying business growth. Trade payables increased by 34% following initiatives to improve cash management, including extension of payment terms. Long-term net operating assets grew by 4% mainly due to increases in property, plant and equipment. The main factor was biologic medicine manufacturing network investments, which resulted in an impairment reversal of a bulk drug production unit at the Vacaville site in the US, which had previously been impaired in 2009. This was partially offset by the impairment of intangible assets for the hepatitis C virus (HCV) franchise.

In Diagnostics the decrease in net working capital of 13% was driven by an increase in trade payables driven by extended payment terms as well as increased accruals, including employee benefits and lower levels of inventories. Trade receivables were stable as decreases in European markets have been offset by increases in emerging markets, notably China. The long-term net operating assets were stable as increases in property, plant and equipment for facilities in Germany and instrument placements were offset by impairments of goodwill and intangible assets.

The decrease in the net debt position was mainly driven by the free cash flow of 5.4 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes increased net debt by 1.2 billion Swiss francs while net pension liabilities decreased by 1.1 billion Swiss francs due to changes in discount rates and the pension plan changes referred to above. Net tax assets increased mainly due to the deferred tax effect of equity compensation plans, which increased due to the increase in the price of the underlying equity.

Free cash flow

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals	14,976	14,710	+2	+5
Diagnostics	1,962	1,890	+4	+9
Corporate	(557)	(465)	+20	+20
Operating free cash flow	**16,381**	**16,135**	**+2**	**+5**
Treasury activities	(1,275)	(1,542)	–17	–14
Taxes paid	(3,341)	(3,329)	0	+3
Dividends paid	(6,362)	(5,888)	+8	+9
Free cash flow	**5,403**	**5,376**	**+1**	**+6**

The Group's operating free cash flow for 2013 was 16.4 billion Swiss francs, an increase of 5% at constant exchange rates. The 8% increase in core operating profit was partly offset by higher capital expenditure on property, plant and equipment and investments in intangible assets, by the increases in net working capital noted above in the comments on the financial position and by the higher cash utilisation of restructuring and legal provisions. There were also several non-cash items in core net income, including the income from changes to the Group's pension plans in 2013. The free cash flow was 5.4 billion Swiss francs, an increase of 6% at constant exchange rates, as the higher operating free cash flow and lower interest payments were partly offset by the higher annual dividend payments. The Group has refined the calculation of the free cash flow in 2013 to exclude the impact of employee stock options in line with its peer group (see page 148 for further details). Comparative 2012 free cash flow information has been restated accordingly.

Pharmaceuticals Division operating results

Pharmaceuticals Division operating results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	36,304	35,232	+3	+7
Royalties and other operating income	1,702	1,794	–5	–3
Cost of sales	(7,014)	(7,348)	–5	+1
Marketing and distribution	(5,844)	(5,914)	–1	+3
Research and development	(8,189)	(8,529)	–4	–1
General and administration	(1,326)	(1,558)	–15	–13
Operating profit	**15,633**	**13,677**	**+14**	**+18**
– margin, % of sales	43.1	38.8	+4.3	+4.0
Core results [1]				
Sales	36,304	35,232	+3	+7
Royalties and other operating income	1,702	1,794	–5	–3
Cost of sales	(7,353)	(7,097)	+4	+9
Marketing and distribution	(5,795)	(5,851)	–1	+3
Research and development	(7,683)	(7,529)	+2	+5
General and administration	(1,067)	(1,061)	+1	+4
Core operating profit	**16,108**	**15,488**	**+4**	**+7**
– margin, % of sales	44.4	44.0	+0.4	+0.1
Financial position				
Net working capital	5,451	5,548	–2	+10
Long-term net operating assets	12,952	12,955	0	+4
Net operating assets	**18,403**	**18,503**	**–1**	**+6**
Free cash flow				
Operating free cash flow	14,976	14,710	+2	+5
– margin, % of sales	41.3	41.8	–0.5	–0.9

1) See pages 144–147 for definition of Core results and Core EPS.

Sales overview

Pharmaceuticals Division – Sales by therapeutic area

Therapeutic area	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Oncology	22,553	21,163	+10	62	60
Immunology	4,628	4,285	+11	13	12
Infectious diseases	3,180	3,479	–6	9	10
Ophthalmology	1,689	1,481	+15	5	4
Neuroscience	810	858	–1	2	2
Other therapeutic areas	3,444	3,966	–6	9	12
Total sales	**36,304**	**35,232**	**+7**	**100**	**100**

Pharmaceuticals Division sales increased 7% at constant exchange rates. Growth was driven by the oncology portfolio as well as Actemra/RoActemra and Lucentis. These increases more than offset lower sales of Pegasys, the loss of Chugai's Evista sales following the termination of a co-marketing agreement in Japan and the expected further decline in Bonviva/Boniva. Sales growth was primarily driven by the HER2 franchise, Avastin, MabThera/Rituxan, Actemra/RoActemra and Lucentis. These main growth drivers represent 62% of the portfolio (2012: 59%) and together generated 1.8 billion Swiss francs of additional sales in 2013. Sales in the US benefited from the release of previously accrued reserves under the 340B Drug Discount Program of 182 million Swiss francs, more than half of which were for MabThera/Rituxan.

In oncology, demand for established products grew due to expanded use in existing indications. Furthermore, growth was driven by the HER2 franchise following additional approvals for Perjeta and the launch of Kadcyla in the US and Europe. Zelboraf also continued to be a significant growth contributor. Sales in immunology increased due to strong growth of Actemra/RoActemra in all regions, reflecting the strong uptake of Actemra as a monotherapy treatment, and also due to growth of MabThera/Rituxan in rheumatoid arthritis. There was continued growth in ophthalmology as Lucentis sales benefited from the approval of a less frequent dosing regimen in wet age-related macular degeneration (wAMD) as well as increased sales in retinal vein occlusion (RVO), and diabetic macular edema (DME).

All geographic data in the following sales tables is presented using the new organisational structure of the Pharmaceuticals Division (see Investor Update from 21 March 2013).

Product sales

Pharmaceuticals Division – Sales

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Oncology					
Avastin	6,254	5,764	+13	17	16
Herceptin	6,079	5,889	+6	16	17
MabThera/Rituxan [1]	5,760	5,622	+5	16	16
Xeloda	1,509	1,523	+2	4	4
Tarceva	1,339	1,314	+4	4	4
Zelboraf	354	234	+52	1	1
Perjeta	326	56	+498	1	0
Kadcyla	234	0	–	1	0
Neutrogin	217	266	+1	1	1
Others	481	495	+3	1	1
Total Oncology	**22,553**	**21,163**	**+10**	**62**	**60**
Immunology					
MabThera/Rituxan [1]	1,191	1,085	+12	3	3
Actemra/RoActemra	1,037	842	+30	3	2
CellCept	874	909	–2	2	3
Xolair	790	705	+13	2	2
Pulmozyme	572	537	+8	2	1
Others	164	207	–7	1	1
Total Immunology	**4,628**	**4,285**	**+11**	**13**	**12**
Infectious Diseases					
Pegasys	1,312	1,649	–19	3	5
Valcyte/Cymevene	693	638	+10	2	2
Tamiflu	635	560	+19	2	1
Rocephin	268	266	+5	1	1
Others	272	366	–24	1	1
Total Infectious Diseases	**3,180**	**3,479**	**–6**	**9**	**10**
Ophthalmology					
Lucentis	1,689	1,481	+15	5	4
Total Ophthalmology	**1,689**	**1,481**	**+15**	**5**	**4**
Neuroscience					
Madopar	313	310	+4	1	1
Others	497	548	–4	1	1
Total Neuroscience	**810**	**858**	**–1**	**2**	**2**
Other therapeutic areas					
Activase/TNKase	683	584	+19	2	2
NeoRecormon/Epogin [2]	520	674	–18	1	2
Mircera	425	384	+24	1	1
Nutropin	274	304	–9	1	1
Bonviva/Boniva	208	323	–34	1	1
Others	1,334	1,697	–2	3	5
Total other therapeutic areas	**3,444**	**3,966**	**–6**	**9**	**12**
Total sales	**36,304**	**35,232**	**+7**	**100**	**100**

1) Total MabThera/Rituxan sales of 6,951 million Swiss francs (2012: 6,707 million Swiss francs) split between oncology and immunology franchises.
2) In previous reports total NeoRecormon/Epogin sales were split between renal anemia and oncology franchises.

MabThera/Rituxan

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	3,329	3,112	+8	48	46
Europe	1,918	1,845	+3	28	28
Japan	249	291	+6	4	4
International	1,455	1,459	+6	20	22
Total sales	**6,951**	**6,707**	**+6**	**100**	**100**

MabThera/Rituxan. For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL) and rheumatoid arthritis (RA) as well as granulomatosis with polyangiitis (GPA) and microscopic polyangiitis (MPA). Global sales growth was driven by increased use across all oncology and rheumatoid arthritis indications. Sales growth in the oncology franchise was 5% and in the RA franchise sales grew by 12%. US sales were 3.3 billion Swiss francs, an increase of 8%, benefiting from the release of sales reserves for the 340B Program. Excluding this impact of 99 million Swiss francs, US sales rose by 5%. Sales rose 6% in the International region with growth in China from increased demand for treatment of diffuse large B-cell lymphoma (a type of NHL).

Herceptin

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	1,787	1,663	+9	29	28
Europe	2,191	2,176	–1	36	37
Japan	294	337	+8	5	6
International	1,807	1,713	+11	30	29
Total sales	**6,079**	**5,889**	**+6**	**100**	**100**

Perjeta

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	219	54	+311	67	96
Europe	68	2	Over +500	21	4
Japan	23	–	–	7	–
International	16	–	–	5	–
Total sales	**326**	**56**	**+498**	**100**	**100**

Kadcyla

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	222	–	–	95	–
Europe	9	–	–	4	–
Japan	–	–	–	–	–
International	3	–	–	1	–
Total sales	**234**	**–**	**–**	**100**	**–**

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer. Herceptin sales grew in the US (+9%) and in the International region (+11%). Excluding the release of sales reserves of 41 million Swiss francs from the 340B Program, US sales rose 6%. US growth resulted from increased usage in both breast and gastric cancer. The International region grew in all sub-regions. Asia grew as a result of the breast cancer patient access programme and HER2 testing initiatives, and sales in Latin America increased in both private and public sectors. European sales were stable while sales in Japan grew by 8%. The recently launched Perjeta and Kadcyla continued to be growth drivers with strong uptake and recognised benefits compared to other treatment regimens. In total, the HER2 franchise grew by 14%.

Avastin

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	2,575	2,475	+5	41	43
Europe	1,919	1,649	+14	31	29
Japan	717	769	+15	11	13
International	1,043	871	+30	17	15
Total sales	**6,254**	**5,764**	**+13**	**100**	**100**

Avastin. For advanced colorectal, breast, lung, kidney and ovarian cancer, and for relapsed glioblastoma (a type of brain tumour). Global sales grew by 13%, mainly due to increased use in established indications (colorectal, lung and breast cancer) as well as in the newer indication of ovarian cancer. Ovarian and colorectal cancer indications were the main drivers behind the 14% sales increase in Europe. Avastin sales in the US grew 5% as a result of expanded use in colorectal cancer and also benefited from the release of 340B Program sales reserves. Excluding this impact of 31 million Swiss francs, US sales rose 4%. Growth in the International region was 30%, with higher sales in Latin America driven by increased use in colorectal and ovarian cancer indications in Brazil. There were also higher sales in the Asia sub-region, with China growing at 62%, driven by the colorectal cancer indication. The growth in Japan of 15% was primarily due to use in colorectal, breast and lung cancer.

Lucentis

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	1,689	1,481	+15	100	100
Total sales	**1,689**	**1,481**	**+15**	**100**	**100**

Lucentis. For wet age-related macular degeneration (wAMD), macular edema following retinal vein occlusion (RVO) and diabetic macular edema (DME). US sales grew by 15% driven by growth in the RVO and DME indications and a stable market share in wAMD following the approval given earlier this year for a less frequent dosing regimen.

Xeloda

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	616	627	0	41	41
Europe	315	322	–4	21	21
Japan	107	128	+4	7	8
International	471	446	+8	31	30
Total sales	**1,509**	**1,523**	**+2**	**100**	**100**

Xeloda. For colorectal, stomach and breast cancer. Sales increased by 2%, with growth being driven primarily by China (+17%) and also by Japan where there was increased penetration in adjuvant colon cancer (aCC) and metastatic colorectal cancer (mCRC). Sales in Europe were impacted by price pressure and the loss of exclusivity in December 2013.

Tarceva

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	604	571	+7	45	43
Europe	343	355	–5	26	27
Japan	99	112	+10	7	9
International	293	276	+8	22	21
Total sales	**1,339**	**1,314**	**+4**	**100**	**100**

Tarceva. For advanced non-small cell lung (NSCLC) and pancreatic cancer. Sales rose by 4%, with growth in US, China and Japan. Growth resulted from the approval and penetration in the first-line epidermal growth factor receptor (EGFR) mutation-positive NSCLC indication. In Europe this partially compensated for a decrease in patient share in second-line NSCLC. In the International region, growth in Asia was supported by additional reimbursement approvals.

Pegasys

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	307	541	–43	23	33
Europe	356	395	–11	27	24
Japan	52	81	–21	4	5
International	597	632	–3	46	38
Total sales	**1,312**	**1,649**	**–19**	**100**	**100**

Pegasys. For hepatitis B and C. Sales decreased by 19%, mainly in the US and Europe, due to further treatment deferrals in anticipation of the expected launch of interferon-free combination therapies. In the International region, there was growth in Asia (+3%) due to expanding access to patients and from markets where first-generation triple therapies have been recently launched.

Actemra/RoActemra

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	314	241	+32	30	29
Europe	360	280	+27	35	33
Japan	197	201	+21	19	24
International	166	120	+49	16	14
Total sales	**1,037**	**842**	**+30**	**100**	**100**

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis and polyarticular juvenile idiopathic arthritis. Sales continued to grow in all approved indications and in all regions as a result of the continued strong uptake as a monotherapy in rheumatoid arthritis. Sales were over 1 billion Swiss francs with increases particularly in the US and Europe, where Actemra/RoActemra continues to gain market share. Marketing and reimbursement approvals in additional countries continue to expand patient access to Actemra/RoActemra. Actemra subcutaneous formulation was approved in Japan during March and in the US during October, for adults living with moderately to severely active rheumatoid arthritis.

NeoRecormon/Epogin

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	–	–	–	–	–
Europe	218	289	–26	42	43
Japan	100	171	–28	19	25
International	202	214	0	39	32
Total sales	**520**	**674**	**–18**	**100**	**100**

Mircera

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	–	–	–	–	–
Europe	104	81	+25	24	21
Japan	214	209	+27	50	54
International	107	94	+19	26	25
Total sales	**425**	**384**	**+24**	**100**	**100**

Anemia franchise (NeoRecormon/Epogin and Mircera). For anemia/renal anemia. In a declining and highly competitive market combined sales of Roche's NeoRecormon and Chugai's Epogin (epoetin beta) declined 18%. The sustained decline in sales of NeoRecormon and Epogin was partly offset by growth in sales of the longer-acting erythropoiesis-stimulating agent Mircera, which rose 24% to 425 million Swiss francs. Much of this growth was due to the increasing number of patients switching to, or starting treatment with, Mircera in place of NeoRecormon/Epogin. The strongest contributions to higher Mircera sales came from Japan.

CellCept

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	204	171	+21	23	19
Europe	238	266	–12	27	29
Japan	68	77	+10	8	8
International	364	395	–7	42	44
Total sales	**874**	**909**	**–2**	**100**	**100**

CellCept. For the prevention of solid organ transplant rejection. Sales stabilised in 2013 with a return to growth in the US, due to the delay of generic competition entering the market, and growth in Japan offsetting the continued decline in Europe following patent expiry. Continued growth in Japan reflects the position of CellCept as the standard of care ahead of the launch of generics that became available by the end of 2013.

Tamiflu

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	428	349	+24	67	62
Europe	18	9	+110	3	2
Japan	105	141	–8	17	25
International	84	61	+41	13	11
Total sales	**635**	**560**	**+19**	**100**	**100**

Tamiflu. For influenza A and B. Sales increases in the US more than offset the lower sales for both seasonal and pandemic use in Japan.

Zelboraf

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	123	112	+11	35	48
Europe	194	116	+65	55	50
Japan	–	–	–	–	–
International	37	6	Over +500	10	2
Total sales	**354**	**234**	**+52**	**100**	**100**

Zelboraf. For BRAF V600E mutation-positive metastatic melanoma. Sales grew in all regions with Zelboraf approved in 81 countries and receiving increasing reimbursement coverage. Zelboraf is now established as the standard of care for BRAF mutation-positive metastatic melanoma in key markets such as the US (+11%), France (+33%), Germany (+23%) and the UK (+25%).

Pharmaceuticals Division – Sales by region

Region	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	15,097	13,856	+10	42	39
Europe	9,254	8,952	+2	25	25
Japan	3,405	4,108	+2	9	12
International	8,548	8,316	+8	24	24
– EEMEA[1)]	*2,021*	*2,057*	*+1*	*6*	*6*
– Latin America	*2,537*	*2,619*	*+8*	*7*	*7*
– Asia–Pacific	*3,047*	*2,736*	*+13*	*8*	*8*
– Other regions	*943*	*904*	*+9*	*3*	*3*
Total sales	**36,304**	**35,232**	**+7**	**100**	**100**

The above table, and all other geographic sales data shown for the Pharmaceuticals Division, is presented using the new organisational structure of the Pharmaceuticals Division (see Investor Update from 21 March 2013).

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 10% in US dollar terms, or 9% excluding the impact of the reserves release for the 340B Drug Discount Program. The leading products were the oncology medicines MabThera/Rituxan, Avastin and the HER2 franchise, with sales of 3.3 billion Swiss francs (+8%), 2.6 billion Swiss francs (+5%) and 2.2 billion Swiss francs (+31%), respectively. Of the other products, the main growth drivers were Lucentis, Activase/TNKase, Xolair, Tamiflu and Actemra/RoActemra. Gazyva received approval in November 2013 for previously untreated chronic, lymphocytic leukemia and sales for the remainder of 2013 were 3 million Swiss francs.

Europe. Sales increased by 2% at constant exchange rates, despite being impacted by pricing pressures. Growth was mainly driven by oncology products with Avastin (+14%), Zelboraf (+65%), Perjeta (over +500%) and MabThera/Rituxan (+3%). In addition there was continued sales growth of Actemra/RoActemra (+27%). These were partially offset by lower NeoRecormon and Bonviva/Boniva sales.

Japan. Sales grew by 2% in Japanese yen terms. Results in Japan were impacted by the loss of Evista sales following the termination of a co-marketing agreement, which had a negative impact of 5 percentage points on sales growth. The major growth drivers were Avastin with sales of 717 million Swiss francs (+15%) and Edirol with 181 million Swiss francs (+82%). There was also growth in Actemra/RoActemra (+21%), Herceptin (+8%), MabThera/Rituxan (+6%) and from recently launched Perjeta and Bonviva/Boniva.

International. Sales increased by 8% at constant exchange rates, driven by the Asia–Pacific and Latin America sub-regions. Growth in Asia–Pacific was mainly due to the oncology products, especially Herceptin (+21%), Avastin (+35%), MabThera/Rituxan (+13%) and Xeloda (+13%). China was the main driver in this region, with overall sales growth of 21%. In Latin America sales growth was driven by Avastin, Herceptin and Actemra, despite pricing pressure and political uncertainties. For the sub-region EEMEA, sales grew as underlying growth offset timing delays in some tender sales. Sales in this region were also negatively impacted by political instability in several markets.

Pharmaceuticals Division – Sales for E7 leading emerging markets

Country	2013 (mCHF)	2012 (mCHF)	% change (CER) total	% of sales (2013)	% of sales (2012)
Brazil	921	941	+9	3	3
China	1,497	1,224	+21	4	3
India	92	64	+59	0	0
Mexico	401	408	–4	1	1
Russia	444	439	+6	1	1
South Korea	233	222	+3	1	1
Turkey	323	302	+14	1	1
Total sales	**3,911**	**3,600**	**+12**	**11**	**10**

Total sales in the E7 key emerging markets grew by 12%. The sales growth was led by China, with a substantial contribution from Brazil. The 21% growth in China reflects the efforts being made to expand patient access to medicines and the investment strategy to expand the geographical coverage of medical care. The growth in Brazil resulted from the inclusion of several key products into the reimbursement scope for public healthcare provision. Sales declined in Mexico due to delays in market approvals and public sector purchases, while the growth in Turkey was a result of strong sales of key oncology products.

