Share capital

At 31 December 2013 the authorised and issued share capital of Roche Holding Ltd, which is the Group's parent company, consisted of 160 million shares with a nominal value of 1.00 Swiss franc each, as in the preceding year. The shares are bearer shares and the Group does not maintain a register of shareholders. Based on information supplied to the Group, a shareholder group with pooled voting rights owns 45.01% (2012: 45.01%) of the issued shares. On 24 March 2011 the shareholder group announced that it would continue the shareholder pooling agreement existing since 1948 with a modified shareholder composition. The shareholder group with pooled voting rights now holds 72,018,000 shares, corresponding to 45.01% of the shares issued. This figure does not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool. This is further described in Note 30. Based on information supplied to the Group, Novartis Ltd, Basel, and its affiliates own 33.3330% (participation below 33⅓%) of the issued shares (2012: 33.3330%).

Non-voting equity securities *(Genussscheine)*

At 31 December 2013, 702,562,700 non-voting equity securities have been authorised and were in issue as in the preceding year. Under Swiss company law these non-voting equity securities have no nominal value, are not part of the share capital and cannot be issued against a contribution which would be shown as an asset in the balance sheet of Roche Holding Ltd. Each non-voting equity security confers the same rights as any of the shares to participate in the net profit and any remaining proceeds from liquidation following repayment of the nominal value of the shares and, if any, participation certificates. In accordance with the law and the Articles of Incorporation of Roche Holding Ltd, the Company is entitled at all times to exchange all or some of the non-voting equity securities into shares or participation certificates.

Dividends

On 5 March 2013 the shareholders approved the distribution of a dividend of 7.35 Swiss francs per share and non-voting equity security (2012: 6.80 Swiss francs) in respect of the 2012 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 6,238 million Swiss francs (2012: 5,770 million Swiss francs) and has been recorded against retained earnings in 2013. The Board of Directors has proposed dividends for the 2013 business year of 7.80 Swiss francs per share and non-voting equity security which, if approved, would result in a total distribution to shareholders of 6,728 million Swiss francs. This is subject to approval at the Annual General Meeting on 4 March 2014.

Own equity instruments

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

	2013 (millions)	2012 (millions)
Shares	0.9	–
Non-voting equity securities	12.6	14.1
Derivative instruments	5.5	8.9
Total	**19.0**	**23.0**

Novartis Exhibit 2164.0091
Regeneron v. Novartis, IPR2021-00816

Own equity instruments are recorded within equity at original purchase cost. Details of own equity instruments held at 31 December 2013 are shown in the table below. Fair values are disclosed for information purposes.

Own equity instruments at 31 December 2013: supplementary information

	Equivalent number of non-voting equity securities (millions)	Maturity	Strike price (CHF)	Market value (CHF billions)
Shares	0.9	–	–	0.2
Non-voting equity securities	12.6	–	–	3.1
Derivative instruments	5.5	30 Jan. 2015–16 Feb. 2016	145.50–195.80	0.4
Total	**19.0**			**3.7**

Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (see Note 26). The derivative instruments mainly consist of call options that are exercisable at any time up to their maturity.

Reserves

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

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

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

22. Chugai

Effective 1 October 2002 the Roche Group and Chugai completed an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. The merged company is known as Chugai.

Consolidated subsidiary

Chugai is a fully consolidated subsidiary of the Group. This is based on the Group's interest in Chugai at 31 December 2013 of 61.5% (2012: 61.6%) and the Roche relationship with Chugai that is founded on the Basic Alliance, Licensing and Research Collaboration Agreements.

The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE:4519'. Chugai prepares financial statements in accordance with International Financial Reporting Standards (IFRS) which are filed on a quarterly basis with the Tokyo Stock Exchange. Due to certain consolidation entries there are minor differences between Chugai's stand-alone IFRS results and the results of Chugai as consolidated by the Roche Group in accordance with IFRS.

Financial information

Chugai summarised financial information in millions of CHF

	2013	2012
Income statement		
Sales [2]	3,813	4,408
Royalties and other operating income [2]	212	133
Total revenues	**4,025**	**4,541**
Operating profit [2]	679	805
Balance sheet		
Non-current assets	1,786	2,270
Current assets	4,280	4,867
Non-current liabilities	(251)	(273)
Current liabilities	(824)	(1,006)
Total net assets	**4,991**	**5,858**
Cash flows		
Cash flows from operating activities	509	911
Cash flows from investing activities	(126)	(645)
Cash flows from financing activities	(220)	(268)

Dividends

The dividends distributed to third parties holding Chugai shares during 2013 totalled 84 million Swiss francs (2012: 98 million Swiss francs) and have been recorded against non-controlling interests (see Note 23). Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Roche's relationship with Chugai

Chugai has entered into certain agreements with Roche, which are discussed below:

Basic Alliance Agreement. As part of the Basic Alliance Agreement signed in December 2001, Roche and Chugai entered into certain arrangements covering the future operation and governance of Chugai. Amongst other matters these cover the following areas:

- The structuring of the alliance.
- Roche's rights as a shareholder.
- Roche's rights to nominate members of Chugai's Board of Directors.
- Certain limitations to Roche's ability to buy or sell Chugai's common stock.

Chugai issues additional shares of common stock in connection with its convertible debt and equity compensation plans, and may issue additional shares for other purposes, which affects Roche's percentage ownership interest. The Basic Alliance Agreement provides, amongst other matters, that Chugai will guarantee Roche's right to maintain its shareholding percentage in Chugai at not less than 50.1%.

Licensing Agreements. Under the Japan Umbrella Rights Agreement signed in December 2001, Chugai has exclusive rights to market Roche's pharmaceutical products in Japan. Chugai also has right of first refusal on the development and marketing in Japan of all development compounds advanced by Roche.

Under the Rest of the World Umbrella Rights Agreement signed in May 2002, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea, if Chugai decides that it requires a partner for such activities.

Further to these agreements, Roche and Chugai have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arm's length basis between Roche and Chugai, for any or all of the following matters:

- Upfront payments, if a right of first refusal to license a product is exercised.
- Milestone payments, dependent upon the achievement of agreed performance targets.
- Royalties on future product sales.

These specific product agreements may also cover the manufacture and supply of the respective products to meet the other party's clinical and/or commercial requirements on an arm's length basis.

Research Collaboration Agreements. Roche and Chugai have entered into research collaboration agreements in the areas of small-molecule synthetic drug research and biotechnology-based drug discovery.

23. Non-controlling interests

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

	2013	2012
At 1 January	2,236	2,390
Net income recognised in income statement		
– Chugai	188	215
– Other non-controlling interests	21	18
Total net income recognised in income statement	**209**	**233**
Available-for-sale investments	7	4
Cash flow hedges	15	–
Currency translation of foreign operations	(428)	(282)
Remeasurements of defined benefit plans	4	5
Other comprehensive income, net of tax	**(402)**	**(273)**
Total comprehensive income	**(193)**	**(40)**
Dividends to non-controlling shareholders		
– Chugai [22]	(84)	(98)
– Other non-controlling interests	(39)	(18)
Equity compensation plans, net of transactions in own equity	4	1
Changes in non-controlling interests	3	1
Equity contribution by non-controlling interests	20	–
At 31 December	**1,947**	**2,236**
Chugai	1,854	2,154
Other non-controlling interests	93	82
Total non-controlling interests	**1,947**	**2,236**

As disclosed in Note 32, the non-controlling interests 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 non-controlling interests is provided in Note 32.

24. Employee benefits

Employee remuneration in millions of CHF

	2013	2012
Wages and salaries	8,512	8,410
Social security costs	957	888
Defined contribution plans [25]	343	313
Operating expenses for defined benefit plans [25]	102	280
Equity compensation plans [26]	360	363
Termination costs [6]	220	515
Other employee benefits	588	485
Employee remuneration included in operating results	**11,082**	**11,254**
Net interest cost of defined benefit plans [25]	227	226
Total employee remuneration	**11,309**	**11,480**

Other employee benefits consist mainly of life insurance schemes and certain other insurance schemes providing medical coverage and other long-term and short-term disability benefits.

25. Pensions and other post-employment benefits

As disclosed in Note 32, following the implementation of IAS 19 (revised), the Group has amended its accounting policy with respect to pensions and other post-employment benefits and restated the related 2012 comparatives and disclosures.

The Group's objective is to provide attractive and competitive post-employment benefits to employees, while at the same time ensuring that the various plans are appropriately financed and managing any potential impacts on the Group's long-term financial position. Most employees are covered by pension plans sponsored by Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and market practice in the countries in which the employees are employed. 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. All other plans are classified as 'defined benefit plans'.

Defined contribution plans

Defined contribution plans are funded through payments by employees and by the Group to funds administered by third parties. The Group's expenses for these plans were 343 million Swiss francs (2012: 313 million Swiss francs). No assets or liabilities are recognised in the Group's balance sheet in respect of such plans, apart from regular prepayments and accruals of the contributions withheld from employees' wages and salaries and of the Group's contributions. The Group's major defined contribution plans are in the United States, notably the US Roche 401(k) Savings Plan.

Defined benefit plans

Plans are usually established as trusts independent of the Group and are funded by payments from Group companies and by employees. In some cases, notably for the major defined benefit plans in Germany, the plans are unfunded and the Group pays pensions to retired employees directly from its own financial resources. Plans are usually governed by a senior governing body, such as a Board of Trustees, which is typically composed of both employee and employer representatives. Funding of these plans is determined by local regulations using independent actuarial valuations. Separate independent actuarial valuations, together with a semi-annual update, are prepared in accordance with the requirements of IAS 19 for use in the Group's financial statements. The Group's major defined benefit plans are located in Switzerland, the US and Germany, which in total account for 81% of the Group's defined benefit obligation (2012: 81%).