Operating results

Pharmaceuticals Division – Royalties and other operating income

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Royalty income	1,492	1,490	+2
Income from out-licensing agreements	115	75	+78
Income from disposal of products and other	95	229	–58
Total – IFRS and Core basis	**1,702**	**1,794**	**–3**

Royalties and other operating income. The decrease of 3% at constant exchange rates was due to lower income from disposal of products, which was lower than 2012 due to four large transactions in that year. There was an increase in royalty income in Japan in 2013 and increased royalties elsewhere from higher sales of out-licensed products such as Humira and Enbrel. These were partly offset by milestone income for Eylea and the base effect of back royalty income of 27 million Swiss francs received in 2012. The increase in out-licensing income was mainly due to out-licensing agreements in Japan.

Pharmaceuticals Division – Cost of sales

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,330)	(4,277)	+9
Royalty expenses	(1,337)	(1,246)	+10
Collaboration and profit-sharing agreements	(1,680)	(1,556)	+8
Impairment of property, plant and equipment	(6)	(18)	–67
Cost of sales – Core basis	**(7,353)**	**(7,097)**	**+9**
Global restructuring plans	461	(92)	–
Amortisation of intangible assets	(122)	(146)	–9
Impairment of intangible assets	0	(13)	–100
Total – IFRS basis	**(7,014)**	**(7,348)**	**+1**

Cost of sales. Core costs increased by 9% at constant exchange rates mainly due to higher sales volumes, the initial costs of implementing supply chain strategies for future growth, compliance costs and negative exchange rate impacts. As a percentage of sales, cost of sales increased slightly to 20.2% from 20.1%. Royalty expenses were 10% higher driven by the newly launched oncology products and by increased sales of Avastin and Tamiflu. In addition there were back royalty expenses of 42 million Swiss francs due to the latest developments in the Sanofi arbitration (see also Note 19 to the Consolidated Financial Statements). Expenses from collaboration and profit-sharing agreements increased mainly driven by higher co-promotion expenses. This was as a result of higher sales of MabThera/Rituxan, including those related to the release of the 340B Program sales reserves, and increased sales of Xolair and Tarceva. The net income from global restructuring plans was due to 531 million Swiss francs from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California (see Note 6 to the Consolidated Financial Statements).

Pharmaceuticals Division – Marketing and distribution

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(5,795)**	**(5,851)**	**+3**
Global restructuring plans	(49)	(63)	–20
Total – IFRS basis	**(5,844)**	**(5,914)**	**+3**

Marketing and distribution. Core costs increased at constant exchange rates by 3%, with the percentage of sales ratio improving to 16.0% from 16.6%. Sales and marketing efforts focussed on continued business expansion and increasing patient access to medicines, in particular in emerging markets such as Asia. Significant investments were also made to support the existing oncology portfolio and the newly launched products such as Perjeta, Kadcyla and Gazyva.

Pharmaceuticals Division – Research and development

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Research and development – Core basis	**(7,683)**	**(7,529)**	**+5**
Global restructuring plans	(101)	(489)	–79
Amortisation of intangible assets	(55)	(35)	+58
Impairment of intangible assets	(350)	(476)	–26
Total – IFRS basis	**(8,189)**	**(8,529)**	**–1**

Research and development. Core costs increased by 5% at constant exchange rates but as a percentage of sales decreased to 21.2% from 21.4%. There were increased investments in the oncology and neuroscience therapeutic areas. In oncology additional activities were focussed on new indications for recently launched products and other developments, such as PD-L1 targeted therapy. The progression of programmes for Alzheimer's disease was the main area of increased activity in the neuroscience area. These were partially offset by lower spending in other therapeutic areas such as cardiovascular and inflammation, with the discontinuation of inflammation research in Nutley. In addition the Pharmaceuticals Division capitalised 366 million Swiss francs (2012: 209 million Swiss francs) as intangible assets for the in-licensing of pipeline compounds and technologies. The impairments of intangible assets include 286 million Swiss francs following a portfolio reassessment within the hepatitis C virus (HCV) franchise and a further 64 million Swiss francs in respect of other projects. Amortisation of intangible assets increased due to recent investments. Global restructuring costs of 101 million Swiss francs were recorded, consisting mainly of employee-related costs and outside services for the closure of the Nutley site.

Pharmaceuticals Division – General and administration

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(1,048)	(943)	+15
Pensions – past service costs	131	–	–
Gains (losses) on disposal of property, plant and equipment	(5)	1	–
Gains (losses) on divestment of subsidiaries	2	–	–
Business taxes and capital taxes	(231)	(213)	+11
Other general items	84	94	–3
General and administration – Core basis	**(1,067)**	**(1,061)**	**+4**
Global restructuring plans	(197)	(466)	–57
Alliances and business combinations	(3)	45	–
Legal and environmental settlements	(74)	(76)	–4
Pensions – settlement gains (losses)	15	–	–
Total – IFRS basis	**(1,326)**	**(1,558)**	**–13**

General and administration. Core costs increased by 4% at constant exchange rates but were largely stable as a percentage of sales at 2.9% (2012: 3.0%). This includes the beneficial impact of 131 million Swiss francs of income from changes in the Group's pension plans. The increase in administration costs was mainly a result of a shift of finance headcount from Corporate. There was also an increase in business taxes, including the costs for the US Branded Pharmaceutical Product Fee of 175 million Swiss francs (2012: 163 million Swiss francs). Global restructuring costs mainly include site closure costs for Nutley, consisting of employee-related costs, property taxes and outside services and provisions of 88 million Swiss francs to cover site running costs until the expected divestment in 2015. Legal and environmental settlement costs mainly relate to the legal matters described in Note 19 to the Consolidated Financial Statements.

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional operating results in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
	2013	2012	2013	2012	2013	2012
Sales						
– External customers	32,899	31,124	3,405	4,108	36,304	35,232
– Within division	1,184	1,065	408	300	1,592	1,365
Core operating profit	15,542	14,652	723	874	16,108	15,488
– margin, % of sales to external customers	47.2	47.1	21.2	21.3	44.4	44.0
Operating profit	15,111	12,910	679	805	15,633	13,677
– margin, % of sales to external customers	45.9	41.5	19.9	19.6	43.1	38.8
Operating free cash flow	14,388	13,645	588	1,065	14,976	14,710
– margin, % of sales	43.7	43.8	17.3	25.9	41.3	41.8

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of 157 million Swiss francs (2012: 38 million Swiss francs) of unrealised inter-company profits between Roche Pharmaceuticals and Chugai.

Sales and core operating profit of Roche Pharmaceuticals increased significantly with under-proportional cost growth in marketing and distribution and in research and development combined with stable general and administration costs. The fall in the exchange rate of the Japanese yen has a negative impact of approximately 20% on the Chugai results when expressed in Swiss francs. Chugai's core operating profit increased by 2%, in line with the increase in sales to third parties. Gross profit from sales was up driven by higher domestic sales despite the loss of Evista sales. Income from out-licensing agreements and royalties increased significantly. Operating expenses grew mainly due to increased R&D activities and higher M&D spend mainly driven by product launches. The operating free cash flow at Chugai decreased mainly as a result of net working capital movements with a significant increase in inventories for safety stocks and decrease in accounts payable driven by the timing of material purchases from Roche Pharmaceuticals.

Financial position

Pharmaceuticals Division – Net operating assets

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	6,150	6,685	–8	–2	(156)	(379)
Inventories	4,069	3,584	+14	+24	824	(339)
Trade payables	(928)	(717)	+29	+34	(250)	39
Net trade working capital	**9,291**	**9,552**	**–3**	**+5**	**418**	**(679)**
Other receivables/(payables)	(3,840)	(4,004)	–4	–2	61	103
Net working capital	**5,451**	**5,548**	**–2**	**+10**	**479**	**(576)**
Property, plant and equipment	10,898	10,704	+2	+6	664	(470)
Goodwill and intangible assets	3,960	4,258	–7	–4	(162)	(136)
Provisions	(2,151)	(2,249)	–4	–2	46	52
Other long-term assets, net	245	242	+1	+3	13	(10)
Long-term net operating assets	**12,952**	**12,955**	**0**	**+4**	**561**	**(564)**
Net operating assets	**18,403**	**18,503**	**–1**	**+6**	**1,040**	**(1,140)**

The absolute amount of the movement between the 2013 and 2012 consolidated balances reported in Swiss francs is split between actual 2013 transactions (translated at average rates for 2012) and the currency translation adjustment (CTA) that arises on consolidation. The 2013 transactions include non-cash movements and therefore the movements in this table are not the same as amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 49 of the Consolidated Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 149.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc appreciated significantly against the Japanese yen. There was also an appreciation against the US dollar and the Brazilian real. These effects resulted overall in a negative translation impact on balance sheet positions of 1,140 million Swiss francs by 31 December 2013. The exchange rates used are given on page 34.

Net working capital. The increase of 5% in net trade working capital at constant exchange rates was due to increases in inventories of 24%, partly offset by reductions in trade receivables and an increase in trade payables. There were higher levels of inventories for recent and upcoming product launches such as Actemra/RoActemra and Herceptin subcutaneous (SC) formulations, Kadcyla and Perjeta and also expected higher sales demand of established products. There were also increases in safety stocks for selected existing products and temporary bridging stocks as a result of changes in supply chain strategy. Trade receivables decreased by 2% despite the 2013 sales increase, as a result of continuing strong collections notably in the Europe and EEMEA regions. Trade payables increased by 34% following initiatives to improve cash management including extension of payment terms. There was a decrease of 2% in the net liability for other receivables/payables due mainly to an increase in prepaid expenses and royalty receivables.

Long-term net operating assets. These increased by 6% as an increase in property, plant and equipment and lower provisions were only partially offset by a decrease in intangible assets. The movement in property, plant and equipment was mainly attributable to the capital expenditure projects described below in the free cash flow section and the impairment reversal for a bulk drug production unit at the Vacaville site in the US. Intangible assets decreased due to impairments following a portfolio reassessment within the hepatitis C virus (HCV) franchise and other impairments. Provisions decreased due to the utilisation of restructuring and legal provisions. In addition the Nutley environmental provision was transferred from the Pharmaceuticals Division to Corporate as it is being managed centrally with the planned site divestment.

Free cash flow

Pharmaceuticals Division – Operating free cash flow

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Operating profit	**15,633**	**13,677**	**+18**
– Depreciation, amortisation and impairment	1,063	2,171	–49
– Provisions	43	160	–73
– Equity compensation plans	295	306	–3
– Other	67	173	–57
Operating profit cash adjustments [1]	**1,468**	**2,810**	**–46**
Operating profit, net of operating cash adjustments	**17,101**	**16,487**	**+7**
(Increase) decrease in net working capital	(455)	(488)	+9
Investments in property, plant and equipment	(1,316)	(1,079)	+25
Investments in intangible assets	(354)	(210)	+71
Operating free cash flow	**14,976**	**14,710**	**+5**
– as % of sales	41.3	41.8	–0.9

1) A detailed breakdown is provided on page 148.

The Pharmaceuticals Division's operating free cash flow increased by 5% at constant exchange rates to 15.0 billion Swiss francs. The increased cash generation from the underlying business, represented by the 7% growth in core operating profit, was partly used by the increases in net working capital noted above in the comments on the financial position. Operating profit, net of cash adjustments, also increased by 7% as the adjustment for various non-cash items in the core results largely offset each other.

Capital expenditure for property, plant and equipment relates to investments in efficiency improvements in manufacturing facilities and increased production capacity, in particular in the US. There was also the transfer of functions from the Nutley site to other locations, infrastructure expansion resulting from business growth in Asia and increased expenditure for the site developments in Basel.

Diagnostics Division operating results

Diagnostics Division operating results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	10,476	10,267	+2	+4
Royalties and other operating income	130	151	−14	−13
Cost of sales	(4,934)	(4,827)	+2	+4
Marketing and distribution	(2,529)	(2,625)	−4	−2
Research and development	(1,081)	(1,023)	+6	+5
General and administration	(821)	(659)	+25	+25
Operating profit	**1,241**	**1,284**	**−3**	**+5**
– margin, % of sales	11.8	12.5	−0.7	0
Core results [1]				
Sales	10,476	10,267	+2	+4
Royalties and other operating income	130	151	−14	−13
Cost of sales	(4,539)	(4,347)	+4	+6
Marketing and distribution	(2,446)	(2,541)	−4	−2
Research and development	(1,017)	(946)	+8	+7
General and administration	(427)	(397)	+8	+8
Core operating profit	**2,177**	**2,187**	**0**	**+4**
– margin, % of sales	20.8	21.3	−0.5	0
Financial position				
Net working capital	2,782	3,347	−17	−13
Long-term net operating assets	11,250	11,382	−1	0
Net operating assets	**14,032**	**14,729**	**−5**	**−3**
Free cash flow				
Operating free cash flow	1,962	1,890	+4	+9
– margin, % of sales	18.7	18.4	+0.3	+0.9

1) See pages 144–147 for definition of Core results and Core EPS.

Sales

Diagnostics Division sales grew ahead of the global *in vitro* diagnostics market, with all regions contributing to sales growth of 4% at constant exchange rates to 10.5 billion Swiss francs. This growth was predominantly driven by continued strong demand for immunoassays and platforms used in clinical laboratories from Roche's Professional Diagnostics business area and regionally by emerging markets. Diabetes Care sales decreased by 3% due to continued market challenges and reimbursement changes in blood glucose monitoring in some key markets, notably the US. Molecular Diagnostics grew 2%, with continued strong uptake of the HPV test in the US. The main growth drivers were blood screening products returning to growth, as well as world-wide growth of oncology tests and nucleic acid purification (NAP) products for life sciences. Tissue Diagnostics sales increased 7%, with above market growth in all regions except in the US, which grew at a lower rate due to reimbursement and guidelines changes.

On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products would be integrated within the Group's other Diagnostics business areas. The polymerase chain reaction technology (PCR), the nucleic acid purification (NAP) and biochemical reagents lines are now managed by Molecular Diagnostics. The Custom Biotech portfolio has moved to Professional Diagnostics. A dedicated unit has been established to focus solely on sequencing. Sales information has been reclassified retrospectively, and the sales of the sequencing business are reported as part of the results for Molecular Diagnostics. Total divisional sales are unchanged.

Diagnostics Division – Sales by business area

Business area	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Professional Diagnostics	5,740	5,443	+8	56	53
Diabetes Care	2,459	2,566	–3	23	25
Molecular Diagnostics	1,612	1,627	+2	15	16
Tissue Diagnostics	665	631	+7	6	6
Total sales	**10,476**	**10,267**	**+4**	**100**	**100**

Professional Diagnostics

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	2,545	2,468	+3	44	45
North America	1,162	1,100	+7	20	20
Rest of the World	2,033	1,875	+15	36	35
Total sales	**5,740**	**5,443**	**+8**	**100**	**100**

Professional Diagnostics. Sales grew above the respective market and further extended Roche's position as market leader. The strong growth was driven by the immunoassay (+14%) and clinical chemistry (+6%) businesses. Coagulation patient self-monitoring (+7%) and hematology (+9%) also contributed to this good performance.

All regions achieved sales growth, with the Asia–Pacific region being the main regional growth driver (+17%), while sales in the smaller Latin America region also grew by 17%. In North America sales increased by 7%, with the cobas 6000 and cobas 8000 product lines and automation solutions as the main contributors. In the EMEA region sales grew by 3%, mainly due to immunoassay tests and clinical chemistry products. The coagulation patient self-monitoring business had strong growth in North America. In Japan sales grew 4%. The immunoassay business continued its growth and contributed to a quarter of the division's total sales. Tests for markers for oncology, thyroid disorders, cardiac diseases, women's health (including vitamin D) and infectious diseases make up the majority of immunoassay sales. The hematology business showed strong growth momentum in Russia and Latin America.

A key milestone for the business area was the launch of the new cobas 8100 instrument. This fully automated workflow series for managing numerous routine laboratory tasks simplifies operations for customers, reducing manual handling of samples and increases cost-efficiencies while processing urgent samples at more than twice the speed of the earlier version of this system. The system is available globally, except in the US, and since its launch it has achieved a good market uptake.

Due to the reorganisation of the former Applied Science business area the Custom Biotech portfolio is now part of the Professional Diagnostics business area and this is reflected in the comparative information.

Diabetes Care

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	1,484	1,468	0	60	57
North America	482	579	–15	20	23
Rest of the World	493	519	+3	20	20
Total sales	**2,459**	**2,566**	**–3**	**100**	**100**

Diabetes Care. The 3% decrease in sales reflects reimbursement cuts for blood glucose monitoring supplies, especially in the US, and ongoing price pressure in other key markets. There was continued competition from low-cost providers. Sales decreased in North America by 15% due to reimbursement cuts for some important segments of the US market. The business grew in Asia–Pacific (+4%) and Latin America (+2%), while sales were stable in EMEA (0%), where several countries were affected by low-cost providers. Sales in Japan were 3% lower.

Sales of the Accu-Chek Mobile, targeted for more frequent testers, grew by 41%, whereas sales of old-generation Accu-Chek Compact and Advantage meters continued to decline. Sales of insulin delivery systems grew by 1%. The 1–2% growth in blood glucose monitoring (bGM) strip volumes and meters placements were more than offset by continuing price pressures in the bGM sector, in total leading to a 3% decline in global sales in the Diabetes Care business.

The business continued market launches of next-generation versions of existing brands such as the Accu-Chek Active and the Accu-Chek Aviva/Performa meters, and received FDA clearance for the Accu-Chek Aviva Expert system in the US. The Accu-Chek Active meter and the next-generation no-code Accu-Chek Aviva/Performa meter were launched in the third quarter of 2013 globally, except in the US where the no-code Accu-Chek Nano SmartView meter and test strips have already been available since 2012.

In 2012 Roche Diabetes Care initiated a restructuring, notably of research and development activities but also including some marketing and manufacturing activities, to sustain long-term profitability. Further restructuring steps were taken in 2013 and these activities will continue into 2014.

Molecular Diagnostics

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	622	623	0	39	38
North America	567	553	+4	35	34
Rest of the World	423	451	+3	26	28
Total sales	**1,612**	**1,627**	**+2**	**100**	**100**

Molecular Diagnostics. The underlying growth of the Molecular Diagnostics business was 6%, excluding sequencing sales. The main contributors were tests for the human papilloma virus (HPV) (+90%), nucleic acid purification (NAP)/real-time PCR (qPCR) reagents and systems in the life sciences market (+6%) and products for blood screening (+2%). Sales growth was reported by all regions, with North America being the main growth driver for HPV test sales and blood screening. Sales for blood screening also grew in Asia–Pacific. The EMEA region had sales growth of NAP/qPCR reagents and led the growth in sales of oncology companion tests. In Japan sales grew by 1%.

Sales for blood screening, which represents a significant proportion of the business area's total sales, showed a return to growth in the second half of 2013 as the impacts of timing differences and ordering patterns seen in the first half of the year were normalised. Sales of oncology companion diagnostic tests, an area of high medical value, also showed significant growth.

Following the reorganisation of the former Applied Science business area the real-time PCR technology, the NAP (nucleic acid purification) portfolio and biochemical reagents are now part of the Molecular Diagnostics business. The sales of the sequencing business are reported as part of the results for Molecular Diagnostics. These changes are reflected in the comparative information.

Tissue Diagnostics

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	174	151	+14	26	24
North America	400	402	+1	60	64
Rest of the World	91	78	+27	14	12
Total sales	**665**	**631**	**+7**	**100**	**100**

Tissue Diagnostics. Sales growth was mainly due to the advanced staining reagents business, with all regions recording sales growth. In North America sales increased by 1%, which was lower than global growth due to recent changes in US guidelines and reimbursements (see below). There was 19% sales growth outside the US, with Asia–Pacific reporting 34% sales growth in advanced staining, notably from China, Australia and South Korea. In EMEA the sales increase of 14% was due to strong growth in reagent sales and new primary staining instrument sales. Sales for primary staining were up 12%, with a strong contribution from the special stains business. Revenues from external personalised healthcare partners and sales of companion tests continued to grow. The CINtec PLUS Cytology test, a fully automated cell-based assay used in cervical cancer screening, obtained a CE Mark in December.

Based on the latest business plans prepared during the second half of 2013, a goodwill impairment of 253 million Swiss francs was recorded in the Tissue Diagnostics business within the Diagnostics Division. The main factor leading to this impairment was reduced revenue expectations in the US. These follow recent changes in the College of American Pathologists guidelines for the use of negative reagent controls in immunohistochemistry testing which reduced volumes and changes which reduced the reimbursement amount to laboratories.

Diagnostics Division – Sales by region

Region	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	4,825	4,710	+2	46	46
North America	2,611	2,634	+1	25	26
Asia–Pacific	1,746	1,556	+14	16	14
Latin America	802	774	+13	8	8
Japan	492	593	+2	5	6
Total sales	**10,476**	**10,267**	**+4**	**100**	**100**

Divisional sales growth was primarily driven by the Asia–Pacific, EMEA (Europe, Middle East and Africa) and Latin America regions. Demand was particularly high in China, where sales rose 27%. The immunodiagnostics and clinical chemistry reagents were the key growth drivers in the Asia–Pacific region. Sales growth in the EMEA region was led by Professional Diagnostics, with Tissue Diagnostics also contributing. In Latin America, Professional Diagnostics, Molecular Diagnostics and Tissue Diagnostics all showed solid growth. In North America sales grew 1% with strong US sales growth in immunoassays, coagulation monitoring and molecular diagnostics, in particular the HPV and blood screening businesses. This growth in the US was offset by a sales decline in Diabetes Care due to significant cuts in reimbursement. Immunoassay sales, which grew by 9%, were the largest contributor to growth in Japan.

Diagnostics Division – Sales for E7 leading emerging markets

Country	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Brazil	248	262	+6	2	3
China	843	656	+27	8	6
India	104	105	+9	1	1
Mexico	130	114	+12	1	1
Russia	209	199	+9	2	2
South Korea	167	155	+6	2	2
Turkey	128	133	+3	1	1
Total sales	**1,829**	**1,624**	**+15**	**17**	**16**

All E7 markets contributed to the sales growth mainly in the Professional and Tissue Diagnostics business areas. In Brazil the division reinforced its market leadership in the IVD market. In South Korea growth was driven by commercial laboratory automation projects for Professional and Tissue Diagnostics, which enhanced testing efficiency at customer sites. With the ongoing focus on innovative and safe blood testing for patients across the whole of India, the division has more than doubled the sites for nucleic acid tests (NAT) resulting in growth in Molecular Diagnostics.

Operating results

Diagnostics Division – Royalties and other operating income

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Royalty income	114	136	–16
Income from out-licensing agreements	3	4	–18
Income from disposal of products and other	13	11	+24
Total – IFRS and Core basis	**130**	**151**	**–13**

Royalties and other operating income. The decrease of 13% at constant exchange rates was driven by lower royalty income. This was mainly the result of back royalty payments of 15 million Swiss francs received in 2012 which did not reoccur in 2013.

Diagnostics Division – Cost of sales

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,348)	(4,173)	+6
Royalty expenses	(190)	(174)	+9
Impairment of property, plant and equipment	(1)	–	–
Cost of sales – Core basis	**(4,539)**	**(4,347)**	**+6**
Global restructuring plans	(75)	(111)	–31
Amortisation of intangible assets	(320)	(341)	–7
Impairment of intangible assets	–	(28)	–100
Total – IFRS basis	**(4,934)**	**(4,827)**	**+4**

Cost of sales. Core costs increased by 6% at constant exchange rates due to an increase in manufacturing cost of goods sold and period costs of 6%. Overall, the growth in core costs was higher than the sales growth due to pricing impacts. There was also a growth in instrument placements, especially in the US, and increased diabetes meter placements. This increase was partially offset by a one-time VAT refund in 2013 of 45 million Swiss francs related to meter placements in prior years. This resulted in a cost of sales ratio of 43.3% compared to 42.3% in 2012. Global restructuring costs were mainly due to the reorganisation of the former Applied Science business and for the closure of the sites at Graz, Austria and Burgdorf, Switzerland. Amortisation of product intangibles decreased as some intangible assets became fully amortised.

Diagnostics Division – Marketing and distribution

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(2,446)**	**(2,541)**	**–2**
Global restructuring plans	(78)	(78)	–2
Amortisation of intangible assets	(5)	(6)	–23
Total – IFRS basis	**(2,529)**	**(2,625)**	**–2**

Marketing and distribution. Core costs decreased by 2% at constant exchange rates due to lower spending in Diabetes Care and the former Applied Science business following the restructuring initiatives. Bad debt expenses were also lower. The decreases were partially offset by increased spending for sales force and distribution in Professional Diagnostics and Molecular Diagnostics. In the Asia–Pacific and Latin America regions marketing and distribution costs increased due to sales force expansion to further penetrate emerging markets. This was more than offset by lower spending in the EMEA region. On a core basis, marketing and distribution costs as a percentage of sales were 23.3% compared to 24.7% in 2012. Global restructuring costs were mainly due to the reorganisations in the Diabetes Care and former Applied Science businesses to improve the efficiency of marketing and distribution activities.

Diagnostics Division – Research and development

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Research and development – Core basis	**(1,017)**	**(946)**	**+7**
Global restructuring plans	(51)	(67)	–26
Amortisation of intangible assets	(1)	(2)	–38
Impairment of intangible assets	(12)	(8)	+55
Total – IFRS basis	**(1,081)**	**(1,023)**	**+5**

Research and development. Core costs increased by 7% at constant exchange rates, driven by increased spending for instrument development costs for major platforms in Professional and Molecular Diagnostics. Furthermore research and development costs increased due to the acquisition of Constitution Medical Investors, Inc. in Boston, US. In the former Applied Science business expenses declined significantly as a result of ongoing restructuring. In Diabetes Care costs remained stable as a result of cost containment programmes initiated in 2012. As a percentage of sales, research and development core costs increased to 9.7% from 9.2%. Global restructuring costs were mainly related to the reorganisation in the Applied Science business and to the closure of the site in Graz, Austria. Intangible asset impairments of 12 million Swiss francs were incurred as part of this reorganisation.

Diagnostics Division – General and administration

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(381)	(354)	+8
Pensions – past service costs	67	–	–
Gains (losses) on disposal of property, plant and equipment	(3)	(1)	+101
Business taxes and capital taxes	(42)	(16)	+161
Other general items	(68)	(26)	+154
General and administration – Core basis	**(427)**	**(397)**	**+8**
Global restructuring plans	(67)	(50)	+35
Impairment of intangible assets	(288)	(187)	+54
Alliances and business combinations	(13)	(12)	+1
Legal and environmental settlements	(28)	(13)	+119
Pensions – settlement gains (losses)	2	–	–
Total – IFRS basis	**(821)**	**(659)**	**+25**

General and administration. Core costs increased 8% at constant exchange rates. The increase in administration costs was due to higher employee costs in Professional Diagnostics for staffing global projects, ramping up new and developing affiliates, as well as increases in certain legal costs. Business taxes increased due to the new US Medical Device Tax with costs of 24 million Swiss francs. Other general items include several ongoing IT systems projects to standardise, automate and centralise business processes. These increases were offset by income of 67 million Swiss francs recorded for changes in some of the Group's pension plans. As a percentage of sales, core costs increased to 4.1% from 3.9% in 2012. Global restructuring costs were mainly due to global IT projects and employee-related costs from the reorganisation of the former Applied Science business. In addition, goodwill impairment charges of 253 million Swiss francs were recorded in the Tissue Diagnostics business and 35 million Swiss francs were incurred for the write-off of the goodwill from the 454 Life Sciences and Innovatis acquisitions in the former Applied Science business.

Financial position

Diagnostics Division – Net operating assets

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	2,746	2,889	–5	0	(20)	(123)
Inventories	1,837	1,958	–6	–5	(66)	(55)
Trade payables	(615)	(412)	+49	+51	(213)	10
Net trade working capital	**3,968**	**4,435**	**–11**	**–7**	**(299)**	**(168)**
Other receivables/(payables)	(1,186)	(1,088)	+9	+11	(117)	19
Net working capital	**2,782**	**3,347**	**–17**	**–13**	**(416)**	**(149)**
Property, plant and equipment	4,721	4,572	+3	+4	213	(64)
Goodwill and intangible assets	7,129	7,436	–4	–3	(211)	(96)
Provisions	(522)	(530)	–2	–1	5	3
Other long-term assets, net	(78)	(96)	–19	–22	22	(4)
Long-term net operating assets	**11,250**	**11,382**	**–1**	**0**	**29**	**(161)**
Net operating assets	**14,032**	**14,729**	**–5**	**–3**	**(387)**	**(310)**

The absolute amount of the movement between the 2013 and 2012 consolidated balances reported in Swiss francs is split between actual 2013 transactions (translated at average rates for 2012) and the currency translation adjustment (CTA) that arises on consolidation. The 2013 transactions include non-cash movements and therefore the movements in this table are not the same as amounts shown in the operating free cash flow (which only include the cash movements). A full consolidated balance sheet is given on page 49 of the Consolidated Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 149.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc appreciated against the US dollar and slightly weakened against the euro. These effects resulted overall in a negative translation impact on balance sheet positions of 310 million Swiss francs by 31 December 2013. As the Diagnostics Division does not have a significant net asset position in Japanese yen, the appreciation of the Swiss franc against the Japanese yen had only a minor impact. The exchange rates used are given on page 34.

Net working capital. Net trade working capital decreased by 7%, driven by an increase in trade payables and a decrease in inventories. Trade payables increased by 51% due to extended payment terms. Inventories decreased by 5% due to increased inventory provisions. Trade receivables were stable as high collections were partially offset by increases following from the growth of the business in emerging markets, notably China. There was an increase of 11% in the net liability for other receivables/payables. The main factor behind the increase in other receivables/payables was higher accruals, including for employee benefits, which was partially offset by an increase in prepaid expenses.

Long-term net operating assets. These remained stable at constant exchange rates. The decrease in intangible assets was offset by increases in investments in property, plant and equipment. Property, plant and equipment increased by 4% due to higher instrument placements and site expenditure in Germany. Goodwill and intangible assets decreased due to impairments in Tissue Diagnostics and the former Applied Science business area. This was partially offset by the acquisition of the Constitution Medical Investors, Inc. in the US. Provisions decreased by 1% due to a net utilisation of restructuring provisions.

Free cash flow

Diagnostics Division – Operating free cash flow

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Operating profit	**1,241**	**1,284**	**+5**
– Depreciation, amortisation and impairment	1,487	1,418	+5
– Provisions	(38)	76	–
– Equity compensation plans	40	35	+15
– Other	140	272	–50
Operating profit cash adjustments [1]	**1,629**	**1,801**	**–10**
Operating profit, net of operating cash adjustments	**2,870**	**3,085**	**–4**
(Increase) decrease in net working capital	270	(79)	–
Investments in property, plant and equipment	(1,129)	(1,091)	+4
Investments in intangible assets	(49)	(25)	+92
Operating free cash flow	**1,962**	**1,890**	**+9**
– as % of sales	18.7	18.4	+0.9

1) A detailed breakdown is provided on page 148.

The operating free cash flow of the Diagnostics Division increased by 9% to 2.0 billion Swiss francs. The cash generation of the business was supported by a decrease in net working capital in 2013, mainly due to increases in payables as noted above in the comments on the financial position.

Operating profit, net of cash adjustments, decreased by 4% while core operating profit increased by 4%. This difference was due to several non-cash items, including the income from changes in the Group's pension plans in 2013, the cash utilisation of restructuring provisions and lower bad debt expenses.

Capital expenditure for property, plant and equipment of 1.1 billion Swiss francs results from investment in facilities in Germany and for instrument placements, particularly in China, the US and Germany.

Corporate operating results

Corporate operating results summary

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(401)	(457)	–12
Pensions – past service costs	104	–	–
Business taxes and capital taxes	(8)	(12)	–33
Other general items	(76)	(46)	+64
General and administration costs – Core basis [1]	**(381)**	**(515)**	**–26**
Global restructuring plans	(9)	(20)	–58
Alliances and business combinations	(16)	(1)	Over +500
Legal and environmental settlements	(94)	(300)	–70
Pensions – settlement gains (losses)	2	–	–
Total costs – IFRS basis	**(498)**	**(836)**	**–41**
Financial position			
Net working capital	(58)	(71)	–18
Long-term net operating assets	(443)	(309)	+43
Net operating assets	**(501)**	**(380)**	**+32**
Free cash flow			
Operating free cash flow	(557)	(465)	+20

1) See pages 144–147 for definition of Core results and Core EPS.

General and administration core costs decreased by 26% at constant exchange rates due to the positive impact of 104 million Swiss francs recorded for changes in some of the Group's pension plans, which were mainly attributable to previously divested businesses. Administration expenses decreased by 12%, mainly due to a shift of headcount to the Pharmaceuticals Division. The increase in other general items was driven by costs related to ongoing IT systems projects. Total costs on an IFRS basis decreased by 41%. Environmental expenses included a further increase in the estimated costs for the remediation of a landfill site in Grenzach, Germany of 138 million Swiss francs. This was partly offset by the release of 53 million Swiss francs for environmental remediation provisions for the Nutley site in the US.

Corporate operating free cash flow showed a higher outflow due to a reduction in accounts payable, notably in accruals for employee benefits. The major reason for the decrease in the core costs was the non-cash income from changes in the Group's pension plans.

Foreign exchange impact on operating results

The Group's exposure to movements in foreign currencies affecting its operating results, as expressed in Swiss francs, is summarised by the following key figures and comments.

Growth (reported at CER and in Swiss francs)

	% change (CER)		% change (CHF)	
	2013	2012	2013	2012
Pharmaceuticals Division				
Sales	+7	+5	+3	+7
Core operating profit	+7	+13	+4	+16
Diagnostics Division				
Sales	+4	+4	+2	+5
Core operating profit	+4	–2	0	0
Group				
Sales	+6	+4	+3	+7
Core operating profit	+8	+11	+4	+13

Exchange rates against the Swiss franc

	31 December 2013	Average 2013	31 December 2012	Average 2012
1 USD	0.89	0.93	0.91	0.94
1 EUR	1.23	1.23	1.21	1.21
100 JPY	0.84	0.95	1.06	1.17

In 2013 compared to 2012, the Swiss franc was stronger against many currencies, in particular the Japanese yen and also the US dollar, but weakened against some others, notably the euro. The overall impact was negative on the income statement and free cash flow results expressed in Swiss francs compared to constant exchange rates. For sales, these developments resulted in a negative impact of 3 percentage points, equivalent to 1.5 billion Swiss francs when translated into Swiss francs. The currency translation exposure for the operating profit is mitigated by the Group having the majority of its cost base located outside of Switzerland. The sensitivity of Group sales and core operating profit in absolute terms to a 1% movement in average foreign currency exchange rates against the Swiss franc during the 2013 is shown in the table below.

Currency sensitivities

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Core operating profit (mCHF)
US dollar	181	76
Euro	99	50
Japanese yen	39	20
All other currencies	128	76

The Group's revenues are primarily generated from sales of products to customers. Such revenues are mainly received in the local currency of the customer's home market, although in certain emerging markets invoicing is made in major international currencies such as the US dollar and euro. The costs of sales and marketing and also some administration costs follow the same currency pattern as sales. The majority of research and development activities are incurred at the Group's global research facilities, and therefore the costs are mainly concentrated in US dollars, Swiss francs and euros. General and administration costs tend to be incurred mainly at central locations in the US, Switzerland and Germany. Obviously the large majority of Chugai's costs are denominated in Japanese yen.

Treasury and taxation results

Treasury and taxation results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	16,376	14,125	+16	+20
Financing costs	(1,580)	(1,923)	–18	–17
Other financial income (expense)	(119)	(43)	+177	+240
Profit before taxes	**14,677**	**12,159**	**+21**	**+25**
Income taxes	(3,304)	(2,499)	+32	+37
Net income	**11,373**	**9,660**	**+18**	**+22**
Attributable to				
– Roche shareholders	11,164	9,427	+18	+22
– Non-controlling interests	209	233	–10	+9
Core results [1]				
Operating profit	17,904	17,160	+4	+8
Financing costs	(1,580)	(1,923)	–18	–17
Other financial income (expense)	(119)	(43)	+177	+240
Profit before taxes	**16,205**	**15,194**	**+7**	**+10**
Income taxes	(3,679)	(3,429)	+7	+11
Net income	**12,526**	**11,765**	**+6**	**+10**
Attributable to				
– Roche shareholders	12,316	11,531	+7	+10
– Non-controlling interests	210	234	–10	+9
Financial position – Treasury and taxation				
Net debt	(6,708)	(10,599)	–37	–38
Pensions	(5,426)	(6,553)	–17	–18
Income taxes	1,838	1,581	+16	+18
Financial non-current assets	342	339	+1	+9
Derivatives, net	299	289	+3	+7
Collateral, net	(480)	(356)	+35	+35
Interest payable	(542)	(749)	–28	–26
Other non-operating assets, net	(16)	(54)	–70	–27
Total net assets (liabilities)	**(10,693)**	**(16,102)**	**–34**	**–35**
Free cash flow – Treasury and taxation				
Treasury activities	(1,275)	(1,542)	–17	–14
Taxes paid	(3,341)	(3,329)	0	+3
Dividends paid	(6,362)	(5,888)	+8	+9
Total	**(10,978)**	**(10,759)**	**+2**	**+4**

As disclosed in Note 32 to the Consolidated Financial Statements and as discussed below on page 45, the income statement for 2012 has been restated following the accounting policy changes which were adopted in 2013. In the restated results of 2012 this causes a reduction in net financial income of 164 million Swiss francs. See also the Investor Update from 21 March 2013. A reconciliation to the previously published income statement is provided in Note 32 to the Consolidated Financial Statements.

1) See pages 144–147 for definition of Core results and Core EPS.

Financing costs

Financing costs were 1,580 million Swiss francs, a decrease of 343 million Swiss francs or 17% compared to 2012. The main driver was a decrease of 23% in interest expense which reflects the continued repayment of the debt incurred to finance the Genentech transaction. The loss on early redemption of debt was 248 million Swiss francs, compared with 259 million Swiss francs in 2012. The net interest cost of pension plans remained stable at 227 million Swiss francs. A full analysis of financing costs is given in Note 3 to the Consolidated Financial Statements.

Other financial income (expense)

Other financial income (expense) was a net expense of 119 million Swiss francs. Net income from equity securities was 42 million Swiss francs, an increase of 13%. Interest income and income from debt securities decreased by 13% to 27 million Swiss francs due to short-term interest rates remaining at low levels in major markets. The foreign exchange result mainly reflects hedging costs and was a loss of 174 million Swiss francs compared to a loss of 89 million Swiss francs in 2012. The foreign exchange result in 2013 included a loss of 45 million Swiss francs following the devaluation of the Venezuelan bolivar in February 2013 and 34 million Swiss francs on losses on hedges of the Group's euro/Swiss franc position. A full analysis of other financial income (expense) is given in Note 3 to the Consolidated Financial Statements and details of the Group's hedging arrangement are given in Note 29.

Income taxes

The Group's effective core tax rate was stable at 22.7% (2012: 22.6%). The higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group rate, notably in the US, increased the effective tax rate. This was mostly offset by the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 results include a whole year of tax credits in respect of 2012 as well as tax credits for 2013.

A tax benefit of 375 million Swiss francs was recorded in 2013 for the non-core items compared to a tax benefit of 930 million Swiss francs in 2012. The decrease was primarily due to the lower underlying non-core expenses compared to 2012, specifically from global restructuring plans including intangible asset impairments as well as lower legal and environmental costs.

Full details of the Group's income tax positions are given in Note 4 to the Consolidated Financial Statements.