Pension plans in Switzerland. Current pension arrangements for employees in Switzerland are made through plans governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act ('BVG'). The Group's pension plans are administered by separate legal foundations, which are funded by regular employee and company contributions. The final benefit is contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plans are treated as defined benefit plans for the purposes of these IFRS financial statements, although they have many of the characteristics of defined contribution plans. Where there is an under-funding this may be remedied by various measures such as increasing employee and company contributions, lowering the interest rate on retirement account balances, reducing prospective benefits and a suspension of the early withdrawal facility.

Past service costs in 2013 include 142 million Swiss francs of income recorded in respect of changes to the Group's pension plans in Switzerland. The change represents the adoption of lower conversion rates, which determines the annuity at the normal retirement age.

Pension plans in the United States. The Group's major defined benefit plans in the US have been closed to new members since 2007. New employees in the US now join the defined contribution plan. The largest of the remaining defined benefit plans are funded pension plans, including separate plans originating from the Nutley, Palo Alto and Indianapolis sites, together with smaller unfunded supplementary retirement plans. The benefits are based on the highest average annual rate of earnings during a specified period and length of employment. The plans are non-contributory for employees, with the Group making periodic payments to the plans. In 2013 payments made by the Group were 130 million US dollars (2012: 114 million US dollars). Where there is an under-funding this would normally be remedied by additional company contributions.

In 2013 some of the US pension plans made an offer to deferred vested members to settle the defined benefit obligation for a lump sum payment. The total lump sum payment made from defined benefit assets was 244 million US dollars (226 million Swiss francs), which settled an obligation of 264 million US dollars (245 million Swiss francs). This led to a gain of 20 million US dollars (19 million Swiss francs), which is included as a settlement gain in 2013.

Past service costs in 2012 include 68 million Swiss francs of income recorded in respect of curtailments to US defined benefit plans. This arose primarily from the reorganisation of the Pharmaceuticals Division's Research and Development organisation, which involved the closure of the site in Nutley, New Jersey.

Pension plans in Germany. The Group's major pension arrangements in Germany are governed by the Occupational Pensions Act ('BetrAVG'). These plans are unfunded and the Group pays pensions to retired employees directly from its own financial resources. These plans are non-contributory for employees. The benefits are based on final salary and length of employment. These plans have been closed to new members since 2007. They have been replaced by a new plan which is funded by regular employee and company contributions and administered through a contractual trust agreement. The final benefit is contribution-based with a minimum guarantee. Due to this minimum guarantee, this plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan.

Past service costs in 2013 include 55 million Swiss francs of income recorded in respect of changes to the Group's German pension plans. This change represents the adoption of an increase in the normal retirement age.

Pension plans in the rest of the world. These represent approximately 13% of the Group's defined benefit obligation (2012: 13%) and consist of a number of smaller plans in various countries. Of these the largest are the pension plans at Chugai, which are independently managed by Chugai, and the main pension plan in the United Kingdom. The Chugai plans are fully described in Chugai's own IFRS financial statements. The UK pension plan is funded by regular employee and company contributions, with benefits based on final salary and length of employment. This plan has been closed to new members since 2003 and has been replaced with a defined contribution plan.

Past service costs in 2013 include 110 million Swiss francs of income recorded in respect of changes to the Group's UK pension plans. This reflects a change in the indexation of pension increases to the consumer price index instead of previously used retail price index.

Other post-employment benefit ('OPEB') plans. These represent approximately 6% of the Group's defined benefit obligation (2012: 6%) and consist mostly of post-retirement healthcare and life insurance schemes, mainly in the US. These plans are mainly unfunded and are contributory for employees, with the Group reimbursing retired employees directly from its own financial resources. The Group's major defined benefit OPEB plans in the US have been closed to new members since 2011. Part of the costs of these plans is reimbursable under the Medicare Prescription Drug Improvement and Modernization Act of 2003. There is no statutory funding requirement for these plans. The Group is funding these plans to the extent that it is tax efficient. In 2013 there were no payments made by the Group to these plans (2012: none). At 31 December 2013 the IFRS funding status was 57% (2012: 51%), including reimbursement rights, for the funded OPEB plans in the US.

Defined benefit plans: income statement in millions of CHF

			2013			2012
	Pension plans	Other post-employment benefit plans	Total expense	Pension plans	Other post-employment benefit plans	Total expense
Current service cost	407	16	423	336	15	351
Past service (income) cost	(301)	(1)	(302)	(66)	(5)	(71)
Settlement (gain) loss	(19)	–	(19)	–	–	–
Total operating expenses	**87**	**15**	**102**	**270**	**10**	**280**
Net interest cost of defined benefit plans	201	26	227	196	30	226
Total expense recognised in income statement	**288**	**41**	**329**	**466**	**40**	**506**

Funding status

The funding of the Group's various defined benefit plans is the responsibility of a senior governing body, such as a Board of Trustees, and the sponsoring employer, and is managed based on local statutory valuations, which follow the legislation and requirements of the respective jurisdiction in which the plan is established. Qualified independent actuaries carry out statutory actuarial valuations on a regular basis. The actuarial assumptions determining the funding status on the statutory basis are regularly assessed by the local senior governing body. The funding status is closely monitored at a corporate level.

During 2013 the fair value of plan assets increased due to favourable market conditions. Higher discount rates compared to 2012 and the changes to the pension plans in Switzerland, Germany and the UK described above resulted in a decrease in the overall defined benefit obligation. As a result the IFRS funded status of the funded defined benefit plans improved to 88% (2012: 81%).

Reimbursement rights are linked to the post-employment medical plans in the US and represent the expected reimbursement of the medical expenditure provided under the Medicare Prescription Drug Improvement and Modernization Act of 2003.

Defined benefit plans: funding status in millions of CHF

	Pension plans	Other post-employment benefit plans	2013 Total	Pension plans	Other post-employment benefit plans	2012 Total
Funded plans						
– Fair value of plan assets	10,833	311	11,144	10,893	321	11,214
– Defined benefit obligation	(11,863)	(762)	(12,625)	(12,901)	(911)	(13,812)
Over (under) funding	**(1,030)**	**(451)**	**(1,481)**	**(2,008)**	**(590)**	**(2,598)**
Unfunded plans						
– Defined benefit obligation	(3,847)	(212)	(4,059)	(3,864)	(226)	(4,090)
Total funding status	**(4,877)**	**(663)**	**(5,540)**	**(5,872)**	**(816)**	**(6,688)**
Limit on asset recognition	(6)	–	(6)	(7)	–	(7)
Reimbursement rights	–	120	120	–	142	142
Net recognised asset (liability)	**(4,883)**	**(543)**	**(5,426)**	**(5,879)**	**(674)**	**(6,553)**
Reported in balance sheet						
– Defined benefit plan assets	516	120	636	536	142	678
– Defined benefit plan liabilities	(5,399)	(663)	(6,062)	(6,415)	(816)	(7,231)

Plan assets

The responsibility for the investment strategies of funded plans is with the senior governance body such as the Board of Trustees. Asset-liability studies are performed regularly for all major pension plans. These studies examine the obligations from post-retirement benefit plans, and evaluate various investment strategies with respect to key financial measures such as expected returns, expected risks, expected contributions, and expected funded status of the plan in an interdependent way. The goal of an asset-liability study is to select an appropriate asset allocation for the funds held within the plan. The investment strategy is developed to optimise expected returns, to manage risks and to contain fluctuations in the statutory funded status. Asset-liability studies include strategies to match the cash flows of the assets with the plan obligations. The Group currently does not use annuities or longevity swaps to manage longevity risk.

Plan assets are managed using internal and external asset managers. The actual performance is continually monitored by the pension fund governance bodies as well as being closely monitored at a corporate level. In these financial statements the difference between the interest income and actual return on plan assets is a remeasurement that is recorded directly to other comprehensive income. During 2013 the actual return on plan assets was a gain of 462 million Swiss francs (2012: gain of 892 million Swiss francs).

The recognition of pension assets is limited to the present value of any economic benefits available from refunds from the plans or reductions in future contributions to the plans.

Defined benefit plans: fair value of plan assets and reimbursement rights in millions of CHF

	Pension plans 2013	Other post-employment benefit plans 2013	Total 2013	Pension plans 2012	Other post-employment benefit plans 2012	Total 2012
At 1 January	10,893	463	11,356	10,299	460	10,759
Interest income on plan assets	283	17	300	332	18	350
Remeasurements on plan assets	141	5	146	522	40	562
Currency translation effects	(244)	(11)	(255)	(168)	(11)	(179)
Employer contributions	352	(4)	348	307	(7)	300
Employee contributions	88	–	88	80	–	80
Benefits paid – funded plans	(451)	(38)	(489)	(479)	(35)	(514)
Benefits paid – settlements	(226)	–	(226)	–	–	–
Past service income (cost)	–	–	–	–	(2)	(2)
Administration costs	(3)	(1)	(4)	–	–	–
At 31 December	**10,833**	**431**	**11,264**	**10,893**	**463**	**11,356**

Defined benefit plans: composition of plan assets in millions of CHF

	2013	2012
Equity securities	4,027	4,341
Debt securities	3,942	4,288
Property	1,173	1,182
Cash and money market instruments	637	396
Other investments	1,365	1,007
At 31 December	**11,144**	**11,214**

Assets are invested in a variety of different classes in order to maintain a balance between risk and return as follows:

- Equity and debt securities which mainly have quoted market prices (Level 1 fair value hierarchy).
- Property which is mainly in private and commercial property funds which have quoted market prices (Level 1 fair value hierarchy) and directly held property investments (Level 3 fair value hierarchy).
- Cash and money market instruments which are mainly invested with financial institutions with a credit rating no lower than A.
- Other investments which mainly consist of alternatives, mortgages and commodities. These are used for risk management purposes and mainly have a quoted market price (Level 1 fair value hierarchy).

Included within the fair value of plan assets are the Group's shares and non-voting securities with a fair value of 165 million Swiss francs (2012: 109 million Swiss francs) and debt instruments issued by the Group with a fair value of 17 million Swiss francs (2012: 44 million Swiss francs). During 2013 Swiss pension plans purchased 0.4 million Roche shares from the Group for 95 million Swiss francs.