Analysis of the Group's effective tax rate

	2013			2012		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate – Core basis	**16,205**	**(3,679)**	**22.7**	**15,194**	**(3,429)**	**22.6**
Global restructuring plans	(166)	2	1.2	(1,436)	399	27.8
Goodwill and intangible assets	(1,153)	299	25.9	(1,242)	354	28.5
Equity compensation plans	–	22	–	–	26	–
Other	(209)	52	24.9	(357)	151	42.3
Group's effective tax rate – IFRS basis	**14,677**	**(3,304)**	**22.5**	**12,159**	**(2,499)**	**20.6**

Financial position

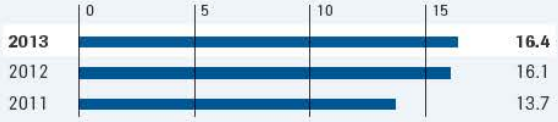
The decrease in the net debt position was mainly driven by the free cash flow of 5.4 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes increased net debt by 1.2 billion Swiss francs while net pension liabilities decreased by 1.1 billion Swiss francs due to changes in discount rates and changes in the plan rules of some of the Group's pension plans. Net tax assets increased mainly due to the deferred tax effect of equity compensation plans, which increased due to the increase in the price of the underlying equity. Interest payable relates mostly to bonds and notes with coupon payment dates in March and September, and the decline was due to the continued repayment of the underlying debt. At 31 December 2013 the Group held financial long-term assets with a market value of 0.3 billion Swiss francs, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations.

Free cash flow

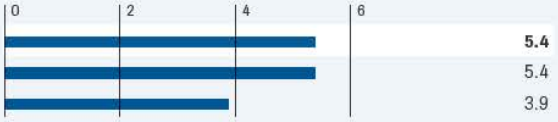
The cash outflow from treasury activities decreased to 1.3 billion Swiss francs mostly due to lower interest payments. Total taxes paid in 2013 were 3.3 billion Swiss francs, an increase of 3% at constant exchange rates, due to higher tax payments in the US in 2013, partially offset by a base effect from the settlement of certain outstanding tax positions in 2012. Total dividends paid in 2013 were 6.4 billion Swiss francs, an increase of 0.5 billion Swiss francs compared to 2012, reflecting the 8% increase in the Roche Group dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
2013				
Operating profit – IFRS basis	15,633	1,241	(498)	16,376
Operating profit cash adjustments	1,468	1,629	(29)	3,068
Operating profit, net of operating cash adjustments	**17,101**	**2,870**	**(527)**	**19,444**
(Increase) decrease in net working capital	(455)	270	(24)	(209)
Investments in property, plant and equipment	(1,316)	(1,129)	(6)	(2,451)
Investments in intangible assets	(354)	(49)	–	(403)
Operating free cash flow	**14,976**	**1,962**	**(557)**	**16,381**
Treasury activities				(1,275)
Taxes paid				(3,341)
Dividends paid				(6,362)
Free cash flow				**5,403**
2012				
Operating profit – IFRS basis	13,677	1,284	(836)	14,125
Operating profit cash adjustments	2,810	1,801	328	4,939
Operating profit, net of operating cash adjustments	**16,487**	**3,085**	**(508)**	**19,064**
(Increase) decrease in net working capital	(488)	(79)	44	(523)
Investments in property, plant and equipment	(1,079)	(1,091)	(1)	(2,171)
Investments in intangible assets	(210)	(25)	–	(235)
Operating free cash flow	**14,710**	**1,890**	**(465)**	**16,135**
Treasury activities				(1,542)
Taxes paid				(3,329)
Dividends paid				(5,888)
Free cash flow				**5,376**

Operating free cash flow increased by 5% at constant exchange rates to 16.4 billion Swiss francs, driven by the strong growth of the underlying operating business with core operating profit growth of 8%. There were increases in net working capital, mainly inventories, and capital expenditure on property, plant and equipment and investment in intangible assets were higher than in 2012. In both divisions the increased cash generated by the business was partly absorbed by the cash utilisation of restructuring and legal provisions.

The cash outflow from treasury activities decreased to 1.3 billion Swiss francs mostly due to lower interest payments. Total taxes paid were 3.3 billion Swiss francs, an increase of 3% at constant exchange rates, due to higher tax payments in the US partially offset by the base effect of the settlement of certain outstanding tax positions in 2012. Total dividends paid were higher due to the 8% increase of the annual Roche Group dividend.

Free cash flow of 5.4 billion Swiss francs was 6% higher at constant exchange rates, mainly due to increased operating free cash flow and lower interest payments which were partly offset by higher dividend payments in 2013.

The Group has refined the calculation of the free cash flow in 2013 to exclude the impact of employee stock options, in line with its peer group (see page 148 for further details). Comparative 2012 free cash flow information has been restated accordingly.

Net debt in millions of CHF

At 31 December 2012	
Cash and cash equivalents	4,530
Marketable securities	9,461
Long-term debt	(17,860)
Short-term debt	(6,730)
Net debt at beginning of period	**(10,599)**
Change in net debt during 2013	
Free cash flow for 2013	5,403
Transactions in own equity instruments	(1,190)
Business combinations, net of divestments of subsidiaries	(231)
Hedging and collateral arrangements	247
Currency translation, fair value and other movements	(338)
Change in net debt during period	**3,891**
At 31 December 2013	
Cash and cash equivalents	4,000
Marketable securities	7,935
Long-term debt	(16,423)
Short-term debt	(2,220)
Net debt at end of period	**(6,708)**

Net debt – currency profile in millions of CHF

	Cash and marketable securities 2013	Cash and marketable securities 2012	Debt 2013	Debt 2012
US dollar [1]	2,152	2,757	(14,075)	(19,748)
Euro	3,657	3,787	(1,232)	(1,210)
Swiss franc	3,070	4,041	(2,587)	(2,977)
Japanese yen	1,825	2,117	(1)	(1)
Pound sterling	753	794	(290)	(292)
Other	478	495	(458)	(362)
Total	**11,935**	**13,991**	**(18,643)**	**(24,590)**

1) US dollar-denominated debt includes those bonds and notes denominated in euros, Swiss francs and pounds sterling that were swapped into US dollars, and therefore in the financial statements have economic characteristics equivalent to US dollar-denominated bonds and notes.

The net debt position of the Group at 31 December 2013 was 6.7 billion Swiss francs, a decrease of 3.9 billion Swiss francs from 31 December 2012. The decrease in net debt was mainly due to the free cash flow of 5.4 billion Swiss francs described above, which includes dividend payments of 6.4 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes increased net debt by 1.2 billion Swiss francs.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. As the fair value of derivative hedging instruments increased due to the strengthening of the euro against the US dollar during 2013, cash collateral of 0.1 billion Swiss francs was received by Roche. The collateral balance in relation to the hedges on the non-US dollar-denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to pound sterling. Currently the collateral balance moves by approximately 55 million US dollars if all of these foreign exchange rates move by 1% simultaneously.

The redemption and repurchase of bonds and notes during 2013 (see Note 20 to the Consolidated Financial Statements) had an impact on liquid funds, but had no impact on the net debt position.

Full details of the Group's marketable securities, cash and debt positions are given in Notes 12, 13 and 20 to the Consolidated Financial Statements.

Pensions and other post-employment benefits

Post-employment benefit plans are classified for IFRS as 'defined contribution plans' if the Group pays fixed contributions into a separate fund or to a third-party financial institution and will have no further legal or constructive obligation to pay further contributions. In 2013 expenses for the Group's defined contribution plans were 343 million Swiss francs (2012: 313 million Swiss francs).

All other plans are classified as 'defined benefit plans', even if the Group's potential obligation is minor or has a relatively remote possibility of arising. Plans are usually established as trusts independent of the Group and are funded by payments from the Group and by employees, but in some cases the plan is unfunded and the Group pays pensions to retired employees directly from its own financial resources.

Defined benefit plans

Expenses for the Group's defined benefit plans were 329 million Swiss francs (2012: 506 million Swiss francs). The decrease was mainly due to past service income of 302 million Swiss francs and settlement income of 19 million Swiss francs, as described below. These were partially offset by an increase in the current service cost of 72 million Swiss francs driven by lower discount rates at the beginning of 2013 compared to the beginning of 2012. These expenses take into account the implementation of IAS 19 (revised) which increased the net interest cost of pensions in 2012 by 164 million Swiss francs and in 2013 by approximately the same amount. Based on the revised actuarial assumptions at the end of 2013, expenses for the Group's defined benefit plans in 2014 are expected to be approximately 564 million Swiss francs. These estimates for 2014 pension expenses do not include any settlement or past service/curtailment effects that might arise during the year.

During 2013 operating income of 302 million Swiss francs was recorded for past service costs from changes to the Group's pension plans in Switzerland, the UK and Germany. This represents the one-time impact of the adjustment of the pension liability for the plan changes. Of this amount, 131 million Swiss francs were recorded in the Pharmaceuticals Division and 67 million Swiss francs in the Diagnostics Division. The remaining 104 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses. In addition some of the US pension plans made an offer to deferred vested members to settle part of the defined benefit obligation for a lump sum payment. The total lump sum payment made reduced plan assets by 226 million Swiss francs and settled 245 million Swiss francs of the defined benefit obligation, resulting in a gain on settlement of 19 million Swiss francs.

Funding status and balance sheet position

	2013 (mCHF)	2012 (mCHF)
Funded plans		
– Fair value of plan assets	11,144	11,214
– Defined benefit obligation	(12,625)	(13,812)
Over (under) funding	**(1,481)**	**(2,598)**
Unfunded plans		
– Defined benefit obligation	(4,059)	(4,090)
Total funding status	**(5,540)**	**(6,688)**
Limit on asset recognition	(6)	(7)
Reimbursement rights	120	142
Net recognised asset (liability)	**(5,426)**	**(6,553)**

Overall the funding status on an IFRS basis of the Group's defined benefit plans increased to 88% compared to 81% at the start of the year. This funding improvement was mainly due to a reduction in the defined benefit obligation arising from a rise in discount rates at the end of 2013 in comparison to the end of 2012. The changes to the Group's plans referred to above also decreased the defined benefit obligation by 547 million Swiss francs. Plan assets remained stable as company contributions increased to 352 million Swiss francs in 2013, compared to 307 million Swiss francs in 2012, with the settlement in the US plans reducing plan assets by 226 million Swiss francs. The funded status of the pension funds is monitored by the local pension fund governance bodies as well as being closely reviewed at a Group level. In addition to cash injections, the Group initiated plan changes in several local pension plans, as described above.

Full details of the Group's pensions and other post-employment benefits are given in Note 25 to the Consolidated Financial Statements.

Roche shares

Share price and market capitalisation (at 31 December)

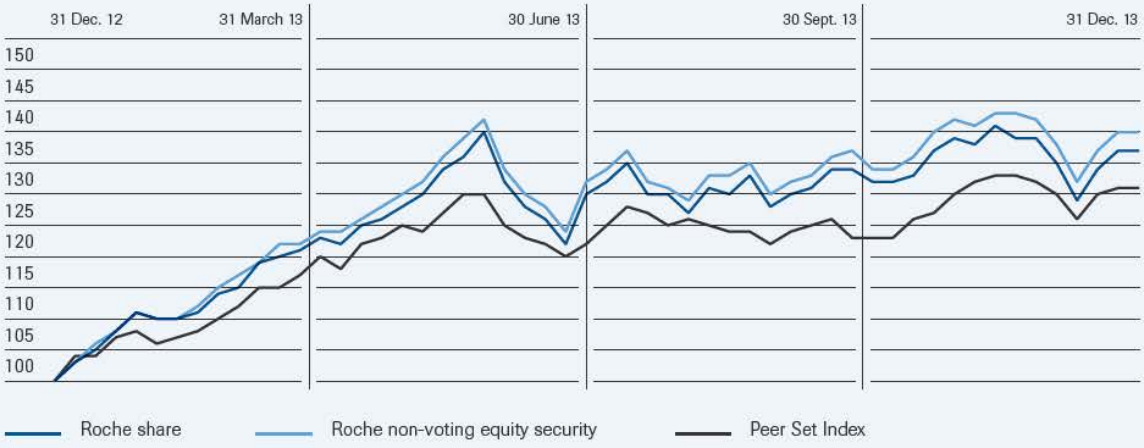
	2013	2012	% change (CHF)
Share price (CHF)	247.40	186.90	+32
Non-voting equity security *(Genussschein)* price (CHF)	249.20	184.00	+35
Market capitalisation (billions of CHF)	211	157	+35

In 2013 Roche ranked number 5 among a peer group consisting of Roche and 16 other healthcare companies[1)] for Total Shareholder Return (TSR), defined as share price growth plus dividends, measured in Swiss francs at actual exchange rates. At constant exchange rates Roche ranked number 6, with the year-end return being 37% for Roche shares and 40% for Roche non-voting equity securities. The combined performance of share and non-voting equity security was 39% compared to a weighted average return for the peer group of 31% in Swiss franc terms and 34% at constant exchange rates.

The healthcare sector outperformed the general market in 2013 despite continued pricing pressure and government budget constraints in many parts of the world. Roche shares outperformed the healthcare sector as the company achieved important new product approvals such as Kadcyla (HER2 breast cancer) and Gazyva (hematological cancers).

1) Peer group for 2013: Abbott, AbbVie, Amgen, Astellas, AstraZeneca, Bayer, Becton Dickinson, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novartis, Pfizer, Roche, Sanofi and Takeda.

Total Shareholder Return development



Source: Datastream. Data for Roche and the peer index has been re-based to 100 at 1 January 2013. The Peer Index was converted into CHF at daily actual exchange rates. Currency fluctuations have an influence on the representation of the relative performance of Roche versus the peer index.

Proposed dividend

The Board of Directors is proposing an increase of 6% in the dividend for 2013 to 7.80 Swiss francs per share and non-voting equity security (2012: 7.35 Swiss francs) for approval at the Annual General Meeting. This is the 27th consecutive increase in the dividend. If the dividend proposal is approved by shareholders, dividend payments on the total shares and non-voting equity securities will amount to 6.7 billion Swiss francs (2012: 6.3 billion Swiss francs), resulting in a pay-out ratio (based on core net income) of 54.7% (2012: 54.5%). Based on the prices at year-end 2013, the dividend yield on the Roche share was 3.2% (2012: 3.9%) and the yield on the non-voting equity security was 3.1% (2012: 4.0%). Further information on the Roche securities is given on pages 150–152 of the Finance Report.

Information per share and non-voting equity security

	2013 (CHF)	2012 (CHF)	% change (CHF)
EPS – Basic	13.16	11.12	+18
EPS – Diluted	12.93	11.03	+17
Core EPS – Basic	14.52	13.60	+7
Core EPS – Diluted	14.27	13.49	+6
Equity attributable to Roche shareholders per share	22.73	17.08	+33
Dividend per share	7.80	7.35	+6

For further details please refer to Notes 21 and 27 of the Consolidated Financial Statements and page 147 of the Finance Report. The pay-out ratio is calculated as dividend per share divided by core earnings per share. The 2012 pay-out ratio was restated following the accounting policy changes which were adopted in 2013.

Debt

To finance the Genentech transaction in 2009, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs. Of the debt raised in early 2009, 67% had already been repaid by 31 December 2013. This includes the redemption of 3.3 billion euro-denominated notes on the due date of 4 March 2013 and 1.75 billion US dollars of notes originally due 1 March 2014 that were redeemed on 21 March 2013 following an exercise of an early call option made in December 2012. In addition 400 million US dollars of notes originally due 1 March 2019 were redeemed on 29 August 2013 following an exercise by the Group of an early call option made in June 2013. In the second half of the year the Group redeemed 400 million Swiss francs of bonds on the due date of 23 September 2013 and, on 26 December 2013, the Group exercised its option to call for early redemption of 1.0 billion US dollars of notes that were due 1 March 2019. These notes will be repaid on 3 March 2014.

The maturity schedule of the Group's bonds and notes outstanding at 31 December 2013 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts at 31 December 2013 by contractual maturity

	US dollar (mUSD)	Euro (mEUR)	Pound sterling (mGBP)	Swiss franc (mCHF)	Total [1] (mUSD)	Total [1] (mCHF)
2014	1,000[2]	–	–	–	1,000	888
2015	1,000	–	900[4]	–	2,485	2,207
2016	–	2,100[3]	–	–	2,899	2,574
2017	–	–	–	1,500	1,689	1,500
2018	–	1,000	–	600	2,056	1,826
2019–2023	3,100	1,750[3]	200	500	6,409	5,691
2024 and beyond	3,000	–	–	–	3,000	2,664
Total	**8,100**	**4,850**	**1,100**	**2,600**	**19,538**	**17,350**

1) Total translated at 31 December 2013 exchange rates.
2) Following the Group's exercise of its early call option in December 2013, 1.0 billion US dollars of notes originally due in 2019 will be redeemed in March 2014, five years ahead of their contractual maturity.
3) Of the proceeds from these bonds and notes, 3.3 billion euros have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.
4) Of the proceeds from these bonds and notes, 600 million pounds sterling have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In 2013 the free cash flow was 5.4 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends.

For short-term financing requirements, the Group has a commercial paper programme in the US under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 3.9 billion euros available as back-stop lines. Commercial paper notes totalling 0.8 billion US dollars were outstanding at 31 December 2013 (2012: 0.4 billion US dollars). For longer-term financing the Group has maintained strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's which should facilitate efficient access to international capital markets.

Credit ratings for the Roche Group at 31 December 2013

	Short-term	Long-term	Outlook
Moody's	P-1	A1	Stable
Standard & Poor's	A-1+	AA	Stable

Financial risks

At 31 December 2013 the Group has a net debt position of 6.7 billion Swiss francs (2012: 10.6 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

Asset allocation. A considerable portion of the cash and marketable securities the Group currently holds is being used for debt redemptions. Liquid funds are either held as cash or are invested in high-quality, investment-grade fixed income securities with an investment horizon to meet those liquidity requirements.

Cash and marketable securities

	2013 (mCHF)	2013 (% of total)	2012 (mCHF)	2012 (% of total)
Cash and cash equivalents	4,000	34	4,530	32
Money market instruments	6,706	55	7,631	55
Debt securities	793	7	1,558	11
Equity securities	436	4	272	2
Total cash and marketable securities	**11,935**	**100**	**13,991**	**100**

Credit risk. Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's 11.5 billion Swiss francs of cash and fixed income marketable securities remained strong with 98% being invested in the A-AAA range. The Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 9.3 billion Swiss francs. Since 2010 there have been continuing financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and at 31 December 2013 has trade receivables of 1.1 billion euros (1.3 billion Swiss francs) with the public customers in these countries. There was a decrease of 13% compared to 31 December 2012 with improved collections in Italy, Greece and Portugal, while Spain remained stable compared to 2012. The Group uses different measures to improve collections in these countries, including intense communication with customers, factoring, negotiations of payments plans, charging of interest for late payments, and legal action. The Group is applying new commercial arrangements with some public hospitals in Greece and Portugal.

Liquidity risk. Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In addition to the current liquidity position, the Group has strong cash generation ability. Those future cash flows will be used to repay debt instruments in the coming years.

Roche has strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 5.1 billion Swiss francs of which 4.8 billion Swiss francs serve as back-stop line for the commercial paper programme. At 31 December 2013 no debt has been drawn under these credit lines.

Market risk. Market risk arises from changing market prices of the Group's financial assets or financial liabilities. The exposures are predominantly related to changes in foreign exchange rates and interest rates. The Group uses Value-at-Risk (VaR) to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The Group's VaR increased during 2013, mainly due to a gradual increase in long-term interest rates in major economies.

Interest rate risk. Interest rate risk arises from movements in interest rates which could affect the Group financial result or the value of the Group equity. As part of the Group's hedging management during 2013 the Group entered into interest rate swap contracts for a combined notional principal of 2.0 billion US dollars. These swapped the fixed interest rate of 6.0% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 4.74%. The maturity of the swaps is 1 March 2019. In the same period the Group has entered into interest rate swap contracts with a combined notional principal of 100 million Swiss francs. These swapped the fixed interest rate of 1.0% to an effective floating interest rate of 3 months CHF-LIBOR plus an average spread of 0.21%. The maturity of the swaps is 21 September 2018.

Further information on financial risk management and financial risks and the VaR methodology is included in Note 29 to the Consolidated Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. Several new and revised standards have been implemented effective 1 January 2013. These are listed in Note 32 to the Consolidated Financial Statements. Except as noted below, these have no material impact on the Group's overall results and financial position.

Amongst other matters the revised version of IAS 19 'Employee Benefits' includes the following changes to the existing standard:

- Eliminating the option to defer the recognition of actuarial gains and losses from defined benefit post-employment plans, known as the 'corridor method'. The Group has not previously applied this option, but rather uses the option to recognise such gains and losses in other comprehensive income. The option previously applied by the Group will henceforth be a requirement under the revised standard and therefore this change has no impact on the Group's financial statements.
- The previous method of including the expected income from plan assets at an estimated asset return is replaced by using the discount rate that is used to discount the defined benefit obligation. In the restated results of 2012 this causes a reduction in net financial income of 164 million Swiss francs. There was no impact on Roche's operating income or net assets from this change.
- Past service costs are recognised immediately in the income statement in the period of a plan amendment. Previously, past service costs had the portion related to unvested benefits deferred on the balance sheet, which was then progressively released.

Further information on this topic was published in an Investor Update on 21 March 2013. This is available at http://www.roche.com/investors/ir_update/inv-update-2013-03-21.htm.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be effective from 1 January 2014 and beyond which the Group has not yet applied. 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.

Roche Group
Consolidated Financial Statements

Roche Group consolidated income statement for the year ended 31 December 2013 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**36,304**	**10,476**	**–**	**46,780**
Royalties and other operating income [2]	1,702	130	–	1,832
Cost of sales	(7,014)	(4,934)	–	(11,948)
Marketing and distribution	(5,844)	(2,529)	–	(8,373)
Research and development [2]	(8,189)	(1,081)	–	(9,270)
General and administration	(1,326)	(821)	(498)	(2,645)
Operating profit [2]	**15,633**	**1,241**	**(498)**	**16,376**
Financing costs [3]				(1,580)
Other financial income (expense) [3]				(119)
Profit before taxes				**14,677**
Income taxes [4]				(3,304)
Net income				**11,373**
Attributable to				
– Roche shareholders [21]				11,164
– Non-controlling interests [23]				209
Earnings per share and non-voting equity security [27]				
Basic (CHF)				13.16
Diluted (CHF)				12.93

Roche Group consolidated income statement for the year ended 31 December 2012 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**35,232**	**10,267**	**–**	**45,499**
Royalties and other operating income [2]	1,794	151	–	1,945
Cost of sales	(7,348)	(4,827)	–	(12,175)
Marketing and distribution	(5,914)	(2,625)	–	(8,539)
Research and development [2]	(8,529)	(1,023)	–	(9,552)
General and administration	(1,558)	(659)	(836)	(3,053)
Operating profit [2]	**13,677**	**1,284**	**(836)**	**14,125**
Financing costs [3]				(1,923)
Other financial income (expense) [3]				(43)
Profit before taxes				**12,159**
Income taxes [4]				(2,499)
Net income				**9,660**
Attributable to				
– Roche shareholders [21]				9,427
– Non-controlling interests [23]				233
Earnings per share and non-voting equity security [27]				
Basic (CHF)				11.12
Diluted (CHF)				11.03

As disclosed in Note 32, the income statement for the year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income statement is provided in Note 32.

Roche Group consolidated statement of comprehensive income in millions of CHF

	Year ended 31 December 2013	2012
Net income recognised in income statement	**11,373**	**9,660**
Other comprehensive income		
Remeasurements of defined benefit plans [21]	674	(1,202)
Items that will not be reclassified to the income statement	**674**	**(1,202)**
Available-for-sale investments [21]	26	(2)
Cash flow hedges [21]	77	61
Currency translation of foreign operations [21]	(1,331)	(694)
Items that may be reclassified subsequently to the income statement	**(1,228)**	**(635)**
Other comprehensive income, net of tax	**(554)**	**(1,837)**
Total comprehensive income	**10,819**	**7,823**
Attributable to		
– Roche shareholders [21]	11,012	7,863
– Non-controlling interests [23]	(193)	(40)
Total	**10,819**	**7,823**

As disclosed in Note 32, the statement of comprehensive income for the year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published statement of comprehensive income is provided in Note 32.

Roche Group consolidated balance sheet in millions of CHF

	31 December 2013	31 December 2012	31 December 2011
Non-current assets			
Property, plant and equipment [7]	15,760	15,402	16,201
Goodwill [8]	7,145	7,480	7,843
Intangible assets [9]	3,944	4,214	5,126
Deferred tax assets [4]	4,707	4,849	2,753
Defined benefit plan assets [25]	636	678	581
Other non-current assets [14]	811	814	844
Total non-current assets	**33,003**	**33,437**	**33,348**
Current assets			
Inventories [10]	5,906	5,542	5,060
Accounts receivable [11]	8,808	9,465	9,799
Current income tax assets [4]	218	339	222
Other current assets [15]	2,297	2,034	1,864
Marketable securities [12]	7,935	9,461	7,433
Cash and cash equivalents [13]	4,000	4,530	3,854
Total current assets	**29,164**	**31,371**	**28,232**
Total assets	**62,167**	**64,808**	**61,580**
Non-current liabilities			
Long-term debt [20]	(16,423)	(17,860)	(23,459)
Deferred tax liabilities [4]	(1,282)	(1,397)	(606)
Defined benefit plan liabilities [25]	(6,062)	(7,231)	(5,498)
Provisions [19]	(1,097)	(1,042)	(991)
Other non-current liabilities [17]	(302)	(319)	(310)
Total non-current liabilities	**(25,166)**	**(27,849)**	**(30,864)**
Current liabilities			
Short-term debt [20]	(2,220)	(6,730)	(3,394)
Current income tax liabilities [4]	(1,805)	(2,210)	(2,206)
Provisions [19]	(2,148)	(2,158)	(1,742)
Accounts payable [16]	(2,162)	(1,945)	(2,053)
Other current liabilities [18]	(7,425)	(7,166)	(6,815)
Total current liabilities	**(15,760)**	**(20,209)**	**(16,210)**
Total liabilities	**(40,926)**	**(48,058)**	**(47,074)**
Total net assets	**21,241**	**16,750**	**14,506**
Equity			
Capital and reserves attributable to Roche shareholders [21]	19,294	14,514	12,116
Equity attributable to non-controlling interests [23]	1,947	2,236	2,390
Total equity	**21,241**	**16,750**	**14,506**

As disclosed in Note 32, the balance sheets at 31 December 2012 and 31 December 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheets is provided in Note 32.

Roche Group consolidated statement of cash flows in millions of CHF

	Year ended 31 December 2013	2012
Cash flows from operating activities		
Cash generated from operations [26]	20,796	19,984
(Increase) decrease in net working capital	(209)	(523)
Payments made for defined benefit plans [25]	(483)	(439)
Utilisation of provisions [19]	(1,000)	(828)
Disposal of products	6	138
Other operating cash flows	3	2
Cash flows from operating activities, before income taxes paid	**19,113**	**18,334**
Income taxes paid	(3,341)	(3,329)
Total cash flows from operating activities	**15,772**	**15,005**
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,451)	(2,171)
Purchase of intangible assets	(403)	(235)
Disposal of property, plant and equipment	65	107
Disposal of intangible assets	–	–
Business combinations [5]	(233)	(36)
Divestment of subsidiaries	2	8
Interest and dividends received [28]	51	39
Sales of marketable securities	47,954	40,934
Purchases of marketable securities	(46,310)	(43,158)
Other investing cash flows	23	(2)
Total cash flows from investing activities	**(1,302)**	**(4,514)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [20]	–	2,698
Redemption and repurchase of bonds and notes [20]	(6,633)	(4,326)
Increase (decrease) in commercial paper [20]	404	(687)
Increase (decrease) in other debt [20]	151	153
Hedging and collateral arrangements	247	172
Equity contribution by non-controlling interests	20	–
Interest paid	(1,299)	(1,514)
Dividends paid [28]	(6,362)	(5,888)
Equity-settled equity compensation plans, net of transactions in own equity [26]	(1,190)	(301)
Other financing cash flows	(7)	(1)
Total cash flows from financing activities	**(14,669)**	**(9,694)**
Net effect of currency translation on cash and cash equivalents	(331)	(121)
Increase (decrease) in cash and cash equivalents	**(530)**	**676**
Cash and cash equivalents at 1 January	4,530	3,854
Cash and cash equivalents at 31 December [13]	**4,000**	**4,530**

Roche Group consolidated statement of changes in equity in millions of CHF

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Year ended 31 December 2012								
At 1 January 2012	**160**	**17,286**	**124**	**(20)**	**(5,434)**	**12,116**	**2,390**	**14,506**
Net income recognised in income statement	–	9,427	–	–	–	9,427	233	9,660
Available-for-sale investments	–	–	(6)	–	–	(6)	4	(2)
Cash flow hedges	–	–	–	61	–	61	–	61
Currency translation of foreign operations	–	–	(5)	(1)	(406)	(412)	(282)	(694)
Remeasurements of defined benefit plans	–	(1,207)	–	–	–	(1,207)	5	(1,202)
Total comprehensive income	**–**	**8,220**	**(11)**	**60**	**(406)**	**7,863**	**(40)**	**7,823**
Dividends	–	(5,770)	-	–	–	(5,770)	(116)	(5,886)
Equity compensation plans, net of transactions in own equity	–	305	–	–	–	305	1	306
Changes in non-controlling interests	–	–	–	–	–	–	1	1
At 31 December 2012	**160**	**20,041**	**113**	**40**	**(5,840)**	**14,514**	**2,236**	**16,750**
Year ended 31 December 2013								
At 1 January 2013	**160**	**20,041**	**113**	**40**	**(5,840)**	**14,514**	**2,236**	**16,750**
Net income recognised in income statement	–	11,164	–	–	–	11,164	209	11,373
Available-for-sale investments	–	–	19	–	–	19	7	26
Cash flow hedges	–	–	–	62	–	62	15	77
Currency translation of foreign operations	–	–	(9)	(7)	(887)	(903)	(428)	(1,331)
Remeasurements of defined benefit plans	–	670	–	–	–	670	4	674
Total comprehensive income	**–**	**11,834**	**10**	**55**	**(887)**	**11,012**	**(193)**	**10,819**
Dividends	–	(6,238)	–	–	–	(6,238)	(123)	(6,361)
Equity compensation plans, net of transactions in own equity	–	6	–	–	–	6	4	10
Changes in non-controlling interests	–	–	–	–	–	–	3	3
Equity contribution by non-controlling interests	–	–	–	–	–	–	20	20
At 31 December 2013	**160**	**25,643**	**123**	**95**	**(6,727)**	**19,294**	**1,947**	**21,241**

As disclosed in Note 32, the statement of changes in equity for the year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published total equity at 1 January 2012 is provided in Note 32.

Notes to the Roche Group Consolidated Financial Statements

1. General accounting principles

Basis of preparation

The consolidated financial statements (hereafter 'the Annual Financial Statements') of the Roche Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value. They were approved for issue by the Board of Directors on 27 January 2014 and are subject to approval by the Annual General Meeting of shareholders on 4 March 2014.

These financial statements are the Annual Financial Statements of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries ('the Group').

The Group's significant accounting policies and changes in accounting policies are disclosed in Note 32.

Key accounting judgements, estimates and assumptions

The preparation of the Annual Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and various other factors. Revisions to estimates are recognised in the period in which the estimate is revised. The following are considered to be the key accounting judgements, estimates and assumptions made and are believed to be appropriate based upon currently available information.

Revenue. The nature of the Group's business is such that many sales transactions do not have a simple structure and may consist of multiple components occurring at different times. The Group is also party to out-licensing agreements which involve upfront and milestone payments occurring over several years and which may also involve certain future obligations. Revenue is only recognised when, in management's judgement, the significant risks and rewards of ownership have been transferred and when the Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligation has been fulfilled. For some transactions this can result in cash receipts being initially recognised as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement. There may be circumstances such that the level of sales returns, and hence revenues, cannot be reliably measured. In such cases sales are only recognised when the right of return expires, which is generally upon prescription of the products to patients. In order to estimate this, management uses publicly available information about prescriptions as well as information provided by wholesalers and other intermediaries.

At 31 December 2013 the Group has 2,005 million Swiss francs in provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the US and similar rebates in other countries. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience. At 31 December 2013 the Group has 425 million Swiss francs of provisions for doubtful receivables (see Note 11). Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and the Group's experience, taking also into account current economic conditions.

Business combinations. The Group initially recognises the fair value of identifiable assets acquired, the liabilities assumed, any non-controlling interest and the consideration transferred in a business combination. Management judgement is particularly involved in the recognition and fair value measurement of intellectual property, contingent liabilities and contingent consideration. In making this assessment management considers the underlying economic substance of the items concerned in addition to the contractual terms.

Impairment. At 31 December 2013 the Group had 15,760 million Swiss francs in property, plant and equipment (see Note 7), 7,145 million Swiss francs in goodwill (see Note 8) and 3,944 million Swiss francs in intangible assets (see Note 9). Goodwill and intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence or absence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairment.

Pensions and other post-employment benefits. The Group operates a number of defined benefit plans and the fair value of the recognised plan assets and liabilities are based upon statistical and actuarial calculations. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate, inflation rate, expected mortality and medical cost trend rate assumptions. At 31 December 2013 the present value of the Group's defined benefit obligation is 16,684 million Swiss francs (see Note 25). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the assets or liabilities recognised in the balance sheet in future periods.

Legal provisions. The Group provides for anticipated legal settlement costs when there is a probable outflow of resources that can be reliably estimated. At 31 December 2013 the Group had 634 million Swiss francs in legal provisions. The status of significant legal cases is disclosed in Note 19. These estimates consider the specific circumstances of each legal case, relevant legal advice and are inherently judgemental due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material.

Environmental provisions. The Group provides for anticipated environmental remediation costs when there is a probable outflow of resources that can be reasonably estimated. At 31 December 2013 the Group had 624 million Swiss francs in environmental provisions (see Note 19). Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgemental due to uncertainties related to the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of the problematic materials attributable to the Group at the remediation sites, and the financial capabilities of the other potentially responsible parties. The estimates could change substantially over time as new facts emerge and each environmental remediation progresses.

Income taxes. At 31 December 2013 the Group had a current income tax net liability of 1,587 million Swiss francs and a deferred tax net asset of 3,425 million Swiss francs (see Note 4). Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Factors that may impact on current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

Leases. The treatment of leasing transactions is mainly determined by whether the lease is considered to be an operating or finance lease. In making this assessment, management looks at the substance of the lease, as well as the legal form, and makes a judgement about whether substantially all of the risks and rewards of ownership are transferred. Arrangements which do not take the legal form of a lease but that nevertheless convey the right to use an asset are also covered by such assessments.

Consolidation. The Group periodically undertakes transactions that may involve obtaining control or significant influence of other companies. These transactions include equity acquisitions, asset purchases, alliance agreements and other transactions with structured entities. In all such cases management makes an assessment as to whether the Group has control or significant influence of the other company, and whether it should be consolidated as a subsidiary or accounted for as an associated company. In making this assessment management considers the underlying economic substance of the transaction in addition to the contractual terms.

2. Operating segment information

The Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenues from the sale or licensing of products or technology to third parties. Residual operating activities from divested businesses and certain global activities are reported as 'Corporate'. These include the Corporate Executive Committee and global group functions for communications, human resources, finance (including treasury, taxes and pension fund management), legal, safety and environmental services. Sub-divisional information for Roche Pharmaceuticals and Chugai, operating segments within the Pharmaceuticals Division, is also presented.

Divisional information in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues from external customers								
Sales	36,304	35,232	10,476	10,267	–	–	46,780	45,499
Royalties and other operating income	1,702	1,794	130	151	–	–	1,832	1,945
Total	**38,006**	**37,026**	**10,606**	**10,418**	**–**	**–**	**48,612**	**47,444**
Revenues from other operating segments								
Sales	–	–	10	13	–	–	10	13
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(10)	(13)
Total	**–**	**–**	**10**	**13**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	15,633	13,677	1,241	1,284	(498)	(836)	16,376	14,125
Capital expenditure								
Business combinations	–	–	363	17	–	–	363	17
Additions to property, plant and equipment	1,294	1,049	1,158	1,079	6	2	2,458	2,130
Additions to intangible assets	366	209	49	25	–	–	415	234
Total capital expenditure	**1,660**	**1,258**	**1,570**	**1,121**	**6**	**2**	**3,236**	**2,381**
Research and development								
Research and development costs	8,189	8,529	1,081	1,023	–	–	9,270	9,552
Other segment information								
Depreciation of property, plant and equipment	1,024	1,057	847	828	7	6	1,878	1,891
Amortisation of intangible assets	177	181	326	349	–	–	503	530
Impairment (reversal) of property, plant and equipment	(488)	444	14	18	–	–	(474)	462
Impairment of goodwill	–	–	288	187	–	–	288	187
Impairment of intangible assets	350	489	12	36	–	–	362	525
Equity compensation plan expenses	296	307	40	35	24	21	360	363

Pharmaceuticals sub-divisional information in millions of CHF

	Roche Pharmaceuticals 2013	Roche Pharmaceuticals 2012	Chugai 2013	Chugai 2012	Pharmaceuticals Division 2013	Pharmaceuticals Division 2012
Revenues from external customers						
Sales	32,899	31,124	3,405	4,108	36,304	35,232
Royalties and other operating income	1,601	1,731	101	63	1,702	1,794
Total	**34,500**	**32,855**	**3,506**	**4,171**	**38,006**	**37,026**
Revenues from other operating segments						
Sales	1,184	1,065	408	300	1,592	1,365
Royalties and other operating income	49	25	111	70	160	95
Elimination of income within division					(1,752)	(1,460)
Total	**1,233**	**1,090**	**519**	**370**	**–**	**–**
Segment results						
Operating profit	15,111	12,910	679	805	15,790	13,715
Elimination of profit within division					(157)	(38)
Operating profit	**15,111**	**12,910**	**679**	**805**	**15,633**	**13,677**
Capital expenditure						
Business combinations	–	–	–	–	–	–
Additions to property, plant and equipment	1,169	882	125	167	1,294	1,049
Additions to intangible assets	356	206	10	3	366	209
Total capital expenditure	**1,525**	**1,088**	**135**	**170**	**1,660**	**1,258**
Research and development						
Research and development costs	7,507	7,751	743	800	8,250	8,551
Elimination of costs within division					(61)	(22)
Total	**7,507**	**7,751**	**743**	**800**	**8,189**	**8,529**
Other segment information						
Depreciation of property, plant and equipment	897	903	127	154	1,024	1,057
Amortisation of intangible assets	134	112	43	69	177	181
Impairment (reversal) of property, plant and equipment	(504)	441	16	3	(488)	444
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	350	489	–	–	350	489
Equity compensation plan expenses	293	304	3	3	296	307

Net operating assets in millions of CHF

	Assets 2013	Assets 2012	Assets 2011	Liabilities 2013	Liabilities 2012	Liabilities 2011	Net assets 2013	Net assets 2012	Net assets 2011
Pharmaceuticals	26,672	26,785	27,877	(8,269)	(8,282)	(7,869)	18,403	18,503	20,008
Diagnostics	16,846	17,261	18,136	(2,814)	(2,532)	(2,613)	14,032	14,729	15,523
Corporate	164	156	162	(665)	(536)	(202)	(501)	(380)	(40)
Total operating	**43,682**	**44,202**	**46,175**	**(11,748)**	**(11,350)**	**(10,684)**	**31,934**	**32,852**	**35,491**
Non-operating	18,485	20,606	15,405	(29,178)	(36,708)	(36,390)	(10,693)	(16,102)	(20,985)
Group	**62,167**	**64,808**	**61,580**	**(40,926)**	**(48,058)**	**(47,074)**	**21,241**	**16,750**	**14,506**

As disclosed in Note 32, the non-operating net assets at 31 December 2012 and 31 December 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheet is provided in Note 32.