Defined benefit obligation

The defined benefit obligation is calculated using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of remuneration growth and mortality rates. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds or government bonds in countries where there is not a deep market in corporate bonds. The corporate or government bonds are denominated in the currency in which the benefits will be paid, and have maturity terms approximating to the terms of the related pension obligation.

The Group's final salary-based defined benefit pension plans in the US, Germany and the United Kingdom have been closed to new participants. Active employees that had been members of these pension plans at the time these were closed to new participants continue to accrue benefits in the final salary-based defined benefit pension plans. New employees in the US and UK now join the Group's defined contribution plans, while new employees in Germany join the contribution-based plan with a minimum guarantee. The defined benefit pension plans in Switzerland, where the final benefit is contribution-based with a minimum guarantee, remain open to new employees. As a result, the proportion of the defined benefit obligation which relates to these closed plans is expected to decrease in the future.

Defined benefit plans: defined benefit obligation in millions of CHF

			2013			2012
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At 1 January	16,765	1,137	17,902	14,534	1,131	15,665
Current service cost	407	16	423	336	15	351
Interest cost	484	43	527	528	48	576
Remeasurements:						
– demographic assumptions	28	12	40	170	–	170
– financial assumptions	(792)	(138)	(930)	1,863	64	1,927
– experience adjustments	59	(22)	37	144	(33)	111
Currency translation effects	(214)	(18)	(232)	(220)	(32)	(252)
Employee contributions	88	–	88	80	–	80
Benefits paid – funded plans	(451)	(38)	(489)	(479)	(35)	(514)
Benefits paid – unfunded plans	(118)	(17)	(135)	(125)	(14)	(139)
Benefits paid – settlements	(226)	–	(226)	–	–	–
Past service (income) cost	(301)	(1)	(302)	(66)	(7)	(73)
Settlement (gain) loss	(19)	–	(19)	–	–	–
At 31 December	**15,710**	**974**	**16,684**	**16,765**	**1,137**	**17,902**
Composition of plan						
Active members	7,328	294	7,622	7,794	390	8,184
Deferred vested members	1,352	14	1,366	1,724	13	1,737
Retired members	7,030	666	7,696	7,247	734	7,981
At 31 December	**15,710**	**974**	**16,684**	**16,765**	**1,137**	**17,902**
Plans by geography						
Switzerland	6,879	–	6,879	7,121	–	7,121
United States	3,104	936	4,040	3,791	1,109	4,900
Germany	3,507	–	3,507	3,481	–	3,481
Rest of world	2,220	38	2,258	2,372	28	2,400
At 31 December	**15,710**	**974**	**16,684**	**16,765**	**1,137**	**17,902**
Duration in years	14.3	12.3	14.2	15.6	15.7	15.6

Actuarial assumptions

The actuarial assumptions used in these financial statements are based on the requirements set out in IAS 19 'Employee Benefits'. They are unbiased and mutually compatible estimates of variables that determine the ultimate cost of providing post-employment benefits. They are set on an annual basis by local management, based on advice from actuaries, and are subject to approval by corporate management and the Group's actuaries. Actuarial assumptions consist of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as interest rates, salary and benefit levels, inflation rates and costs of medical benefits. The actuarial assumptions vary based upon local economic and social conditions. The actuarial assumptions used in the various statutory valuations may differ from these based on local legal and regulatory requirements.

Demographic assumptions. The most significant demographic assumptions relate to mortality rates. The Group's actuaries use mortality tables which take into account historic patterns and expected changes, such as further increases in longevity. Rates of employee turnover, disability and early retirement are based on historical behaviour within Group companies. The average life expectancy assumed now for an individual at the age of 65 is as follows:

Defined benefit plans: average life expectancy for major schemes in years

Country	Mortality table	Male 2013	Male 2012	Female 2013	Female 2012
Switzerland	BVG 2010 generational tables	21.3	21.2	23.8	23.7
United States	RP2000 projected to 2020	19.8	19.6	21.6	21.4
Germany	Heubeck tables 2005G	18.7	18.6	22.8	22.7

Financial assumptions. These are based on market expectations for the period over which the obligations are to be settled. The assumptions used in the actuarial valuations are shown below.

Defined benefit plans: financial actuarial assumptions

	2013 Weighted average	2013 Range	2012 Weighted average	2012 Range
Discount rates	3.38%	1.53%–7.20%	3.01%	1.70%–6.70%
Expected rates of salary increases	2.98%	2.00%–5.20%	3.05%	2.00%–5.25%
Expected rates of pension increases	1.03%	0.25%–2.40%	1.11%	0.25%–3.50%
Expected inflation rates	2.60%	2.00%–4.00%	2.60%	2.00%–4.00%
Immediate medical cost trend rate	7.38%	6.80%–7.40%	7.59%	7.10%–7.60%
Ultimate medical cost trend rate (in 2029)	4.50%	4.50%	4.50%	4.50%

Discount rates are determined with reference to interest rates on high-quality corporate bonds or government bonds in countries where there is not a deep market in corporate bonds. Expected rates of salary increases are based on expected inflation rates with an adjustment to reflect the Group's latest expectation of long-term real salary increases. Expected rates of pension increases are generally linked to the expected inflation rate. Expected inflation rates are derived by looking at the level of inflation implied by the financial markets in conjunction with the economists' price inflation forecasts, historic price inflation as well as other economic variables and circumstances. Medical cost trend rates take into account the benefits set out in the plan terms and expected future changes in medical costs. Since the Group's major post-employment medical plans are for US employees, these rates are driven by developments in the US.

Sensitivity analysis. 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. The following table summarises the impact of a change in those assumptions on the present value of the defined benefit obligation.

Defined benefit plans: sensitivity of defined benefit obligation to actuarial assumptions in millions of CHF

	2013	2012
1 year increase in life expectancy	497	562
Discount rates		
0.25% increase	(570)	(654)
0.25% decrease	600	701
Expected inflation rates		
0.25% increase	235	205
0.25% decrease	(221)	(244)
Immediate medical cost trend rate		
1.00% increase	112	168
1.00% decrease	(94)	(113)

Each sensitivity analysis considers the change in one assumption at a time leaving the other assumptions unchanged. This approach shows the isolated effect of changing one individual assumption but does not take into account that some assumptions are related. The method used to carry out the sensitivity analysis is the same as in the prior year.

Cash flows

The Group incurred cash flows from its defined benefit plans as shown in the table below.

Defined benefit plans: cash flows in millions of CHF

	2013	2012
Employer contributions, net of reimbursements – funded plans	(348)	(300)
Benefits paid – unfunded plans	(135)	(139)
Total cash inflow (outflow)	**(483)**	**(439)**

Based on the most recent actuarial valuations, the Group expects that employer contributions for funded plans in 2014 will be approximately 339 million Swiss francs, which includes an estimated 122 million Swiss francs of additional contributions, mostly related to the US defined benefit plans. Benefits paid for unfunded plans are estimated to be approximately 137 million Swiss francs, which mostly relate to the German defined benefit plans.

26. Equity compensation plans

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

Expenses for equity compensation plans in millions of CHF

	2013	2012
Cost of sales	61	45
Marketing and distribution	71	77
Research and development	99	108
General and administration	129	133
Total operating expenses	**360**	**363**
Equity compensation plans		
Roche Stock-settled Stock Appreciation Rights	228	256
Roche Restricted Stock Unit Plan	87	65
Roche Performance Share Plan	18	16
Roche Connect	11	12
Roche Option Plan	6	6
Bonus Stock Awards	7	5
Chugai Stock Acquisition Rights	3	3
Total operating expenses	**360**	**363**
of which		
– Equity-settled	360	363
– Cash-settled	–	–

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

	2013	2012
Roche Option Plan exercises	126	28
Chugai Stock Acquisition Rights exercises	9	2
Roche Connect costs	(11)	(12)
Transactions in own equity	(1,314)	(319)
Total cash inflow (outflow) from equity-settled equity compensation plans, net of transactions in own equity	**(1,190)**	**(301)**

The net cash outflow from transactions in own equity mainly arises from sales and purchases of equity instruments which are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (see Note 21).

Equity compensation plans

Roche Stock-settled Stock Appreciation Rights. The Group issues Stock-settled Stock Appreciation Rights (S-SARs) to certain directors, management and employees selected at the discretion of the Group. The S-SARs give employees the right to receive non-voting equity securities reflecting the value of any appreciation in the market price of the non-voting equity securities between the grant date and the exercise date. The S-SAR Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche S-SAR Plan'). Under the Roche S-SAR Plan, 180 million S-SARs will be available for issuance over a ten-year period. The rights, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years.

Roche S-SARs – movement in number of rights outstanding

	2013 Number of rights (thousands)	2013 Weighted average exercise price (CHF)	2012 Number of rights (thousands)	2012 Weighted average exercise price (CHF)
Outstanding at 1 January	55,590	159.42	51,044	158.09
Granted	9,025	214.65	19,673	157.92
Forfeited	(1,345)	165.28	(3,196)	166.52
Exercised	(21,533)	166.82	(11,924)	149.36
Expired	(46)	195.00	(7)	123.00
Outstanding at 31 December	**41,691**	**167.32**	**55,590**	**159.42**
– of which exercisable	16,798	156.97	22,400	170.55

Roche S-SARs – terms of rights outstanding at 31 December 2013

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Rights outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Rights exercisable Weighted average exercise price (CHF)
2007	423	0.17	229.50	423	229.50
2008	1,243	1.09	195.16	1,243	195.16
2009	2,798	2.54	158.59	2,798	158.59
2010	5,681	3.65	151.84	5,531	152.07
2011	8,231	4.18	140.21	3,647	140.22
2012	14,631	5.26	157.97	3,118	158.05
2013	8,684	6.26	214.71	38	214.00
Total	**41,691**	**4.68**	**167.32**	**16,798**	**156.97**

Roche Restricted Stock Unit Plan. The Group issues Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Group. The RSUs, which are non-tradable, represent the right to receive non-voting equity securities which vest only after a three-year period, subject to performance conditions, if any. There are currently no performance conditions on outstanding RSUs at 31 December 2013. The RSU Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche RSU Plan'). Under the Roche RSU Plan 20 million non-voting equity securities will be available for issuance over a ten-year period. The Roche RSU Plan also includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted.