Net operating assets – Pharmaceuticals sub-divisional information in millions of CHF

	Assets			Liabilities			Net assets		
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Roche Pharmaceuticals	23,688	22,962	23,542	(7,472)	(7,323)	(7,119)	16,216	15,639	16,423
Chugai	3,725	4,532	5,088	(797)	(959)	(750)	2,928	3,573	4,338
Elimination within division	(741)	(709)	(753)	–	–	–	(741)	(709)	(753)
Pharmaceuticals Division	**26,672**	**26,785**	**27,877**	**(8,269)**	**(8,282)**	**(7,869)**	**18,403**	**18,503**	**20,008**

Information by geographical area in millions of CHF

	Revenues from external customers		Non-current assets	
	Sales	Royalties and other operating income	Property, plant and equipment	Goodwill and intangible assets
2013				
Switzerland	526	145	3,817	2,072
European Union	12,616	21	4,169	1,519
– *of which Germany*	*2,729*	*20*	*3,122*	*1,479*
Rest of Europe	1,454	–	67	1
Europe	**14,596**	**166**	**8,053**	**3,592**
United States	17,169	1,557	4,720	7,214
Rest of North America	1,042	2	114	79
North America	**18,211**	**1,559**	**4,834**	**7,293**
Latin America	3,363	–	348	12
Japan	3,936	101	1,281	190
Rest of Asia	5,129	6	1,158	–
Asia	**9,065**	**107**	**2,439**	**190**
Africa, Australia and Oceania	1,545	–	86	2
Total	**46,780**	**1,832**	**15,760**	**11,089**
2012				
Switzerland	505	257	3,599	1,867
European Union	12,272	51	4,004	1,787
– *of which Germany*	*2,534*	*48*	*2,938*	*1,746*
Rest of Europe	1,570	–	59	1
Europe	**14,347**	**308**	**7,662**	**3,655**
United States	15,932	1,567	4,422	7,483
Rest of North America	1,035	2	97	87
North America	**16,967**	**1,569**	**4,519**	**7,570**
Latin America	3,410	–	408	14
Japan	4,735	63	1,638	276
Rest of Asia	4,368	4	1,081	177
Asia	**9,103**	**67**	**2,719**	**453**
Africa, Australia and Oceania	1,672	1	94	2
Total	**45,499**	**1,945**	**15,402**	**11,694**

Supplementary unaudited information on sales by therapeutic areas in the Pharmaceuticals Division and by business areas in the Diagnostics Division are given in the Financial Review. Sales are allocated to geographical areas by destination according to the location of the customer. Royalties and other operating income are allocated according to the location of the Group company that receives the revenue. European Union information is based on members of the EU at 31 December 2013.

Major customers

In total three US national wholesale distributors represent approximately a quarter of the Group's revenues in 2013. The three US national wholesale distributors are AmerisourceBergen Corp. with 5 billion Swiss francs (2012: 5 billion Swiss francs); McKesson Corp. with 5 billion Swiss francs (2012: 5 billion Swiss francs) and Cardinal Health, Inc. with 3 billion Swiss francs (2012: 2 billion Swiss francs). Approximately 96% of these revenues were in the Pharmaceuticals operating segment, with the residual in the Diagnostics segment.

3. Net financial expense

Financing costs in millions of CHF

	2013	2012
Interest expense	(1,062)	(1,396)
Amortisation of debt discount [20]	(23)	(30)
Net gains (losses) on redemption and repurchase of bonds and notes [20]	(248)	(259)
Discount unwind [19]	(20)	(12)
Net interest cost of defined benefit plans [25]	(227)	(226)
Total financing costs	**(1,580)**	**(1,923)**

Other financial income (expense) in millions of CHF

	2013	2012
Net gains (losses) on sale of equity securities	47	60
Net gains (losses) on equity security derivatives	2	1
Dividend income	2	2
Write-downs and impairments of equity securities	(9)	(25)
Net income from equity securities	**42**	**38**
Interest income	27	32
Net interest income and income from debt securities	**27**	**32**
Net foreign exchange gains (losses)	(223)	(120)
Net gains (losses) on foreign currency derivatives	49	31
Foreign exchange gains (losses)	**(174)**	**(89)**
Net other financial income (expense)	(8)	(24)
Associates	(6)	–
Total other financial income (expense)	**(119)**	**(43)**

Net financial expense in millions of CHF

	2013	2012
Financing costs	(1,580)	(1,923)
Other financial income (expense)	(119)	(43)
Net financial expense	**(1,699)**	**(1,966)**
Financial result from Treasury management	(1,466)	(1,740)
Financial result from Pension management	(227)	(226)
Associates	(6)	–
Net financial expense	**(1,699)**	**(1,966)**

As disclosed in Note 32, the net financial expense for the year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net financial expense is provided in Note 32.

4. Income taxes

Income tax expenses in millions of CHF

	2013	2012
Current income taxes	(3,391)	(3,332)
Deferred taxes	87	833
Total income tax (expense)	**(3,304)**	**(2,499)**

As disclosed in Note 32, the income tax expense for year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income tax expense is provided in Note 32.

Since the Group operates internationally, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates. This rate changes from year to year due to changes in the mix of the Group's taxable income and changes in local tax rates.

The Group's average expected tax rate increased by 2.4 percentage points to 22.6% in 2013 (2012: 20.2%). The main driver for the increase was due to the growth in the proportion of the Group's profits generated in the US, which has a relatively higher local tax rate than the average Group rate. There were no significant local tax rate changes in the main operating areas of the Group compared to 2012.

The Group's effective tax rate increased to 22.5% in 2013 (2012: 20.6%). The main driver for the increase was the increase in the average expected tax rate explained above. This was partially offset by the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 results include a whole year of tax credits in respect of 2012 as well as tax credits for 2013.

The Group's effective tax rate can be reconciled to the Group's average expected tax rate as follows:

Reconciliation of the Group's effective tax rate

	2013	2012
Average expected tax rate	22.6%	20.2%
Tax effect of		
– Non-taxable income/non-deductible expenses	+2.0%	+1.8%
– Equity compensation plans	–0.2%	–0.3%
– Research, development and other manufacturing tax credits	–2.4%	–2.1%
– US state tax impacts	+0.4%	+0.8%
– Tax on unremitted earnings	+0.9%	+0.4%
– Utilisation of previously unrecognised tax losses	–0.7%	–
– Other differences	–0.1%	–0.2%
Group's effective tax rate	**22.5%**	**20.6%**

The income tax benefits recorded in respect of equity compensation plans, which varies according to the price of the underlying equity, was 122 million Swiss francs (2012: 133 million Swiss francs). Had the income tax benefits been recorded solely on the basis of the IFRS 2 expense multiplied by the applicable tax rate, then benefits of approximately 100 million Swiss francs (2012: 107 million Swiss francs) would have been recorded.

Tax effects of other comprehensive income in millions of CHF

	2013			2012		
	Pre-tax amount	Tax	After-tax amount	Pre-tax amount	Tax	After-tax amount
Remeasurements of defined benefit plans	1,000	(326)	674	(1,643)	441	(1,202)
Available-for-sale investments	42	(16)	26	(2)	–	(2)
Cash flow hedges	118	(41)	77	98	(37)	61
Currency translation of foreign operations	(1,331)	–	(1,331)	(694)	–	(694)
Other comprehensive income	**(171)**	**(383)**	**(554)**	**(2,241)**	**404**	**(1,837)**

Income tax assets (liabilities) in millions of CHF

	2013	2012	2011
Current income taxes			
– Assets	218	339	222
– Liabilities	(1,805)	(2,210)	(2,206)
Net current income tax assets (liabilities)	**(1,587)**	**(1,871)**	**(1,984)**
Deferred taxes			
– Assets	4,707	4,849	2,753
– Liabilities	(1,282)	(1,397)	(606)
Net deferred tax assets (liabilities)	**3,425**	**3,452**	**2,147**

Current income taxes: movements in recognised net assets (liabilities) in millions of CHF

	2013	2012
Net current income tax asset (liability) at 1 January	(1,871)	(1,984)
Income taxes paid	3,341	3,329
(Charged) credited to the income statement	(3,391)	(3,332)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	278	54
Currency translation effects and other	56	62
Net current income tax asset (liability) at 31 December	**(1,587)**	**(1,871)**

Deferred taxes: movements in recognised net assets (liabilities) in millions of CHF

	Property, plant and equipment	Intangible assets	Defined benefit plans	Other temporary differences	Total
Year ended 31 December 2012					
At 1 January 2012	(1,017)	(1,349)	1,059	3,454	2,147
Business combinations[5]	–	(4)	–	–	(4)
(Charged) credited to the income statement	162	245	(10)	436	833
(Charged) credited to other comprehensive income[21]	–	–	441	(37)	404
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	–	–	192	192
Currency translation effects and other	43	29	(27)	(165)	(120)
At 31 December 2012	**(812)**	**(1,079)**	**1,463**	**3,880**	**3,452**
Year ended 31 December 2013					
At 1 January 2013	(812)	(1,079)	1,463	3,880	3,452
Business combinations[5]	–	(102)	–	4	(98)
(Charged) credited to the income statement	(98)	512	(60)	(267)	87
(Charged) credited to other comprehensive income[21]	–	–	(326)	(57)	(383)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	–	–	555	555
Currency translation effects and other	59	9	(10)	(246)	(188)
At 31 December 2013	**(851)**	**(660)**	**1,067**	**3,869**	**3,425**

The deferred tax assets for other temporary differences mainly relates to accrued and other liabilities, provisions and unrealised profit in inventory.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Group has unrecognised tax losses, including valuation allowances, as follows:

Unrecognised tax losses: expiry

	2013 Amount (mCHF)	2013 Applicable tax rate	2012 Amount (mCHF)	2012 Applicable tax rate
Within one year	–	–	35	21%
Between one and five years	406	14%	590	16%
More than five years	4,078	5%	2,821	5%
Total unrecognised tax losses	**4,484**	**6%**	**3,446**	**7%**

The 'More than five years' category includes losses that cannot be used for US state income tax purposes in those states which only permit tax reporting on a separate entity basis.

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of foreign subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group, regarded as permanently reinvested, were 29.7 billion Swiss francs at 31 December 2013 (2012: 30.9 billion Swiss francs).

5. Business combinations

Acquisitions – 2013

Constitution Medical Investors, Inc. On 1 July 2013 the Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI is reported in the Diagnostics operating segment as part of the Professional Diagnostics business area. The total consideration was 286 million US dollars, of which 220 million US dollars was paid in cash and 66 million US dollars arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until the end of 2017 and the range of undiscounted outcomes is between zero and 255 million US dollars. The identifiable assets acquired and liabilities assumed are set out in the table below.

Acquisitions – 2013: net assets acquired in millions of CHF

	CMI
Intangible assets – Product intangibles: not available for use	262
Deferred tax liabilities	(98)
Other net assets (liabilities)	1
Net identifiable assets	**165**
Goodwill	101
Total consideration	**266**
Cash	205
Contingent consideration [29]	61
Total consideration	**266**

The fair value of the intangible asset is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 12.5%. The valuation was performed by an independent valuer.

Goodwill represents a control premium and synergies that can be obtained from the Group's existing business. None of the goodwill is expected to be deductible for income tax purposes. Directly attributable transaction costs of 3 million Swiss francs are reported in the Diagnostics operating segment within general and administration expenses. The impact of the CMI acquisition on the Diagnostics Division and Group reported results was not material.

Acquisitions – 2012

Verum. On 3 January 2012 the Group acquired a 100% controlling interest in Verum Diagnostica GmbH ('Verum'), a German private company based in Munich. Verum is reported in the Diagnostics operating segment. The total consideration was 11 million euros of which 10 million euros were paid in cash and 1 million euros arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and 2 million euros. The identifiable assets acquired and liabilities assumed are set out in the table below.

Acquisitions – 2012: net assets acquired in millions of CHF

	Verum
Intangible assets – Product intangibles: in use	17
Inventories	1
Deferred tax liabilities	(4)
Other net assets (liabilities)	(1)
Net identifiable assets	**13**
Goodwill	–
Total consideration	**13**
Cash	12
Contingent consideration [29]	1
Total consideration	**13**

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	2013	2012
Cash consideration paid	(205)	(12)
Cash in acquired company	1	–
Contingent consideration paid [29]	(29)	(24)
Total net cash outflow	**(233)**	**(36)**

6. Global restructuring plans

During 2013 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the reorganisation of research and development in the Pharmaceuticals Division and programmes to address the long-term profitability in the Diabetes Care and former Applied Science businesses in Diagnostics. Additionally, there was income of 531 million Swiss francs from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics[1]	Pharma R&D[2]	Other plans[3]	Total
Year ended 31 December 2013				
Global restructuring costs				
– Employee-related costs	89	44	132	265
– Site closure costs	48	38	(491)	(405)
– Other reorganisation expenses	83	157	66	306
Total global restructuring costs	**220**	**239**	**(293)**	**166**
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	(53)	–	(50)
Total costs	**270**	**186**	**(293)**	**163**
Year ended 31 December 2012				
Global restructuring costs				
– Employee-related costs	91	188	207	486
– Site closure costs	63	381	125	569
– Other reorganisation expenses	26	27	328	381
Total global restructuring costs	**180**	**596**	**660**	**1,436**
Additional costs				
– Impairment of goodwill	187	–	–	187
– Impairment of intangible assets	29	46	112	187
– Legal and environmental costs	–	243	1	244
Total costs	**396**	**885**	**773**	**2,054**

1) Includes restructuring of the Diabetes Care and former Applied Science business areas.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes the Operational Excellence programme (Pharmaceuticals and Diagnostics) and in 2012 dalcetrapib (Pharmaceuticals).

Diagnostics Division – Diabetes Care and Applied Science restructuring

On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the other business areas of the Diagnostics Division. This will streamline decision-making and enhance technology flow from research use to the clinical setting. On 26 September 2013 Roche Diabetes Care announced its 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. Various initiatives were announced in 2012 for the Diabetes Care and Applied Science businesses, which included increasing the efficiency of marketing and distribution operations and research and development activities.

During 2013 total costs of 220 million Swiss francs (2012: 180 million Swiss francs) were incurred mainly for headcount reductions, IT-related costs and site closure costs. In addition, goodwill impairment charges of 35 million Swiss francs were incurred for the write-off of the goodwill from the Innovatis and 454 Life Sciences acquisitions in the former Applied Science business area. Intangible asset impairment charges of 12 million Swiss francs were also incurred related to the restructuring. During 2012 a goodwill impairment charge of 187 million Swiss francs was incurred for the full write-off of the goodwill from the NimbleGen acquisition and intangible asset impairment charges of 29 million Swiss francs were incurred.

Pharmaceuticals Division – Research and Development reorganisation

On 26 June 2012 the Group announced a streamlining of the research and development activities within the Pharmaceuticals Division. The planned operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013.

During 2013 total costs of 239 million Swiss francs were incurred. These costs include 116 million Swiss francs for employee-related, site closure and other costs during the year and additional provisions of 88 million Swiss francs to cover site running costs until the expected divestment in 2015. The provisions were mainly for employee-related costs, property taxes and outside services. There was a further impairment of 35 million Swiss francs to the carrying value of the Nutley site, based on the most recent external property market data. The first results of the environmental investigations showed that the expected cost of remediation may be lower than originally expected and accordingly the environmental provisions were reduced by 53 million Swiss francs.

During 2012 total costs of 596 million Swiss francs were incurred mainly for severance, other employee-related costs and property, plant and equipment impairments at the Nutley site. In addition there were environmental remediation costs at the Nutley site of 243 million Swiss francs and intangible asset impairment charges of 46 million Swiss francs as a result of portfolio prioritisation decisions linked to the reorganisation.

Other global restructuring plans

On 14 October 2013 the Pharmaceuticals Division announced that, as part of its investments to increase its global biologic medicine manufacturing network capacity, a bulk drug production unit at the Vacaville site in California that had been discontinued and fully written down in 2009 will be put back into service. This resulted in an income of 531 million Swiss francs from the reversal of previously incurred impairment charges (see Note 7).

During 2013 costs of 126 million Swiss francs (2012: 484 million Swiss francs) were incurred for the previously announced Operational Excellence programme, mainly for employee-related and site closure costs in the Pharmaceuticals Division and employee-related and site closure costs in the Diagnostics Division for the sites in Burgdorf, Switzerland and Graz, Austria. Other plans totalled 112 million Swiss francs (2012: 49 million Swiss francs). In 2012 there were also 128 million Swiss francs of restructuring costs and intangible asset impairment charges of 112 million Swiss francs in respect of the termination of the dalcetrapib dal-OUTCOMES trial and all the studies in the dal-HEART programme.

Global restructuring plans: summary of costs incurred in millions of CHF

	2013	2012
Employee-related costs		
– Termination costs	220	515
– Defined benefit plans	(1)	(68)
– Other employee-related costs	46	39
Total employee-related costs	**265**	**486**
Site closure costs		
– Impairment (reversal) of property, plant and equipment	(498)	440
– Accelerated depreciation of property, plant and equipment	4	33
– (Gains) losses on disposal of property, plant and equipment	(1)	16
– Other site closure costs	90	80
Total site closure costs	**(405)**	**569**
Other reorganisation expenses	306	381
Total global restructuring costs	**166**	**1,436**
Additional costs		
– Impairment of goodwill [8]	35	187
– Impairment of intangible assets [9]	12	187
– Legal and environmental costs [19]	(50)	244
Total costs	**163**	**2,054**

Global restructuring plans: classification of costs in millions of CHF

	2013			2012		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
– Pharmaceuticals	(544)	83	(461)	32	60	92
– Diagnostics	2	73	75	39	93	132
Marketing and distribution						
– Pharmaceuticals	–	49	49	–	63	63
– Diagnostics	–	78	78	2	76	78
Research and development						
– Pharmaceuticals	5	96	101	273	374	647
– Diagnostics	20	43	63	10	65	75
General and administration						
– Pharmaceuticals	35	162	197	304	162	466
– Diagnostics	35	70	105	187	50	237
– Corporate	–	(44)	(44)	–	264	264
Total	**(447)**	**610**	**163**	**847**	**1,207**	**2,054**
Total by operating segment						
– Roche Pharmaceuticals	(504)	388	(116)	609	659	1,268
– Chugai	–	2	2	–	–	–
– Diagnostics	57	264	321	238	284	522
– Corporate	–	(44)	(44)	–	264	264
Total	**(447)**	**610**	**163**	**847**	**1,207**	**2,054**

7. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At 1 January 2012					
Cost	921	12,166	16,631	1,344	31,062
Accumulated depreciation and impairment	–	(4,754)	(10,037)	(70)	(14,861)
Net book value	**921**	**7,412**	**6,594**	**1,274**	**16,201**
Year ended 31 December 2012					
At 1 January 2012	921	7,412	6,594	1,274	16,201
Additions	4	79	929	1,118	2,130
Disposals	(6)	(33)	(89)	(5)	(133)
Transfers	1	395	588	(984)	–
Depreciation charge	–	(476)	(1,415)	–	(1,891)
Impairment reversal (charge)	–	(246)	(144)	(72)	(462)
Other	4	–	(21)	–	(17)
Currency translation effects	(44)	(183)	(186)	(13)	(426)
At 31 December 2012	**880**	**6,948**	**6,256**	**1,318**	**15,402**
Cost	880	12,138	16,827	1,406	31,251
Accumulated depreciation and impairment	–	(5,190)	(10,571)	(88)	(15,849)
Net book value	**880**	**6,948**	**6,256**	**1,318**	**15,402**
Year ended 31 December 2013					
At 1 January 2013	880	6,948	6,256	1,318	15,402
Additions	–	75	875	1,508	2,458
Disposals	(5)	(16)	(108)	(4)	(133)
Transfers	1	269	690	(960)	–
Depreciation charge	–	(464)	(1,414)	–	(1,878)
Impairment reversal (charge)	–	337	122	15	474
Other	–	(2)	(25)	–	(27)
Currency translation effects	(53)	(211)	(262)	(10)	(536)
At 31 December 2013	**823**	**6,936**	**6,134**	**1,867**	**15,760**
Cost	823	11,934	16,745	1,947	31,449
Accumulated depreciation and impairment	–	(4,998)	(10,611)	(80)	(15,689)
Net book value	**823**	**6,936**	**6,134**	**1,867**	**15,760**

Impairment reversal (charge)

On 14 October 2013 the Pharmaceuticals Division announced details of investments to increase its global biologic medicine manufacturing network capacity to meet the rising demand for licensed biologics and expected pipeline growth. The investments will be spread across sites in Penzberg (Germany), Basel (Switzerland) as well as Vacaville and Oceanside (US). In 2009 a bulk drug production unit at the Vacaville site in California, which was not yet licensed, was discontinued and fully written down as part of a reassessment of the global manufacturing network requirements at that time. The bulk drug production unit at the Vacaville site will require capital investment before it can become operational, which is expected to occur in 2015. The Group's decision to restart licensing efforts and prepare for operational use of the discontinued bulk drug production unit at the Vacaville site for commercial manufacturing has resulted in an impairment reversal of property, plant and equipment of 531 million Swiss francs in 2013. The impairment reversal of 531 million Swiss francs represents the net book value from the time of the original impairment for the assets that will be brought back into use, less the depreciation that would have been charged in the intervening period had that impairment not occurred (see Note 6). This was partly offset by a further impairment of 35 million Swiss francs to the carrying value of the Nutley site, based on the most recent external property market data. During 2012 the impairment charges mainly related to property, plant and equipment at the Nutley site.