Roche RSUs – movement in number of awards outstanding

	2013 Number of awards (thousands)	2012 Number of awards (thousands)
Outstanding at 1 January	1,137	2,227
Granted	921	–
Forfeited	(108)	(98)
Transferred to participants	(1,116)	(992)
Outstanding at 31 December	**834**	**1,137**
– of which vested and transferable	2	1

Roche Performance Share Plan. The Group offers future non-voting equity security awards (or, at the discretion of the Board of Directors, their cash equivalent) to certain directors and key senior managers. These are non-tradable equity-settled awards. The programme currently operates in annual three-year cycles. The Roche Performance Share Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche PSP Plan'). The Roche PSP Plan includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted. The amount of non-voting equity securities allocated will depend upon the individual's salary level, the achievement of performance targets linked to the Group's Total Shareholder Return (shares and non-voting equity securities combined) relative to the Group's peers during the three-year period from the date of the grant, and the discretion of the Board of Directors. Each award will result in between zero and two non-voting equity securities (before value adjustment), depending upon the achievement of the performance targets.

Roche Performance Share Plan – terms of outstanding awards at 31 December 2013

	2011–2013	2012–2014	2013–2015
Number of awards outstanding (thousands)	131	126	107
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2014	Feb. 2015	Feb. 2016
Fair value per unit at grant (CHF)	124.17	153.67	192.60
Total fair value at grant (CHF millions)	**19**	**22**	**21**

Roche Connect. This programme enables all employees worldwide, except for those in the US and certain other countries, to make regular deductions from their salaries to purchase non-voting equity securities. It is administered by independent third parties. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%). The administrator purchases the necessary non-voting equity securities directly from the market. At 31 December 2013 the administrator held 2.2 million non-voting equity securities (2012: 2.3 million). In 2013 the cost of the plan was 11 million Swiss francs (2012: 12 million Swiss francs).

Roche Option Plan. This programme is used in countries where S-SARs are not used. Awards under this plan give employees the right to purchase non-voting equity securities at an exercise price specified at the grant date. The Roche Option Plan regulations were restated and amended effective 1 January 2013 (referred to as the 'Roche Option Plan'). The options, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years, subject to continued employment.

Roche Option Plan – movement in number of options outstanding

	Number of options (thousands)	2013 Weighted average exercise price (CHF)	Number of options (thousands)	2012 Weighted average exercise price (CHF)
Outstanding at 1 January	1,810	167.15	1,676	167.77
Granted	226	214.00	443	157.67
Forfeited	(54)	171.98	(117)	176.68
Exercised	(700)	178.38	(190)	145.01
Expired	(15)	195.00	(2)	132.74
Outstanding at 31 December	**1,267**	**168.78**	**1,810**	**167.15**
– of which exercisable	640	164.69	966	179.93

Roche Option Plan – terms of options outstanding at 31 December 2013

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Options outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Options exercisable Weighted average exercise price (CHF)
2007	39	0.17	229.60	39	229.60
2008	92	1.13	193.62	92	193.62
2009	77	2.26	152.62	77	152.62
2010	162	3.29	169.48	162	169.48
2011	327	4.17	140.10	180	140.10
2012	352	5.25	157.63	89	157.57
2013	218	6.25	214.00	1	214.00
Total	**1,267**	**4.26**	**168.78**	**640**	**164.69**

The weighted average share price of Roche non-voting equity securities during the year was 230.83 Swiss francs (2012: 168.47 Swiss francs).

Bonus Stock Awards. The Chairman of the Board of Directors and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2013. These will be issued by the end of April 2014. The number of awards and fair value per award will be calculated at the grant date.

Chugai Stock Acquisition Rights. Chugai has Stock Acquisition Right programmes and the total fair value of the rights issued in 2013 was equivalent to 3 million Swiss francs (2012: 2 million Swiss francs). In 2013, 3,270 rights (2012: 3,340) were issued to employees and directors of Chugai. The rights are non-tradable equity-settled awards that have a ten-year duration and vest after two years. Each right entitles the holder to purchase 100 Chugai shares at a specified exercise price. In addition, 522 rights (2012: 817) were issued to the directors of Chugai that have a thirty-year duration and vest upon the holder's retirement as a director of Chugai. Each right entitles the holder to purchase 100 Chugai shares at an exercise price of 100 Japanese yen.

Fair value measurement

The inputs used in the measurement of the fair values at grant date of the equity compensation plans were as follows:

Fair value measurement in 2013

	Roche Stock-settled Stock Appreciation Rights	Roche Restricted Stock Unit Plan	Roche Performance Share Plan	Roche Option Plan
Vesting period	Progressively over 3 years	Cliff vesting after 3 years	Cliff vesting after 3 years	Progressively over 3 years
Contractual life	7 years	n/a	n/a	7 years
Number granted during year	9,025,294	920,570	109,580	226,191
Weighted average fair value (CHF)	22	214	193	22
Model used	Binomial	Market price [a]	Monte Carlo [b]	Binomial
Inputs to option pricing model				
– Share price at grant date (CHF)	214	214	184	214
– Exercise price (CHF)	214	–	–	214
– Expected volatility [c]	24.8%	n/a	n/a	24.8%
– Expected dividend yield	6.8%	n/a	n/a	6.8%
– Early exercise factor [d]	1.19	n/a	n/a	1.19
– Expected exit rate	8.1%	n/a	n/a	8.1%

a) The fair value of the Roche RSUs is equivalent to the share price on the date of grant.

b) The input parameters were the covariance matrix between Roche and the other individual companies of the peer group based on a three-year history and a risk-free rate of minus 0.192%. The valuation takes into account the defined rank and performance structure which determines the pay-out of the plan.

c) Volatility was determined primarily by reference to historically observed prices of the underlying equity. Risk-free interest rates are derived from zero coupon swap rates at the grant date taken from Datastream.

d) The early exercise factor describes the ratio between the expected market price at the exercise date and the exercise price at which early exercises can be expected, based on historically observed behaviour.

27. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	2013	2012
Net income attributable to Roche shareholders (CHF millions)	**11,164**	**9,427**
Number of shares (millions) [21]	160	160
Number of non-voting equity securities (millions) [21]	703	703
Weighted average number of own shares and non-voting equity securities held (millions)	(15)	(15)
Weighted average number of shares and non-voting equity securities in issue (millions)	**848**	**848**
Basic earnings per share and non-voting equity security (CHF)	**13.16**	**11.12**

Diluted earnings per share and non-voting equity security

	2013	2012
Net income attributable to Roche shareholders (CHF millions)	11,164	9,427
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
Net income used to calculate diluted earnings per share (CHF millions)	**11,163**	**9,426**
Weighted average number of shares and non-voting equity securities in issue (millions)	848	848
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	15	7
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**863**	**855**
Diluted earnings per share and non-voting equity security (CHF)	**12.93**	**11.03**

As disclosed in Note 32, the earnings per share and non-voting equity security for the year ended 31 December 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published earnings per share and non-voting equity security is provided in Note 32.

28. Statement of cash flows

Cash flows from operating activities

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

Cash generated from operations in millions of CHF

	2013	2012
Net income	11,373	9,660
Add back non-operating (income) expense		
– Financing costs [3]	1,580	1,923
– Other financial income (expense) [3]	119	43
– Income taxes [4]	3,304	2,499
Operating profit	**16,376**	**14,125**
Depreciation of property, plant and equipment [7]	1,878	1,891
Amortisation of intangible assets [9]	503	530
Impairment of goodwill [8]	288	187
Impairment of intangible assets [9]	362	525
Impairment (reversal) of property, plant and equipment [7]	(474)	462
Operating (income) expense for defined benefit plans [25]	102	280
Operating expense for equity-settled equity compensation plans [26]	360	363
Net (income) expense for provisions [19]	1,050	1,363
Bad debt (reversal) expense	(12)	64
Inventory write-downs	303	306
Other adjustments	60	(112)
Cash generated from operations	**20,796**	**19,984**

As disclosed in Note 32, the net income and non-operating (income) expense for the year ended 31 December 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net income and non-operating (income) expense is provided in Note 32.

Cash flows from investing activities

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

Interest and dividends received in millions of CHF

	2013	2012
Interest received	49	37
Dividends received	2	2
Total	**51**	**39**

Cash flows from financing activities

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

Dividends paid in millions of CHF

	2013	2012
Dividends to Roche Group shareholders	(6,238)	(5,770)
Dividends to non-controlling shareholders – Chugai	(84)	(98)
Dividends to non-controlling shareholders – Other	(39)	(18)
Dividend withholding tax	(1)	(2)
Total	**(6,362)**	**(5,888)**

Significant non-cash transactions

There were no significant non-cash transactions in 2013 (2012: none).

29. Risk management

Group risk management

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

Financial risk management

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

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

Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing counterparty credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking account of any collateral held or other credit enhancements, is equal to the carrying value of the Group's financial assets.

Accounts receivable. At 31 December 2013 the Group has trade receivables of 9.3 billion Swiss francs (2012: 10.1 billion Swiss francs). These are subject to a policy of active credit risk management which focuses on the assessment of country risk, credit availability, ongoing credit evaluation and account monitoring procedures. The objective of trade receivables management is to maximise the collection of unpaid amounts.

At 31 December 2013 the Group's combined trade receivables balance with three US national wholesale distributors, AmerisourceBergen Corp., McKesson Corp. and Cardinal Health, Inc., was equivalent to 1.4 billion Swiss francs representing 15% of the Group's consolidated trade receivables (2012: 1.4 billion Swiss francs representing 14%). There is no other significant concentration of counterparty credit risk due to the Group's large number of customers and their wide geographical spread. Risk limits and exposures are continuously monitored by country and by the nature of counterparties. The Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. At 31 December 2013 no collateral was held for trade receivables (2012: none).

Since 2010 there have been financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and has trade receivables of 1.3 billion Swiss francs (2012: 1.5 billion Swiss francs) with the public customers in these countries. At 31 December 2013 trade receivables in Italy, Greece and Portugal decreased due to improved collections and in 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 nature and geographic location of counterparties to accounts receivable that are not overdue or impaired are shown in the table below. These include the balances with US national wholesalers and Southern Europe public customers described above.

Accounts receivable (not overdue): nature and geographical location of counterparties in millions of CHF

	2013				2012			
Regions	Total	Public	Whole-salers/ distributors	Private	Total	Public	Whole-salers/ distributors	Private
Switzerland	37	15	9	13	72	22	15	35
Europe	2,008	661	582	765	2,245	744	1,081	420
North America	1,925	56	1,409	460	1,921	77	1,575	269
Latin America	620	108	163	349	520	125	212	183
Japan	951	7	942	2	1,336	17	1,292	27
Asia, Australia and Oceania	777	40	425	312	826	139	410	277
Rest of world	799	44	212	543	476	26	327	123
Total	**7,117**	**931**	**3,742**	**2,444**	**7,396**	**1,150**	**4,912**	**1,334**

The ageing of accounts receivable that were not impaired is shown in the table below.

Ageing of accounts receivable that are not impaired in millions of CHF

	2013	2012
Neither overdue nor impaired	7,117	7,396
Overdue under 1 month	401	447
Overdue 1–3 months	426	522
Overdue 4–6 months	435	489
Overdue 7–12 months	274	327
Overdue more than 1 year	155	284
Total accounts receivable	**8,808**	**9,465**

Cash and marketable securities. At 31 December 2013 the Group has cash and marketable securities of 11.9 billion Swiss francs (2012: 14.0 billion Swiss francs). These are subject to a policy of restricting exposures to high-quality counterparties and setting defined limits for individual counterparties. These limits and counterparty credit ratings are reviewed regularly. Investments in marketable securities are entered into on the basis of guidelines with regard to liquidity, quality and maximum amount. As a general rule, the Group invests only in high-quality securities with adequate liquidity. Cash and short-term time deposits are subject to rules which limit the Group's exposure to individual financial institutions.

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

	2013 (mCHF)	2013 (% of total)	2012 (mCHF)	2012 (% of total)
AAA-range	3,172	28	5,176	37
AA-range	5,215	45	4,581	33
A-range	2,822	25	3,778	28
BBB-range	146	1	105	1
Below BBB-range	26	0	7	0
Unrated	118	1	72	1
Total	**11,499**	**100**	**13,719**	**100**

Master netting agreements. The Group enters into derivative transactions and collateral agreements under International Swaps and Derivatives Association (ISDA) master netting agreements with the respective counterparties in order to mitigate counterparty risk. Under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. The ISDA agreements do not meet the criteria for offsetting in the balance sheet as the Group does not have a currently enforceable right to offset recognised amounts, because the right to offset is only enforceable on the occurrence of future events, such as a default or other credit events.

Contract terms. At 31 December 2013 there are no significant financial assets whose terms have been renegotiated (2012: none).

Impairment losses. During 2013 total impairment losses for available-for-sale financial assets amounted to 9 million Swiss francs (2012: 25 million Swiss francs).

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. Roche and Chugai enjoy strong credit quality and are rated by at least one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements. At 31 December 2013 the Group has unused committed credit lines with various financial institutions totalling 5.1 billion Swiss francs (2012: 5.1 billion Swiss francs), of which 4.8 billion Swiss francs serve as a back-stop line for the commercial paper programme.

The remaining undiscounted cash flow contractual maturities of financial liabilities, including estimated interest payments, are shown in the table below.

Contractual maturities of financial liabilities in millions of CHF

	Carrying value	Total	Less than 1 year	1–2 years	2–5 years	Over 5 years
Year ended 31 December 2013						
Debt [20]						
– Bonds and notes	17,293	25,337	1,923	3,072	7,793	12,549
– Other debt	1,350	1,350	1,154	33	106	57
Contingent consideration [19]	122	122	35	2	85	–
Accounts payable [16]	2,162	2,162	2,162	–	–	–
Derivative financial instruments [18]	354	354	295	–	–	59
Total financial liabilities	**21,281**	**29,325**	**5,569**	**3,107**	**7,984**	**12,665**
Year ended 31 December 2012						
Debt [20]						
– Bonds and notes	23,720	33,424	7,259	898	8,748	16,519
– Other debt	870	870	586	83	105	96
Contingent consideration [19]	81	81	28	3	50	–
Accounts payable [16]	1,945	1,945	1,945	–	–	–
Derivative financial instruments [18]	165	165	165	–	–	–
Total financial liabilities	**26,781**	**36,485**	**9,983**	**984**	**8,903**	**16,615**

Market risk

Market risk arises from changing market prices, mainly foreign exchange rates and interest rates, of the Group's financial assets or financial liabilities which affect the Group's financial result and equity.

Value-at-Risk. The Group uses Value-at-Risk (VaR) to measure the impact of market risk on its financial instruments. VaR 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. VaR is calculated using a historical simulation approach and for each scenario, all financial instruments are fully valued and the total change in value and earnings is determined. VaR calculations are based on a 95% confidence level and a holding period of 20 trading days over the past ten years. This holding period reflects the time required to change the corresponding risk exposure, should this be deemed appropriate.

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

Market risk of financial instruments in millions of CHF

	2013	2012
VaR – Interest rate component	292	191
VaR – Foreign exchange component	36	50
VaR – Other price component	30	31
Diversification	(61)	(67)
VaR – Total market risk	**297**	**205**

The interest rate component increased mainly due to a gradual increase in long-term interest rates in major economies. The foreign exchange component decreased due to a favourable exposure mix. The other price component arises mainly from movements in equity security prices and remained largely stable.

Foreign exchange risk

The Group uses the Swiss franc as its reporting currency and as a result is exposed to movements in foreign currencies, mainly the US dollar, Japanese yen and euro. The objective of the Group's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimise the volatility of the Group's financial result. The primary focus of the Group's foreign exchange risk management activities is on hedging transaction exposures arising through foreign currency flows or monetary positions held in foreign currencies. The Group uses forward contracts, foreign exchange options and cross-currency swaps to hedge transaction exposures. Application of these instruments intends to continuously lock in favourable developments of foreign exchange rates, thereby reducing the exposure to potential future movements in such rates.

Interest rate risk

The Group mainly raises debt on a fixed rate basis for bonds and notes. The Group is exposed to movements in interest rates, mainly for its US dollar, Swiss franc and euro-denominated floating rate financial instruments. The primary objective of the Group's interest rate management is to protect the net interest result. The Group may use forward contracts, options and swaps to hedge its interest rate exposures. Depending on the interest rate environment of major currencies, the Group will use these instruments to generate an appropriate mix of fixed and floating rate exposures.

Interest rate hedging. During 2013 the Group entered into the following interest rate hedging contracts:

- 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.
- Interest rate swap contracts for 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 6 months CHF-LIBOR plus an average spread of 0.21%. The maturity of the swaps is 21 September 2018.

Other price risk

Other price risk arises mainly from movements in the prices of equity securities. The Group manages the price risk through placing limits on individual and total equity investments. These limits are defined both as a percentage of total liquid funds and as an absolute number for individual equity investments.

Capital management

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

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

The capitalisation is reported to senior management as part of the Group's regular internal management reporting and is shown in the table below.

Capital in millions of CHF

	2013	2012	2011
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**
Total debt [20]	**18,643**	**24,590**	**26,853**
Capitalisation	**39,884**	**41,340**	**41,359**

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

The Group's net equity was significantly impacted by the 2009 Genentech transaction (see Note 21).

The Group is not subject to regulatory capital adequacy requirements as known in the financial services industry. The Group has a majority shareholding in Chugai (see Note 22). Chugai is a public company and its objectives, policies and processes for managing its own capital are determined by local management.

Financial instrument accounting classifications and fair values

The fair values of financial assets and liabilities, together with the carrying value shown in the consolidated balance sheet are as follows:

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

	Available-for-sale	Fair value – hedging instruments	Fair value – designated	Loans and receivables	Other financial liabilities	Total carrying value	Fair value
Year ended 31 December 2013							
Other non-current assets [14]							
– Available-for-sale investments	209	–	–	–	–	209	209
– Other financial non-current assets	–	–	–	133	–	133	133
Accounts receivable [11]	–	–	–	8,808	–	8,808	8,808
Marketable securities [12]	7,935	–	–	–	–	7,935	7,935
Cash and cash equivalents [13]	–	–	–	4,000	–	4,000	4,000
Other current assets [15]							
– Derivative financial instruments	–	653	–	–	–	653	653
– Other financial currents assets	–	–	–	632	–	632	632
Total financial assets	**8,144**	**653**	**–**	**13,573**	**–**	**22,370**	**22,370**
Debt [20]							
– Bonds and notes	–	–	–	–	(17,293)	(17,293)	(19,991)
– Other debt	–	–	–	–	(1,350)	(1,350)	(1,350)
Contingent consideration [19]	–	–	(122)	–	–	(122)	(122)
Accounts payable [16]	–	–	–	–	(2,162)	(2,162)	(2,162)
Derivative financial instruments [18]	–	(354)	–	–	–	(354)	(354)
Total financial liabilities	**–**	**(354)**	**(122)**	**–**	**(20,805)**	**(21,281)**	**(23,979)**
Year ended 31 December 2012							
Other non-current assets [14]							
– Available-for-sale investments	182	–	–	–	–	182	182
– Other financial non-current assets	–	–	–	157	–	157	157
Accounts receivable [11]	–	–	–	9,465	–	9,465	9,465
Marketable securities [12]	9,461	–	–	–	–	9,461	9,461
Cash and cash equivalents [13]	–	–	–	4,530	–	4,530	4,530
Other current assets [15]							
– Derivative financial instruments	–	454	–	–	–	454	454
– Other financial currents assets	–	–	–	651	–	651	651
Total financial assets	**9,643**	**454**	**–**	**14,803**	**–**	**24,900**	**24,900**
Debt [20]							
– Bonds and notes	–	–	–	–	(23,720)	(23,720)	(27,780)
– Other debt	–	–	–	–	(870)	(870)	(870)
Contingent consideration [19]	–	–	(81)	–	–	(81)	(81)
Accounts payable [16]	–	–	–	–	(1,945)	(1,945)	(1,945)
Derivative financial instruments [18]	–	(165)	–	–	–	(165)	(165)
Total financial liabilities	**–**	**(165)**	**(81)**	**–**	**(26,535)**	**(26,781)**	**(30,841)**