Classification of impairment of property, plant and equipment in millions of CHF

	2013	2012
Cost of sales	536	(55)
Marketing and distribution	(3)	(4)
Research and development	(24)	(98)
General and administration	(35)	(305)
Total impairment reversal (charge)	**474**	**(462)**

In 2013 no reimbursements were received from insurance companies in respect of impairments to property, plant and equipment (2012: none). In 2013 no borrowing costs were capitalised as property, plant and equipment (2012: none).

Leasing arrangements where the Group is the lessee

Finance leases. At 31 December 2013 the capitalised cost of property, plant and equipment under finance leases was 294 million Swiss francs (2012: 327 million Swiss francs) and the net book value of these assets was 124 million Swiss francs (2012: 159 million Swiss francs). The carrying value of the leasing obligation was 178 million Swiss francs (2012: 203 million Swiss francs), which is reported as part of Debt (see Note 20).

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

	Future minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Within one year	31	31	20	19
Between one and five years	134	133	105	97
More than five years	52	94	53	87
Total	**217**	**258**	**178**	**203**
Future finance charges	–	–	39	55
Total future minimum lease payments (undiscounted)	**217**	**258**	**217**	**258**

Operating leases. Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the Group. Total operating lease rental expense was 408 million Swiss francs (2012: 404 million Swiss francs).

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

	2013	2012
Within one year	253	258
Between one and five years	564	531
More than five years	181	159
Total minimum payments	**998**	**948**

Leasing arrangements where the Group is the lessor

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

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

	Gross investment in lease		Present value of minimum lease receipts	
	2013	2012	2013	2012
Within one year	48	42	44	38
Between one and five years	82	93	75	87
More than five years	1	1	1	1
Total	**131**	**136**	**120**	**126**
Unearned finance income	(9)	(9)	n/a	n/a
Unguaranteed residual value	n/a	n/a	2	1
Net investment in lease	**122**	**127**	**122**	**127**

The accumulated allowance for uncollectible minimum lease payments was 3 million Swiss francs (2012: 2 million Swiss francs). There were no contingent rents recognised in income.

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

At 31 December 2013 machinery and equipment with an original cost of 3,639 million Swiss francs (2012: 3,382 million Swiss francs) and a net book value of 1,407 million Swiss francs (2012: 1,361 million Swiss francs) was being leased to third parties. There were no contingent rents recognised in income.

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

	2013	2012
Within one year	71	151
Between one and five years	141	124
More than five years	1	3
Total minimum receipts	**213**	**278**

Capital commitments

The Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totalling 1.1 billion Swiss francs (2012: 0.5 billion Swiss francs).

8. Goodwill

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

	2013	2012
At 1 January		
Cost	7,662	7,843
Accumulated impairment	(182)	–
Net book value	**7,480**	**7,843**
Year ended 31 December		
At 1 January	7,480	7,843
Business combinations[5]	101	–
Impairment charge	(288)	(187)
Currency translation effects	(148)	(176)
At 31 December	**7,145**	**7,480**
Cost	7,601	7,662
Accumulated impairment	(456)	(182)
Net book value	**7,145**	**7,480**
Allocated to the following cash-generating units		
Roche Pharmaceuticals	1,989	2,047
Chugai	93	117
Total Pharmaceuticals Division	**2,082**	**2,164**
Diabetes Care	835	832
Professional Diagnostics	1,599	1,539
Molecular Diagnostics	–	–
Applied Science	–	34
Tissue Diagnostics	536	801
Strategic goodwill (held at divisional level and not allocated to business areas)	2,093	2,110
Total Diagnostics Division	**5,063**	**5,316**

Impairment charge

During 2013 impairment charges totalling 288 million Swiss francs were recorded which related to:

- A goodwill impairment charge of 253 million Swiss francs was recorded in the Tissue Diagnostics business area within the Diagnostics Division. This impairment is based on the latest business plans prepared during the second half of 2013. The main factors leading to this impairment were reduced revenue expectations in the US following recent changes in the College of American Pathologists guidelines for the use of negative reagent controls in immunohistochemistry testing which reduced volumes and changes which reduced the reimbursement amount to laboratories.
- On 23 April 2013 the Group announced a reorganisation of the Applied Science business area (see Note 6). A goodwill impairment charge of 35 million Swiss francs was incurred for the full write-off of the goodwill from the 454 Life Sciences acquisition in 2007 and the Innovatis acquisition in 2009 in the former Applied Science business area.

During 2012 a goodwill impairment charge of 187 million Swiss francs was incurred for the full write-off of the goodwill from the NimbleGen acquisition in 2007 (see Note 6).

Impairment testing

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

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

The business plans are projected over five years. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 7.3% (2012: 6.4%), which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 25.5% (2012: 25.5%) is used in the calculations and the corresponding pre-tax discount rate is 9.8% (2012: 8.6%).

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

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

The business plans are projected over five years, except for the Tissue Diagnostics business area which is projected over ten years reflecting the long-term nature of this business. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 7.3% (2012: 6.4%), which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 17.6% (2012: 15.9%) is used in the calculations and the corresponding pre-tax discount rate is 8.8% (2012: 7.7%).

Sensitivity analysis

Management has performed sensitivity analyses for both Roche Pharmaceuticals and the Diagnostics Division, which increased the discount rate by 1% combined with decreasing the forecast cash flows by 5%, and for Chugai, which decreased the publicly quoted share prices by 5%. Except for the Tissue Diagnostics business area, the results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount at 31 December 2013. The above key assumption changes would result in a further goodwill impairment of 365 million Swiss francs in the Tissue Diagnostics business area at 31 December 2013.

9. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At 1 January 2012					
Cost	13,185	2,748	32	612	16,577
Accumulated amortisation and impairment	(10,440)	(422)	(20)	(569)	(11,451)
Net book value	**2,745**	**2,326**	**12**	**43**	**5,126**
Year ended 31 December 2012					
At 1 January 2012	2,745	2,326	12	43	5,126
Business combinations[5]	17	–	–	–	17
Additions	122	85	2	25	234
Transfers	121	(121)	–	–	–
Amortisation charge	(514)	–	(6)	(10)	(530)
Impairment charge	(41)	(476)	–	(8)	(525)
Currency translation effects	(69)	(39)	–	–	(108)
At 31 December 2012	**2,381**	**1,775**	**8**	**50**	**4,214**
Cost	12,968	2,375	35	621	15,999
Accumulated amortisation and impairment	(10,587)	(600)	(27)	(571)	(11,785)
Net book value	**2,381**	**1,775**	**8**	**50**	**4,214**
Allocation by operating segment					
Roche Pharmaceuticals	606	1,287	–	42	1,935
Chugai	157	–	2	–	159
Diagnostics	1,618	488	6	8	2,120
Total Group	**2,381**	**1,775**	**8**	**50**	**4,214**
Year ended 31 December 2013					
At 1 January 2013	2,381	1,775	8	50	4,214
Business combinations[5]	–	262	–	–	262
Additions	117	270	1	27	415
Transfers	138	(138)	–	–	–
Amortisation charge	(489)	–	(5)	(9)	(503)
Impairment charge	(25)	(337)	–	–	(362)
Currency translation effects	(46)	(33)	(1)	(2)	(82)
At 31 December 2013	**2,076**	**1,799**	**3**	**66**	**3,944**
Cost	12,888	2,668	35	632	16,223
Accumulated amortisation and impairment	(10,812)	(869)	(32)	(566)	(12,279)
Net book value	**2,076**	**1,799**	**3**	**66**	**3,944**
Allocation by operating segment					
Roche Pharmaceuticals	672	1,049	–	60	1,781
Chugai	87	8	1	1	97
Diagnostics	1,317	742	2	5	2,066
Total Group	**2,076**	**1,799**	**3**	**66**	**3,944**

Significant intangible assets at 31 December 2013 in millions of CHF

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
Tanox acquisition	Roche Pharmaceuticals	214	6 years
Corange/Boehringer Mannheim acquisition	Diagnostics	478	4 years
Ventana acquisition	Diagnostics	269	4 years
Product intangibles not available for use			
Ventana acquisition	Diagnostics	458	n/a
CMI acquisition	Diagnostics	251	n/a

Classification of amortisation and impairment expenses in millions of CHF

	Amortisation		Impairment	
	2013	2012	2013	2012
Cost of sales				
– Pharmaceuticals	(122)	(146)	–	(13)
– Diagnostics	(320)	(341)	–	(28)
Marketing and distribution				
– Pharmaceuticals	–	–	–	–
– Diagnostics	(5)	(6)	–	–
Research and development				
– Pharmaceuticals	(55)	(35)	(350)	(476)
– Diagnostics	(1)	(2)	(12)	(8)
Total	**(503)**	**(530)**	**(362)**	**(525)**

Internally generated intangible assets

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

Intangible assets with indefinite useful lives

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

Intangible assets not available for use

These mostly represent in-process research and development assets acquired either through in-licensing arrangements, business combinations or separate purchases. At 31 December 2013 approximately 49% of the projects in the Pharmaceuticals Division have known decision points within the next twelve months which in certain circumstances could lead to impairment. Due to the inherent uncertainties in the research and development processes, intangible assets not available for use are particularly at risk of impairment if the project is not expected to result in a commercialised product.

Intangible asset impairment

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

Impairment charges – 2013

Pharmaceuticals Division. Impairment charges totalling 350 million Swiss francs were recorded which related to:

- A portfolio reassessment within the hepatitis C virus (HCV) franchise (286 million Swiss francs). The assets concerned, which were not yet being amortised, were written down to their recoverable value of 167 million Swiss francs.
- A portfolio reassessment within the cardiovascular and metabolic diseases franchise (31 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop two collaboration projects with alliance partners (26 million Swiss francs). The assets concerned, which were being amortised, were fully written down.
- A decision to stop development of one compound with an alliance partner (7 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.

Diagnostics Division. Impairment charges totalling 12 million Swiss francs were recorded from the Applied Science business area reorganisation (see Note 6). The assets concerned, which were not yet being amortised, were fully written down.

Impairment charges – 2012

Pharmaceuticals Division. Impairment charges totalling 489 million Swiss francs were recorded which related to:

- A clinical data assessment of a project acquired as part of the Marcadia acquisition (162 million Swiss francs).
- Various global restructuring initiatives (158 million Swiss francs), mainly related to the termination of the dalcetrapib trials (see Note 6).
- Portfolio prioritisation decisions (103 million Swiss francs), mainly related to the return of the monoclonal antibody RG 7334 anti-PLGF MAb to the alliance partners.
- A clinical data assessment of two collaboration projects with alliance partners (53 million Swiss francs).
- A decision to stop development of one compound with an alliance partner (13 million Swiss francs).

Diagnostics Division. Impairment charges totalling 36 million Swiss francs were recorded which mainly related to the Applied Science business area restructuring (see Note 6).

Potential commitments from alliance collaborations

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

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

Potential future third-party collaboration payments at 31 December 2013 in millions of CHF

	Pharmaceuticals	Diagnostics	Group
Within one year	190	11	201
Between one and two years	491	29	520
Between two and three years	193	9	202
Total	**874**	**49**	**923**

10. Inventories

Inventories in millions of CHF

	2013	2012	2011
Raw materials and supplies	921	827	817
Work in process	125	158	155
Intermediates	4,111	3,718	3,101
Finished goods	1,177	1,231	1,348
Less: provision for slow-moving and obsolete inventory	(428)	(392)	(361)
Total inventories	**5,906**	**5,542**	**5,060**

Inventories expensed through cost of sales totalled 8.8 billion Swiss francs (2012: 8.6 billion Swiss francs). Inventory write-downs during the year resulted in an expense of 303 million Swiss francs (2012: 306 million Swiss francs).

11. Accounts receivable

Accounts receivable in millions of CHF

	2013	2012	2011
Trade receivables	9,296	10,091	10,270
Notes receivable	141	141	152
Other receivables	44	38	30
Allowances for doubtful accounts	(425)	(474)	(431)
Charge-backs and other allowances	(248)	(331)	(222)
Total accounts receivable	**8,808**	**9,465**	**9,799**

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

	2013	2012
At 1 January	(474)	(431)
Additional allowances created	(186)	(313)
Unused amounts reversed	188	239
Utilised during the year	28	23
Currency translation effects	19	8
At 31 December	**(425)**	**(474)**

Bad debt reversal credited to marketing and distribution totalled 12 million Swiss francs (2012: expense of 64 million Swiss francs).

12. Marketable securities

Marketable securities in millions of CHF

	2013	2012	2011
Available-for-sale financial assets			
Equity securities	436	272	241
Debt securities	793	1,558	1,428
Money market instruments and time accounts over three months	6,706	7,631	5,764
Other investments	–	–	–
Total marketable securities	**7,935**	**9,461**	**7,433**

Marketable securities are held for fund management purposes and are primarily denominated in Swiss francs, US dollars and euros. Money market instruments are contracted to mature within one year of 31 December 2013.

Debt securities – contracted maturity in millions of CHF

	2013	2012	2011
Within one year	267	1,273	735
Between one and five years	477	269	693
More than five years	49	16	–
Total debt securities	**793**	**1,558**	**1,428**

13. Cash and cash equivalents

Cash and cash equivalents in millions of CHF

	2013	2012	2011
Cash – cash in hand and in current or call accounts	3,329	3,725	2,838
Cash equivalents – time accounts with a maturity of three months or less	671	805	1,016
Total cash and cash equivalents	**4,000**	**4,530**	**3,854**

14. Other non-current assets

Other non-current assets in millions of CHF

	2013	2012	2011
Available-for-sale investments – held at fair value [29]	169	125	148
Available-for-sale investments – held at cost	40	57	53
Loans receivable	12	12	6
Long-term trade receivables	12	21	35
Restricted cash	32	35	37
Other receivables	77	89	81
Total financial non-current assets	**342**	**339**	**360**
Long-term employee benefits	243	254	240
Other assets	214	197	220
Total non-financial non-current assets	**457**	**451**	**460**
Associates	12	24	24
Total other non-current assets	**811**	**814**	**844**

The available-for-sale investments are mainly equity investments in private biotechnology companies, which are kept as part of the Group's strategic alliance efforts. Some unquoted equity investments classified as available-for-sale are measured at cost, as their fair value cannot be measured reliably.

15. Other current assets

Other current assets in millions of CHF

	2013	2012	2011
Accrued interest income	51	34	20
Derivative financial instruments [29]	653	454	274
Restricted cash	–	–	–
Other receivables	581	617	699
Total financial current assets	**1,285**	**1,105**	**993**
Prepaid expenses	420	421	383
Other taxes recoverable	417	338	350
Other assets	175	170	138
Total non-financial current assets	**1,012**	**929**	**871**
Total other current assets	**2,297**	**2,034**	**1,864**

Other receivables are mainly related to royalty and licensing income receivables.

16. Accounts payable

Accounts payable in millions of CHF

	2013	2012	2011
Trade payables	1,548	1,132	1,213
Other taxes payable	380	334	403
Dividends payable	2	2	2
Other payables	232	477	435
Total accounts payable	**2,162**	**1,945**	**2,053**

17. Other non-current liabilities

Other non-current liabilities in millions of CHF

	2013	2012	2011
Deferred income	103	99	63
Other long-term liabilities	199	220	247
Total other non-current liabilities	**302**	**319**	**310**

Other long-term liabilities are mainly related to accrued long-term employee benefits.

18. Other current liabilities

Other current liabilities in millions of CHF

	2013	2012	2011
Deferred income	334	156	373
Accrued payroll and related items	2,019	1,998	1,804
Interest payable	542	749	887
Derivative financial instruments [29]	354	165	104
Accrued charge-backs and other allowances	1,105	1,022	898
Accrued royalties and commissions	837	939	882
Other accrued liabilities	2,234	2,137	1,867
Total other current liabilities	**7,425**	**7,166**	**6,815**

19. Provisions and contingent liabilities

Provisions: movements in recognised liabilities in millions of CHF

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended 31 December 2012						
At 1 January 2012	746	265	566	289	867	2,733
Additional provisions created	86	317	607	137	509	1,656
Unused amounts reversed	(21)	–	(139)	(9)	(124)	(293)
Utilised	(65)	(15)	(326)	(104)	(318)	(828)
Discount unwind[3]	1	7	–	1	3	12
Business combinations						
– Acquired companies[5]	–	–	–	–	–	–
– Contingent consideration[29]	–	–	–	–	(23)	(23)
Currency translation effects	(19)	(8)	(10)	(1)	(19)	(57)
At 31 December 2012	**728**	**566**	**698**	**313**	**895**	**3,200**
Current	703	109	522	91	733	2,158
Non-current	25	457	176	222	162	1,042
At 31 December 2012	**728**	**566**	**698**	**313**	**895**	**3,200**
Year ended 31 December 2013						
At 1 January 2013	728	566	698	313	895	3,200
Additional provisions created	119	155	400	131	529	1,334
Unused amounts reversed	(31)	(56)	(97)	(7)	(93)	(284)
Utilised	(163)	(46)	(396)	(100)	(295)	(1,000)
Discount unwind[3]	–	15	–	2	3	20
Business combinations						
– Acquired companies[5]	–	–	–	–	–	–
– Contingent consideration[29]	–	–	–	–	32	32
Currency translation effects	(19)	(10)	(4)	3	(27)	(57)
At 31 December 2013	**634**	**624**	**601**	**342**	**1,044**	**3,245**
Current	618	183	404	93	850	2,148
Non-current	16	441	197	249	194	1,097
At 31 December 2013	**634**	**624**	**601**	**342**	**1,044**	**3,245**
Expected outflow of resources						
Within one year	618	183	404	93	850	2,148
Between one and two years	13	182	108	40	17	360
Between two and three years	2	66	32	30	85	215
More than three years	1	193	57	179	92	522
At 31 December 2013	**634**	**624**	**601**	**342**	**1,044**	**3,245**

Legal provisions

Legal provisions consist of a number of separate legal matters, including claims arising from trade, in various Group companies. By their nature the amounts and timings of any outflows are difficult to predict.

In 2013 legal expenses totalled 97 million Swiss francs (2012: 72 million Swiss francs) which reflect the recent developments in various legal matters. Details of the major legal cases outstanding are disclosed below.

Environmental provisions

Provisions for environmental matters include various separate environmental issues in a number of countries. By their nature the amounts and timings of any outflows are difficult to predict. Significant provisions are discounted by between 4% and 5% where the time value of money is material. The significant provisions relate to the closure of the US site in Nutley, New Jersey and the estimated remediation costs for a landfill site near Grenzach, Germany, that was used by manufacturing operations that were closed some years ago. During 2013 there was an increase of 138 million Swiss francs to the estimated remediation costs for the landfill site near Grenzach, which is based on the latest remediation plan which is due to be submitted to the local authorities for approval in 2014. The first results of the environmental investigations at Nutley showed that the expected cost of remediation may be lower than originally expected and accordingly the environmental provisions were reduced by 53 million Swiss francs.

Restructuring provisions

These arise from planned programmes that materially change the scope of business undertaken by the Group or the manner in which business is conducted. Such provisions include only the costs necessarily entailed by the restructuring which are not associated with the recurring activities of the Group. The timings of these cash outflows are reasonably certain. These provisions are not discounted as the time value of money is not material in these matters. The significant provisions relate to the restructuring of research and development activities within the Pharmaceuticals Division, mainly related to the closure of the US site in Nutley, New Jersey and the restructuring of the Diabetes Care and Applied Science businesses within the Diagnostics Division.

Employee provisions

These mostly relate to certain employee benefit obligations, such as sabbatical leave and long-service benefits. The timings of these cash outflows can be reasonably estimated based on past performance.