The fair value of bonds and notes is calculated based on the observable market prices of the debt instruments or the present value of the future cash flows on the instrument, discounted at a market rate of interest for instruments with similar credit status, cash flows and maturity periods.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments in millions of CHF

	Level 1	Level 2	Level 3	Total
Year ended 31 December 2013				
Marketable securities				
– Equity securities	436	–	–	436
– Debt securities	791	2	–	793
– Money market instruments and time accounts over three months	1,726	4,980	–	6,706
Derivative financial instruments	–	653	–	653
Available-for-sale investments – held at fair value [14]	24	145	–	169
Financial assets recognised at fair value	**2,977**	**5,780**	**–**	**8,757**
Derivative financial instruments	–	(354)	–	(354)
Contingent consideration	–	–	(122)	(122)
Financial liabilities recognised at fair value	**–**	**(354)**	**(122)**	**(476)**
Year ended 31 December 2012				
Marketable securities				
– Equity securities	272	–	–	272
– Debt securities	1,414	144	–	1,558
– Money market instruments and time accounts over three months	2,551	5,080	–	7,631
Derivative financial instruments	–	454	–	454
Available-for-sale investments – held at fair value [14]	3	122	–	125
Financial assets recognised at fair value	**4,240**	**5,800**	**–**	**10,040**
Derivative financial instruments	–	(165)	–	(165)
Contingent consideration	–	–	(81)	(81)
Financial liabilities recognised at fair value	**–**	**(165)**	**(81)**	**(246)**

Level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit and derivative financial instruments.

The Group determines Level 2 fair values using the following valuation techniques:

- Marketable securities and derivative financial instruments are based on valuation models that use observable market data for interest rates, yield curves, foreign exchange rates and implied volatilities for similar instruments at the measurement date.
- Available-for-sale investments using a valuation model derived from the most recently published observable financial prices.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 and vice versa during the year (2012: none).

Level 3 fair values

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

Contingent consideration arrangements in millions of CHF

	2013	2012
At 1 January	(81)	(153)
Arising from business combination[5]	(61)	(1)
Total unrealised gains and losses included in the income statement		
– Unused amounts reversed	–	52
– Additional amount created	(9)	(3)
– Discount unwind	(1)	–
Total gains and losses included in other comprehensive income		
– Currency translation effects	1	–
Transfers out of Level 3		
– Utilised[5]	29	24
At 31 December	**(122)**	**(81)**

Contingent consideration arrangements

The Group is party to certain contingent consideration arrangements arising from business combination arrangements. The fair value is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 4.6%. The expected payments are determined by considering the possible scenarios of forecast sales or other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales or other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At 31 December 2013 the payments under contingent consideration arrangements could be up to 303 million Swiss francs.

Derivative financial instruments

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

Derivative financial instruments in millions of CHF

			Assets			Liabilities
	2013	2012	2011	2013	2012	2011
Foreign currency derivatives						
– Forward exchange contracts	138	31	87	(25)	(59)	(42)
– Cross-currency swaps	513	418	178	–	–	–
– Other	–	–	–	–	–	–
Interest rate derivatives						
– Swaps	2	5	9	(59)	–	–
– Other	–	–	–	–	–	–
Other derivatives	–	–	–	(270)	(106)	(62)
Carrying value of derivative financial instruments [15, 18]	**653**	**454**	**274**	**(354)**	**(165)**	**(104)**
Derivatives subject to master netting agreements	(55)	(39)	(24)	55	39	24
Collateral arrangements	(486)	(361)	(215)	6	5	(18)
Net amount	**112**	**54**	**35**	**(293)**	**(121)**	**(98)**

Collateral arrangements

The fair value of the currency swaps increased during 2013, mainly due to a stronger euro compared to the US dollar, and as a result cash was delivered to the Group by the counterparties.

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

	2013	2012
At 1 January	(356)	(233)
Net cash delivered by (to) the Group	(124)	(123)
At 31 December	**(480)**	**(356)**

Hedge accounting

At 31 December 2013 the Group has the following cash flow hedges and fair value hedges which are designated in a qualifying hedge relationship.

Cash flow hedges. The Group has entered into cross-currency swaps to hedge foreign exchange and interest rate risk on some of the bonds and notes issued by the Group which are denominated in euros and sterling. At 31 December 2013 such instruments are recorded as fair value assets of 513 million Swiss francs (2012: assets of 418 million Swiss francs). There was no ineffective portion.

During 2012 the Group entered into foreign exchange forward contracts to hedge a part of its foreign translation exposure to euros. During 2013 the remaining foreign exchange forward contracts matured resulting in a loss of 34 million Swiss francs recorded in the income statement. At 31 December 2012 such instruments were recorded as fair value liabilities of 10 million Swiss francs.

Chugai has entered into foreign exchange forward contracts to hedge a part of its foreign translation exposure to Swiss francs and US dollars. At 31 December 2013 such instruments are recorded as fair value assets of 57 million Swiss francs (2012: assets of 1 million Swiss francs). There was no ineffective portion.

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

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

	2013 Total	2013 Less than 1 year	2013 More than 1 year	2012 Total	2012 Less than 1 year	2012 More than 1 year
Cash inflows	7,021	955	6,066	11,172	5,022	6,150
Cash outflows	(6,558)	(913)	(5,645)	(10,919)	(4,936)	(5,983)
Total cash inflow (outflow)	**463**	**42**	**421**	**253**	**86**	**167**

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

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

	2013 Total	2013 Less than 1 year	2013 More than 1 year	2012 Total	2012 Less than 1 year	2012 More than 1 year
Cash inflows	1,296	289	1,007	1,730	451	1,279
Cash outflows	(1,310)	(293)	(1,017)	(1,839)	(490)	(1,349)
Total cash inflow (outflow)	**(14)**	**(4)**	**(10)**	**(109)**	**(39)**	**(70)**

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

Fair value hedges. The Group has entered into some interest rate swaps to hedge some of its fixed-term debt instruments. At 31 December 2013 such instruments are recorded as fair value liabilities of 59 million Swiss francs and fair value assets of 2 million Swiss francs (2012: assets of 5 million Swiss francs). During 2013 a loss of 62 million Swiss francs was recorded on these interest rate swaps (2012: loss of 4 million Swiss francs). As the fair value hedge had been highly effective since inception, the result of the interest rate swaps was largely offset by changes in the fair value of the hedged debt instruments.

The Group has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure the Group has entered into forward contracts, which have been designated and qualify as fair value hedges. At 31 December 2013 such instruments are recorded as fair value liabilities of 270 million Swiss francs (2012: liabilities of 106 million Swiss francs). During 2013 a loss of 164 million Swiss francs was recorded on these forward contracts (2012: loss of 44 million Swiss francs). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

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

30. Related parties

Controlling shareholders

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

At 31 December 2013 and 2012, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

Mr André Hoffmann and Dr Andreas Oeri are members of the Board of Directors of Roche Holding Ltd. Mr Hoffmann received remuneration totalling 400,000 Swiss francs (2012: 400,000 Swiss francs) and Dr Oeri received remuneration totalling 360,000 Swiss francs (2012: 360,000 Swiss francs).

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

Subsidiaries and associates

A listing of the major Group subsidiaries and associates is included in Note 31. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation. There were no significant transactions between the Group and its associates.

Key management personnel

Total remuneration of key management personnel was 52 million Swiss francs (2012: 55 million Swiss francs, 2011: 61 million Swiss francs).

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees. Total remuneration of the Board of Directors in 2013, excluding the Chairman and the Chief Executive Officer, totalled 4 million Swiss francs (2012: 5 million Swiss francs, 2011: 5 million Swiss francs).

The Chairman of the Board of Directors and members of the Corporate Executive Committee of Roche Holding Ltd receive remuneration, which consists of an annual salary, bonus and an expense allowance. The Group pays social insurance contributions in respect of the above remuneration and pays contributions to pension and other post-employment benefit plans for the Chairman of the Board of Directors and members of the Corporate Executive Committee. The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms, vesting conditions and fair value of these awards are disclosed in Note 26. New members of the Corporate Executive Committee (Mr Diggelmann in 2012 and Dr Hippe in 2011) are included in the table below for the full calendar year in which they joined the CEC. Similarly, members of the Corporate Executive Committee retiring part way through the year (Dr Soriot in 2012 and Dr Hunziker in 2011) are included for the full calendar year in which they left the CEC.

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

	2013	2012	2011
Salaries, including cash-settled bonus	24	28	24
Bonus Stock Awards	7	5	5
Social security costs	3	2	2
Pensions and other post-employment benefits	4	7	7
Equity compensation plans	9	7	13
Retirement awards	–	–	4
Other employee benefits	1	1	1
Total	**48**	**50**	**56**

For the purposes of these remuneration disclosures the values for equity compensation plans, including the Bonus Stock Awards, are calculated based on the fair value used in Note 26. These represent the cost to the Group of such awards at grant date and reflect, amongst other matters, the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions.

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the financial statements of Roche Holding Ltd, Basel, on pages 158–163. In those disclosures the values for equity compensation plans, including the Bonus Stock Awards, represent the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions. These fair values are shown in the table below, which reconciles those disclosures required by Swiss law to the above related party disclosures for key management personnel.