Other provisions

The timings of cash outflows are by their nature uncertain and the best estimates are shown in the table below.

Other provisions in millions of CHF

	2013	2012	2011
Sales returns	652	503	377
Contingent consideration [29]	122	81	153
Other items	270	311	337
Total other provisions	**1,044**	**895**	**867**

Contingent liabilities

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

The Group has entered into strategic alliances with various companies in order to gain access to potential new products or to utilise other companies to help develop the Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The Group's best estimates of future commitments for such payments are given in Note 9.

Pharmaceuticals legal cases

Accutane. Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the United States and elsewhere relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. At 31 December 2013 HLR was defending approximately 7,760 actions involving approximately 7,863 plaintiffs brought in various federal and state courts throughout the US for personal injuries allegedly resulting from their use of Accutane. Most of the actions allege IBD as a result of Accutane use. In 2009 HLR announced that, following a re-evaluation of its portfolio of medicines that are now available from generic manufacturers, rapidly declining brand sales in the US and high costs from personal-injury lawsuits that it continues to defend vigorously, it had decided to immediately discontinue the manufacture and distribution of the product in the US.

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

All of the actions pending in state court in New Jersey alleging IBD were consolidated for pre-trial proceedings in the Superior Court of New Jersey, Law Division, Atlantic County. At 31 December 2013 juries in the Superior Court have ruled in favour of the plaintiff in eight cases, assessing total compensatory damages totalling 67.7 million US dollars, and ruled in favour of HLR in four cases. For the eight cases that were originally ruled in favour of the plaintiff by the Superior Court, HLR is in the process of appealing two cases (27.4 million US dollars); one case is scheduled for a retrial in January 2014 (10.5 million US dollars); post-trial briefing is ongoing for two cases (18.0 million US dollars); and three cases have had their verdicts reversed in favour of HLR (11.8 million US dollars).

Additional trials may be scheduled for 2014. Individual trial results depend on a variety of factors, including many that are unique to the particular case and therefore the trial results to date may not be predictive of future trial results. The Group continues to defend vigorously the remaining personal injury cases and claims.

Rituxan arbitration. In October 2008 Genentech and Biogen Idec Inc. filed a complaint in California against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis US LLC and Sanofi-Aventis US Inc. seeking a declaratory judgment that certain Genentech products, including Rituxan, do not infringe Sanofi's US Patent Nos. 5,849,522 and 6,218,140 and that the '522 and '140 patents are invalid. Sanofi alleged that Rituxan and another Genentech product infringe certain claims of the '522 and '140 patents. In March 2011 the district court ruled as a matter of law that Genentech and Biogen Idec do not infringe the asserted patent claims. In May 2011 Sanofi appealed the court's non-infringement ruling. The appellate court affirmed the district court's judgment of no patent infringement.

In addition in October 2008 Sanofi affiliate Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated patent-license agreement between one of Hoechst's predecessors and Genentech that pertained to the above-mentioned patents and related patents outside the US. Hoechst sought payment of patent-license royalties on sales of certain Genentech products, including Rituxan, damages for breach of contract, and other relief. In various arbitral awards in September 2012 and February 2013, the arbitrator found Genentech liable to Hoechst for patent-license royalties on Rituxan, and he awarded the royalties and interest that Hoechst had sought. In February 2013 the Group recorded a back royalty expense of 42 million Swiss francs, net of the assumed reimbursement of a portion of the Group's obligation by its co-promotion partner in the US, and a corresponding amount in accrued liabilities (31 December 2012: accrued liability of 61 million Swiss francs).

Hoechst initiated proceedings in the US, France and Germany seeking to enforce the arbitral awards. In October 2013 Genentech paid the awarded royalties and interest to Hoechst under protest. Genentech is seeking annulment of the arbitral awards through proceedings it initiated in the Court of Appeal of Paris. A hearing in those proceedings is scheduled for June 2014. The outcome of this matter cannot be determined at this time.

Average Wholesale Prices litigation. HLR and Roche Laboratories Inc. ('RLI'), along with approximately 50 other brand and generic pharmaceutical companies, have been named as defendants in several legal actions in the US relating to the pricing of pharmaceutical drugs and State Medicaid reimbursement. The primary allegation in these litigations is that the pharmaceutical companies misrepresented or otherwise reported inaccurate Average Wholesale Prices ('AWP') and/or Wholesale Acquisition Costs ('WAC') for their drugs, which prices were allegedly relied upon by the States in calculating Medicaid reimbursements to entities such as retail pharmacies. The States, through their respective Attorney General, are seeking repayment of the amounts they claim were over-reimbursed. The time period associated with these cases is 1991 through 2005. At 31 December 2013 HLR and RLI are defending one AWP action filed in the state of New Jersey. Discovery is currently pending in this case. HLR and RLI are vigorously defending themselves in this matter. The outcome of this matter cannot be determined at this time.

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

In addition to the litigation, PDL conducted a royalty audit related to sales of Avastin, Herceptin, Lucentis, Xolair and Raptiva for the years 2007 through 2009. The final audit report indicated that, under PDL's interpretation of certain contract terms, Genentech owes PDL additional royalties for the audit period. Under the same interpretation, Genentech may owe additional royalties for years subsequent to the audit period. The Group disputes PDL's interpretation of the relevant contract terms and does not believe that additional royalties are owed. In June 2013 PDL filed a demand for arbitration related to its audit claims with the American Arbitration Association.

The parties have stayed the arbitration proceeding and Nevada litigation, and are engaged in discussions to determine if a settlement of certain issues is possible.

GSK litigation. In September 2010 GlaxoSmithKline LLC ('GSK') and Genentech each filed patent lawsuits against one another in Delaware and California, respectively. The lawsuits concern GSK's US Patent Nos. RE40,070 and RE41,555. GSK is asserting claims against Genentech alleging infringement of the patents by Herceptin and Lucentis, and is seeking compensatory damages. In its lawsuit Genentech is seeking a judicial declaration of non-infringement and invalidity of the patents. In June 2012 the parties agreed to dismiss the California action without prejudice and the consolidated case is now proceeding in Delaware. On 22 August 2013 the Delaware Court issued a claim construction order construing two terms of the '555 patent. Trial is scheduled for June 2014. The outcome of this matter cannot be determined at this time.

Boniva litigation. HLR, Genentech and various other Roche affiliates (collectively 'Roche') have been named as defendants in numerous legal actions in the US and Canada relating to the post-menopausal osteoporosis medication Boniva. In these litigations, the plaintiffs allege that Boniva caused either osteonecrosis of the jaw or atypical femoral fractures. At 31 December 2013 Roche is defending approximately 306 actions involving approximately 320 plaintiffs brought in federal and state courts throughout the US and one action brought in the Court of the Queen's Bench, Province of Saskatchewan, Canada, for personal injuries allegedly resulting from the use of Boniva. All of these cases are in the early discovery stages of litigation. Individual trial results depend on a variety of factors, including many that are unique to the particular case. Roche is vigorously defending itself in these matters. The outcome of these matters cannot be determined at this time.

EMA investigation. On 23 October 2012 the European Medicines Agency ('EMA') announced that it would start an infringement procedure to investigate allegations regarding an alleged breach of medicines safety reporting obligations in relation to 19 centrally authorised medicines. On 19 November 2013 the EMA announced the results of the Pharmacovigilance Risk Assessment Committee assessment of Roche's medicines. The EMA found no impact regarding the benefit-risk balance of any of Roche's medicines and confirmed the benefit-risk profiles based on available safety information. The EMA and other health authorities have confirmed all medicines remain authorised without changes to the treatment advice for patients and healthcare professionals. All corrective and preventative actions resulting from the inspections are being implemented. A re-inspection by authorities in November 2013 led to certain findings which Roche is now addressing. The EMA infringement procedure is ongoing and the EMA is expected to issue its report to the EU Commission by April 2014 at the latest. The outcome of this investigation cannot be determined at this time.

Diagnostics legal cases

Marsh Supermarkets litigation. In July 2008 Marsh Supermarkets Inc. ('Marsh') filed a breach of contract suit against Roche Diagnostics Operations, Inc. ('RDO'). The lawsuit relates to the termination of a sub-lease agreement for a building by RDO. In December 2011 a Hamilton Superior Court judge awarded Marsh 19.5 million US dollars, which was provided for in 2011. On 1 April 2013 the Court of Appeals of Indiana upheld the judgment. On 31 October 2013, after the Indiana Supreme Court had declined to hear the further appeal by Roche, RDO paid the final awarded damages and interest of 22.5 million US dollars to Marsh. This matter is now concluded.

20. Debt

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

	2013	2012
At 1 January	24,590	26,853
Proceeds from issue of bonds and notes	–	2,698
Redemption and repurchase of bonds and notes	(6,633)	(4,326)
Increase (decrease) in commercial paper	404	(687)
Increase (decrease) in other debt	151	153
Net (gains) losses on redemption and repurchase of bonds and notes	248	247
Amortisation of debt discount[3]	23	30
Business combinations[5]	–	–
Net foreign currency transaction (gains) losses	170	325
Currency translation effects and other	(310)	(703)
At 31 December	**18,643**	**24,590**
Bonds and notes	17,293	23,720
Commercial paper	702	324
Amounts due to banks and other financial institutions	459	336
Finance lease obligations[7]	178	203
Other borrowings	11	7
Total debt	**18,643**	**24,590**
Long-term debt	16,423	17,860
Short-term debt	2,220	6,730
Total debt	**18,643**	**24,590**

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

Bonds and notes

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

	Effective interest rate Underlying instrument	Effective interest rate Including hedging	2013	2012	2011
US dollar-denominated notes – fixed rate					
5.0% notes due 1 March 2014, principal 2.75 billion US dollars (ISIN: USU75000AL00 and US771196AQ59)	5.31%	4.85%	–	1,667	1,637
6.0% notes due 1 March 2019, principal 4.5 billion US dollars, outstanding 4.1 billion US dollars (ISIN: USU75000AM82 and US771196AS16)	6.37%	6.00%	3,702	4,053	4,163
7.0% notes due 1 March 2039, principal 2.5 billion US dollars (ISIN: USU75000AN65 and US771196AU61)	7.43%	n/a	2,145	2,205	2,268
European Medium Term Note programme – fixed rate					
4.625% notes due 4 March 2013, principal 5.25 billion euros (ISIN: XS0415624393)	4.82%	5.53%	–	3,997	5,213
5.5% notes due 4 March 2015, principal 1.25 billion pounds sterling, outstanding 0.90 billion pounds sterling (ISIN: XS0415625283)	5.70%	5.78%	1,316	1,325	1,297
5.625% notes due 4 March 2016, principal 2.75 billion euros, outstanding 2.10 billion euros (ISIN: XS0415624120)	5.70%	6.36%	2,571	2,531	3,342
2.0% notes due 25 June 2018, principal 1.0 billion euros (ISIN: XS0760139773)	2.07%	n/a	1,222	1,203	–
6.5% notes due 4 March 2021, principal 1.75 billion euros (ISIN: XS0415624716)	6.66%	7.00%	2,128	2,093	2,110
5.375% notes due 29 August 2023, principal 250 million pounds sterling, outstanding 200 million pounds sterling (ISIN: XS0175478873)	5.46%	n/a	290	292	287
Swiss franc bonds – floating rate					
Notes due 23 September 2013, principal 0.4 billion Swiss francs (ISIN: CH0180513035)	0.32%	n/a	–	400	–
Swiss franc bonds – fixed rate					
2.5% bonds due 23 March 2012, principal 2.5 billion Swiss francs (ISIN: CH0038365117)	2.68%	2.88%	–	–	2,208
4.5% bonds due 23 March 2017, principal 1.5 billion Swiss francs (ISIN: CH0039139263)	4.77%	n/a	1,489	1,487	1,483
1.0% bonds due 21 September 2018, principal 0.6 billion Swiss francs (ISIN: CH0180513068)	1.04%	0.94%	599	599	–
1.625% bonds due 23 September 2022, principal 0.5 billion Swiss francs (ISIN: CH0180513183)	1.64%	n/a	499	499	–
Genentech Senior Notes					
4.75% Senior Notes due 15 July 2015, principal 1.0 billion US dollars (ISIN: US368710AG46)	4.87%	n/a	888	913	940
5.25% Senior Notes due 15 July 2035, principal 500 million US dollars (ISIN: US368710AC32)	5.39%	n/a	444	456	470
Total bonds and notes			**17,293**	**23,720**	**25,418**

Bonds and notes – maturity in millions of CHF

	2013	2012	2011
Within one year	1,040	6,064	2,208
Between one and two years	2,204	–	5,213
Between two and three years	2,571	2,238	1,637
Between three and four years	1,489	2,531	2,237
Between four and five years	1,821	1,487	3,342
More than five years	8,168	11,400	10,781
Total bonds and notes	**17,293**	**23,720**	**25,418**

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

	2013	2012	2011
US dollar notes	109	139	157
Euro notes	24	30	41
Swiss franc bonds	13	16	18
Pound sterling notes	5	8	10
Total unamortised discount	**151**	**193**	**226**

Issuance of bonds and notes – 2013

The Group did not issue any bonds or notes during 2013.

Issuance of bonds and notes – 2012

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

Redemption and repurchase of bonds and notes – 2013

Redemption of euro-denominated notes. On the due date of 4 March 2013 the Group redeemed the 4.625% fixed rate notes with a principal of 3.313 billion euros. The cash outflow was 4,068 million Swiss francs, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 5.53%.

Redemption of US dollar-denominated notes. On 20 December 2012 the Group resolved to exercise its option to call for redemption of the entire outstanding US dollar-denominated 5.0% fixed rate notes due 1 March 2014. On 21 March 2013 the Group redeemed the remaining outstanding principal of 1.75 billion US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 1,722 million Swiss francs, plus accrued interest, and there was an additional 1 million Swiss francs loss recorded on redemption. The effective interest rate of these notes was 4.85%.

Partial redemption of US dollar-denominated notes. On 28 June 2013 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. On 29 August 2013 the Group redeemed an outstanding principal of 400 million US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 443 million Swiss francs, plus accrued interest, and there was an 80 million Swiss francs loss recorded on redemption. The effective interest rate of these notes was 6.37%.

Redemption of Swiss franc-denominated bonds. On the due date of 23 September 2013 the Group redeemed the floating rate bonds with a principal of 0.4 billion Swiss francs. The cash outflow was 400 million Swiss francs, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 0.32%.

Early redemption of US dollar-denominated notes in 2014. On 26 December 2013 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. The Group will redeem an outstanding principal of 1.0 billion US dollars on 3 March 2014 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker on the third business day preceding the redemption. A cash outflow of approximately 1,173 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The revised carrying value of these notes at 31 December 2013 is 1,171 million US dollars (1,040 million Swiss francs). The increase in carrying value of 182 million US dollars (167 million Swiss francs) is recorded within financing costs (see Note 3) as a loss on redemption. The effective interest rate of these notes is 6.37%.

Redemption and repurchase of bonds and notes – 2012

During 2012 the Group redeemed 2.2 billion Swiss francs of bonds on their due date, completed a tender offer to repurchase 1.6 billion euros of notes (2.1 billion Swiss francs) and exercised its option to call for the early redemption of 1.75 billion US dollars of notes on 21 March 2013.

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

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

	2013	2012
European Medium Term Note programme euro-denominated notes	–	1,201
Swiss franc-denominated bonds	–	1,497
Total cash inflows from issuance of bonds and notes	**–**	**2,698**

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

	2013	2012
European Medium Term Note programme euro-denominated notes	(4,068)	(2,128)
US dollar-denominated notes	(2,165)	–
Swiss franc-denominated bonds	(400)	(2,198)
Total cash outflows from redemption and repurchase of bonds and notes	**(6,633)**	**(4,326)**

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. As at 31 December 2013 unsecured commercial paper notes with a principal amount of 791 million US dollars and an average interest rate of 0.07% were outstanding.

Movements in commercial paper obligations in millions of CHF

	2013	2012
At 1 January	324	1,022
Net cash proceeds (payments)	404	(687)
Currency translation effects	(26)	(11)
At 31 December	**702**	**324**

Amounts due to banks and other financial institutions

These amounts are denominated in various currencies, notably in Chinese renminbi and Argentine pesos, and the average interest rate was 7.12% (2012: 6.98%). The amounts outstanding of 459 million Swiss francs at 31 December 2013 are due within one year.

21. Equity attributable to Roche shareholders

Changes in equity attributable to Roche shareholders in millions of CHF

	Share capital	Retained earnings	Reserves: Fair value	Reserves: Hedging	Reserves: Translation	Total
Year ended 31 December 2012						
At 1 January 2012	160	17,286	124	(20)	(5,434)	12,116
Net income recognised in income statement	–	9,427	–	–	–	9,427
Available-for-sale investments						
– Fair value gains (losses) taken to equity	–	–	27	–	–	27
– Transferred to income statement	–	–	(29)	–	–	(29)
– Income taxes [4]	–	–	–	–	–	–
– Non-controlling interests	–	–	(4)	–	–	(4)
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	204	–	204
– Transferred to income statement [a)]	–	–	–	(106)	–	(106)
– Income taxes [4]	–	–	–	(37)	–	(37)
– Non-controlling interests	–	–	–	–	–	–
Currency translation of foreign operations						
– Exchange differences	–	–	(5)	(1)	(688)	(694)
– Non-controlling interests	–	–	–	–	282	282
Defined benefit plans						
– Remeasurement gains (losses) [25]	–	(1,646)	–	–	–	(1,646)
– Limit on asset recognition [25]	–	3	–	–	–	3
– Income taxes [4]	–	441	–	–	–	441
– Non-controlling interests	–	(5)	–	–	–	(5)
Other comprehensive income, net of tax	**–**	**(1,207)**	**(11)**	**60**	**(406)**	**(1,564)**
Total comprehensive income	**–**	**8,220**	**(11)**	**60**	**(406)**	**7,863**
Dividends	–	(5,770)	–	–	–	(5,770)
Equity compensation plans, net of transactions in own equity	–	305	–	–	–	305
At 31 December 2012	**160**	**20,041**	**113**	**40**	**(5,840)**	**14,514**

As disclosed in Note 32, the reserves at 31 December 2012 and 31 December 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published reserves is provided in Note 32.

a) The entire amount transferred to the income statement was reported in 'Other financial income (expense)'.

Changes in equity attributable to Roche shareholders in millions of CHF

	Share capital	Retained earnings	Reserves: Fair value	Reserves: Hedging	Reserves: Translation	Total
Year ended 31 December 2013						
At 1 January 2013	160	20,041	113	40	(5,840)	14,514
Net income recognised in income statement	–	11,164	–	–	–	11,164
Available-for-sale investments						
– Fair value gains (losses) taken to equity	–	–	79	–	–	79
– Transferred to income statement	–	–	(37)	–	–	(37)
– Income taxes [4]	–	–	(16)	–	–	(16)
– Non-controlling interests	–	–	(7)	–	–	(7)
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	283	–	283
– Transferred to income statement [a]	–	–	–	(165)	–	(165)
– Income taxes [4]	–	–	–	(41)	–	(41)
– Non-controlling interests	–	–	–	(15)	–	(15)
Currency translation of foreign operations						
– Exchange differences	–	–	(9)	(7)	(1,315)	(1,331)
– Non-controlling interests	–	–	–	–	428	428
Defined benefit plans						
– Remeasurement gains (losses) [25]	–	999	–	–	–	999
– Limit on asset recognition [25]	–	1	–	–	–	1
– Income taxes [4]	–	(326)	–	–	–	(326)
– Non-controlling interests	–	(4)	–	–	–	(4)
Other comprehensive income, net of tax	**–**	**670**	**10**	**55**	**(887)**	**(152)**
Total comprehensive income	**–**	**11,834**	**10**	**55**	**(887)**	**11,012**
Dividends	–	(6,238)	–	–	–	(6,238)
Equity compensation plans, net of transactions in own equity	–	6	–	–	–	6
At 31 December 2013	**160**	**25,643**	**123**	**95**	**(6,727)**	**19,294**

a) The entire amount transferred to the income statement was reported in 'Other financial income (expense)'.

Genentech transaction

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009. Based on the International Accounting Standard 27 'Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), which was adopted by the Group in 2013, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the Group at that time was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacted the Group's net equity, but has no effect on the Group's business or its dividend policy.