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

	2013	2012	2011
Total remuneration of the Chairman of the Board of Directors and members of the Corporate Executive Committee (IFRS basis – see table above)	48	50	56
Deduct			
– Bonus Stock Awards (IFRS basis)	(7)	(5)	(5)
– Equity compensation plans (IFRS basis)	(9)	(7)	(13)
Add back			
– Bonus Stock Awards (Swiss legal basis)	4	3	4
– Equity compensation plans (Swiss legal basis)	18	13	11
Total remuneration of the Chairman of the Board of Directors and members of the Corporate Executive Committee (Swiss legal basis)	**54**	**54**	**53**
Of which			
– Chairman of the Board of Directors (page 158)	9	9	9
– Members of the Corporate Executive Committee (page 159)	45	45	44

Bonus Stock Awards. The Chairman of the Board of Directors and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2013. These will be issued by the end of April 2014. The number of awards and fair value per award will be calculated at the grant date.

Equity compensation plans. The Chairman of the Board of Directors and members of the Corporate Executive Committee received equity compensation as shown in the following tables.

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

	2013	2012	2011
Roche Stock-settled Stock Appreciation Rights	201,921	408,288	572,121
Roche Restricted Stock Unit Plan	19,838	–	–
Roche Performance Share Plan	20,660	22,825	25,778

Contributions paid for the Chairman of the Board of Directors and Corporate Executive Committee in millions of CHF

	2013	2012	2011
Roche Connect	0.3	0.2	0.3

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

Defined benefit plans

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

31. Subsidiaries and associates

Listed companies

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Switzerland	Roche Holding Ltd Stock Exchange: SIX Swiss Exchange Zurich Valor Share: 1203211 Valor *Genussschein*: 1203204 ISIN Share: CH0012032113 ISIN *Genussschein*: CH0012032048 Market Capitalisation: CHF 211,290.7 m	Basel	CHF 160.0	
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo ISIN: JP3519400000 Market Capitalisation: JPY 1,266,524.1 m	Tokyo	JPY 335.2	61.5

Non-listed companies

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Algeria	Roche Algérie S.p.A	Bab Ezzouar	DZD	1.0	48
Argentina	Productos Roche S.A. Química e Industrial	Buenos Aires	ARS	163.5	100
	Vanguardia en productos farmacéuticos (VANPROFARMA) S.A.	Buenos Aires	ARS	2.3	100
Australia	Roche Diagnostics Australia Pty. Limited	Castle Hill	AUD	5.0	100
	Roche Products Pty. Limited	Dee Why	AUD	65.0	100
Austria	Roche Austria GmbH	Vienna	EUR	14.5	100
	Roche Diagnostics GmbH	Vienna	EUR	1.1	100
	Roche Diagnostics Graz GmbH	Graz	EUR	0.4	100
Azerbaijan	Roche Azerbaijan LLC	Baku	AZN	0.5	100
Bangladesh	Roche Bangladesh Limited	Dhaka	BDT	27.2	100
Belarus	FLLC 'Roche Products Limited'	Minsk	BYR	1.5	100
Belgium	N.V. Roche S.A.	Brussels	EUR	32.0	100
	Roche Diagnostics Belgium NV	Brussels	EUR	3.8	100
Bermuda	Chemical Manufacturing and Trading Company Limited	Hamilton	USD	(–)	100
	Roche Capital Services Ltd.	Hamilton	RUB	(–)	100
	Roche Catalyst Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Management Ltd.	Hamilton	USD	(–)	100
	Roche Financial Services Ltd.	Hamilton	USD	(–)	100
	Roche International Ltd.	Hamilton	USD	(–)	100
	Roche Intertrade Limited	Hamilton	USD	10.0	100
	Roche Operations Ltd.	Hamilton	USD	(–)	100
	Roche Services Holdings Ltd.	Hamilton	USD	(–)	100
	Syntex Pharmaceuticals International Ltd.	Hamilton	USD	(–)	100
Bosnia-Herzegovina	Roche Ltd. Pharmaceutical Company	Sarajevo	BAM	13.1	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL	41.7	100
	Roche Diagnostica Brasil Ltda.	São Paulo	BRL	510.8	100
Bulgaria	Roche Bulgaria EOOD	Sofia	BGN	5.1	100
Cameroon	Roche Cameroun SARL	Douala	XAF	60.0	100
Canada	Chempharm Limited	Toronto	CAD	(–)	100
	Hoffmann-La Roche Limited	Toronto	CAD	40.3	100
	Sapac Corporation Ltd.	St. John	CAD	(–)	100
Chile	Roche Chile Limitada	Santiago de Chile	CLP	70.9	100
China	Roche (China) Holding Ltd.	Shanghai	USD	37.3	100
	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD	10.0	100
	Roche Diagnostics (Shanghai) Limited	Shanghai	USD	14.5	100
	Roche Hong Kong Limited	Hong Kong	HKD	10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD	6.3	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD	134.7	70
Colombia	Productos Roche S.A.	Bogotá	COP	26,923.7	100
Costa Rica	Roche Servicios S.A.	Heredia	USD	8.1	100
Croatia	Roche d.o.o.	Zagreb	HRK	4.8	100
Czech Republic	Roche s.r.o.	Prague	CZK	200.0	100
Denmark	Roche a/s	Hvidovre	DKK	4.0	100
	Roche Diagnostics a/s	Hvidovre	DKK	1.3	100
Dominican Republic	Productos Roche Dominicana S.A.	Santo Domingo	DOP	0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD	28.1	100
El Salvador	Productos Roche (El Salvador) S.A.	San Salvador	SVC	0.2	100
Egypt	Ropharm Limited	Cairo	EGP	0.1	95
Estonia	Roche Eesti OÜ	Tallinn	EUR	0.1	100
Finland	Roche Diagnostics Oy	Espoo	EUR	0.2	100
	Roche Oy	Espoo	EUR	(–)	100
France	Institut Roche de Recherche et Médecine Translationnelle SAS	Boulogne-Billancourt	EUR	(–)	100
	Roche Diagnostics France S.A.S.	Meylan	EUR	16.0	100
	Roche S.A.S.	Boulogne-Billancourt	EUR	38.2	100
	Ventana Medical Systems S.A.S.	Illkirch	EUR	0.9	100
Georgia	Roche Georgia LLC	Tbilisi	GEL	0.5	100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Germany	Galenus Mannheim GmbH	Mannheim	EUR	1.7	100
	Roche Beteiligungs GmbH	Grenzach-Wyhlen	EUR	3.6	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	EUR	6.0	100
	Roche Diagnostics Deutschland GmbH	Mannheim	EUR	1.0	100
	Roche Diagnostics GmbH	Mannheim	EUR	94.6	100
	Roche mtm laboratories AG	Heidelberg	EUR	1.4	100
	Roche Pharma AG	Grenzach-Wyhlen	EUR	61.4	100
	Roche PVT GmbH	Waiblingen	DEM	(–)	100
	Swisslab GmbH	Berlin	EUR	(–)	100
	Verum Diagnostica GmbH	Munich	EUR	(–)	100
Ghana	Roche Products Ghana Limited	Accra	GHS	0.4	100
Greece	Roche (Hellas) S.A.	Athens	EUR	80.1	100
	Roche Diagnostics (Hellas) S.A.	Athens	EUR	48.7	100
Guatemala	Productos Roche Guatemala S.A.	Guatemala	GTQ	0.6	100
Honduras	Productos Roche (Honduras), S.A.	Tegucigalpa	HNL	(–)	100
Hungary	Roche (Hungary) Ltd.	Budapest	HUF	30.0	100
	Roche Services (Europe) Ltd.	Budapest	HUF	3.0	100
India	Roche Diagnostics (India) Pvt. Ltd.	Mumbai	INR	149.2	100
	Roche Products (India) Pvt. Ltd.	Mumbai	INR	1,000.0	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR	1,323.0	98.3
Iran	Roche Pars Co. (Ltd.)	Tehran	IRR	41,610.0	100
Ireland	Roche Ireland Limited	Clarecastle	EUR	1.9	100
	Roche Products (Ireland) Limited	Dublin	EUR	(–)	100
Israel	Medingo Ltd.	Yoqneam Illit	ILS	8.0	100
	Roche Pharmaceuticals (Israel) Ltd.	Petach Tikva	ILS	(–)	100
Italy	Roche Diagnostics S.p.A.	Milan	EUR	18.1	100
	Roche S.p.A.	Milan	EUR	34.1	100
Ivory Coast	Roche Côte d'Ivoire SARL	Abidjan	XOF	50.0	100
Japan	Roche Diagnostics K.K.	Tokyo	JPY	2,500.0	100
Kazakhstan	Roche Kazakhstan LLP	Almaty	KZT	150.0	100
Kenya	Roche Kenya Limited	Nairobi	KES	40.0	100
Latvia	Roche Latvija SIA	Riga	LVL	0.2	100
Lebanon	Roche Lebanon SARL	Beirut	LBP	100.0	100
Lithuania	UAB Roche Lietuva	Vilnius	LIT	0.8	100
Macedonia	Roche Makedonija DOOEL	Skopje	MKD	0.3	100
Malaysia	Roche (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR	4.0	100
	Roche Diagnostics (Malaysia) Sdn. Bhd.	Petaling Jaya	MYR	0.9	100
	Syntex Pharmaceuticals Sdn. Bhd.	Kuala Lumpur	MYR	(–)	100
Mauritius	Roche Products (Mauritius) Limited	Quatre Bornes	MUR	4.0	100
Mexico	Productos Roche, S.A. de C.V.	Mexico City	MXN	82.6	100
	Roche Servicios de México, S.A. de C.V.	Mexico City	MXN	3.5	100
Moldova	Roche Products Limited S.R.L.	Chisinau	MDL	1.8	100
Morocco	Roche S.A.	Casablanca	MAD	59.5	100
Myanmar	Roche Myanmar Company Limited	Yangon	USD	(–)	100
Netherlands	Roche Diagnostics Nederland B.V.	Almere	EUR	2.3	100
	Roche Finance Europe B.V.	Woerden	EUR	2.0	100
	Roche Nederland B.V.	Woerden	EUR	10.9	100
	Roche Pharmholding B.V.	Woerden	EUR	467.8	100
New Zealand	Roche Diagnostics NZ Limited	Auckland	NZD	3.0	100
	Roche Products (New Zealand) Limited	Auckland	NZD	13.5	100
Nicaragua	Productos Roche (Nicaragua) S.A.	Managua	NIO	(–)	100
Nigeria	Roche Products Limited	Lagos	NGN	200.0	100
Norway	Roche Diagnostics Norge A/S	Oslo	NOK	5.8	100
	Roche Norge A/S	Oslo	NOK	6.2	100
Pakistan	Roche Pakistan Limited	Karachi	PKR	38.3	100
Palestine	Roche Pharmaceuticals Palestine Ltd	Ramallah and Al-Bireh	USD	1.2	100
Panama	Productos Roche (Panamá) S.A.	Panama City	PAB	(–)	100
	Productos Roche Interamericana S.A.	Panama City	USD	0.1	100
	Roche Products Inc.	Panama City	USD	0.5	100
	Syntex Puerto Rico Inc.	Panama City	USD	(–)	100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN	11.1	100
Philippines	Roche (Philippines) Inc.	Taguig City	PHP	300.0	100
Poland	Roche Diagnostics Polska Sp. z o.o.	Warsaw	PLN	8.0	100
	Roche Polska Sp. z o.o.	Warsaw	PLN	25.0	100
Portugal	Roche Farmacêutica Química, Lda.	Amadora	EUR	1.1	100
	Roche Sistemas de Diagnósticos, Sociedade Unipessoal, Lda.	Amadora	EUR	2.6	100
Puerto Rico	Roche Operations Ltd.	Ponce	USD	(–)	100
Romania	Roche Romania S.R.L.	Bucharest	RON	472.2	100
Russian Federation	Limited Liability Company Roche Diagnostics Rus	Moscow	RUB	250.0	100
	Roche – Moscow Ltd.	Moscow	RUB	2.6	100
Serbia	Roche d.o.o. Beograd	Belgrade	EUR	4.1	100
Singapore	Roche Diagnostics Asia Pacific Pte. Ltd.	Singapore	SGD	20.4	100
	Roche Singapore Pte. Ltd.	Singapore	SGD	4.0	100
	Roche Singapore Technical Operations, Pte. Ltd.	Singapore	USD	35.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	EUR	0.3	100
Slovenia	Roche d.o.o. Pharmaceutical Company	Ljubljana	EUR	0.2	100
South Africa	Roche Products (Proprietary) Limited	Illovo	ZAR	60.0	100
South Korea	Roche Diagnostics Korea Co., Ltd.	Seoul	KRW	22,969.0	100
	Roche Korea Company Ltd.	Seoul	KRW	13,375.0	100
Spain	Andreu Roche S.A.	Madrid	EUR	0.1	100
	Roche Diagnostics S.L.	Barcelona	EUR	18.0	100
	Roche Farma S.A.	Madrid	EUR	54.1	100
	Syntex Roche S.A.	Madrid	EUR	0.1	100
Sri Lanka	Roche Products Colombo (Private) Limited	Colombo	LKR	14.0	100
Sweden	Roche AB	Stockholm	SEK	20.0	100
	Roche Diagnostics Scandinavia AB	Bromma	SEK	9.0	100
Switzerland	F. Hoffmann-La Roche Ltd	Basel	CHF	150.0	100
	Hoffmann-La Roche Ltd	Basel	CHF	0.5	100
	Rabbit-Air Ltd	Bachenbülach	CHF	3.0	100
	Roche Capital Market Ltd	Basel	CHF	1.0	100
	Roche Diabetes Care Ltd.	Burgdorf	CHF	0.9	100
	Roche Diagnostics (Switzerland) Ltd	Rotkreuz	CHF	1.0	100
	Roche Diagnostics International Ltd	Rotkreuz	CHF	20.0	100
	Roche Finance Ltd	Basel	CHF	409.2	100
	Roche Forum Buonas Ltd	Buonas	CHF	0.1	100
	Roche Glycart Ltd	Schlieren	CHF	0.3	100
	Roche Long Term Foundation	Basel	CHF	0.5	100
	Roche Pharma (Switzerland) Ltd	Reinach	CHF	2.0	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD	80.0	100
	Roche Products Ltd.	Taipei	TWD	100.0	100
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB	103.0	100
	Roche Thailand Limited	Bangkok	THB	12.0	100
Tunisia	Roche Tunisie SA	Tunis	TND	0.8	100
Turkey	Roche Diagnostik Sistemleri Ticaret A.S.	Istanbul	TRY	80.0	100
	Roche Müstahzarlari Sanayi Anonim Sirketi	Istanbul	TRY	249.5	100
Ukraine	Roche Ukraine LLC	Kiev	UAH	124.0	100
United Arab Emirates	Roche Diagnostics Middle East FZCO	Dubai	AED	19.0	100
	Roche Middle East FZCO	Dubai	AED	0.5	100
United Kingdom	Piramed Limited	Welwyn Garden City	GBP	(–)	100
	Roche Diagnostics Ltd.	Burgess Hill	GBP	32.6	100
	Roche Holding (UK) Limited	Welwyn Garden City	GBP	100.0	100
	Roche Products Limited	Welwyn Garden City	GBP	98.3	100
	Roche Registration Limited	Welwyn Garden City	GBP	(–)	100

Country	Company	City		Share capital (in millions)	Equity interest (in %)
United States	454 Life Sciences Corporation	Branford	USD	(–)	100
	Alios Biopharma, Inc.	South San Francisco	USD	(–)	20.5
	Anadys Pharmaceuticals, Inc.	South San Francisco	USD	(–)	100
	BioVeris Corporation	Indianapolis	USD	(–)	100
	Genentech, Inc.	South San Francisco	USD	(–)	100
	Genentech USA, Inc.	South San Francisco	USD	(–)	100
	Hoffmann-La Roche Inc.	Nutley	USD	3.0	100
	IGEN International, Inc.	Pleasanton	USD	(–)	100
	Marcadia Biotech, Inc.	Nutley	USD	(–)	100
	Roche Carolina Inc.	Florence	USD	(–)	100
	Roche Diagnostics Corporation	Indianapolis	USD	(–)	100
	Roche Diagnostics Hematology, Inc.	Westborough	USD	(–)	100
	Roche Diagnostics Operations, Inc.	Indianapolis	USD	(–)	100
	Roche Health Solutions Inc.	Fishers	USD	(–)	100
	Roche Holdings, Inc.	South San Francisco	USD	1.0	100
	Roche Laboratories Inc.	Nutley	USD	(–)	100
	Roche Molecular Systems, Inc.	Pleasanton	USD	(–)	100
	Roche NimbleGen, Inc.	Madison	USD	(–)	100
	Roche TCRC, Inc.	New York	USD	(–)	100
	Spring Bioscience Corp.	Pleasanton	USD	(–)	100
	Ventana Medical Systems, Inc.	Tucson	USD	(–)	100
Uruguay	Roche International Ltd. – Montevideo Branch	Hamilton	UYU	(–)	100
Venezuela	Productos Roche S.A.	Caracas	VEF	78.2	100
Vietnam	Roche Vietnam Co., Ltd.	Ho Chi Minh City	USD	5.0	100

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

32. Significant accounting policies

Consolidation policy

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

Segment reporting

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

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

Foreign currency translation

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

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

Revenues

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

Cost of sales

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

Research and development

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

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

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

Licensing, milestone and other upfront receipts

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

Employee benefits

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

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

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

Pensions and other post-employment benefits

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

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

Recognised in the income statement:

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

Recognised in other comprehensive income:

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

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

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

Equity compensation plans

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

Property, plant and equipment

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

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

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

Leases

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

Where the Group is the lessor. Certain assets, mainly Diagnostics instruments, are leased to third parties through both finance and operating lease arrangements. Finance lease assets are reported as receivables at an amount equal to the net investment in the lease. Lease income from finance leases is recognised over the term of the lease based on the effective interest rate method. Operating lease assets are reported within property, plant and equipment. Lease income from operating leases is recognised over the lease term on a straight-line basis.

Business combinations

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

Goodwill

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

Intangible assets

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

Product intangibles in use	4–20 years
Marketing intangibles in use	2–5 years
Technology intangibles in use	7–14 years

Impairment of property, plant and equipment and intangible assets

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

Impairment of goodwill

Goodwill is assessed for impairment at each reporting date and is additionally tested annually for impairment. Goodwill is allocated to cash-generating units and when the recoverable amount of the cash-generating unit, being the higher of its fair value less costs to sell or its value in use, is less than its carrying value, then the carrying value of the goodwill is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. The impairment testing methodology is further described in Note 8.

Inventories

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

Accounts receivable

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

Cash and cash equivalents

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

Provisions and contingencies

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

Fair values

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

Financial instruments

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

Hedge accounting

The Group uses derivatives to manage its exposures to foreign currency, interest rate, equity market and credit risks. The instruments used may include interest rate swaps, cross-currency swaps, forwards contracts and options. The Group generally limits the use of hedge accounting to certain significant transactions. To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in financial income (expense).

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

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

Debt

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

Taxation

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

Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognised where it is probable that such earnings will be remitted in the foreseeable future.

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

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

Own equity instruments

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

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IAS 19 (revised) 'Employee Benefits'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- Annual Improvements to IFRS 2009–2011 cycle, 2010–2012 cycle and 2011–2013 cycle

With the exception of the revisions to IAS 19, these do not have a material impact on the Group's overall results and financial position. The nature and the effects of the changes most relevant to the Group's financial statements are explained below.

Pensions and other post-employment benefits. As a result of IAS 19 (revised) the Group amended its accounting policy with respect to the basis for determining the income or expense related to defined benefit plans and restated the 2012 results retrospectively. The main changes are as follows:

- The revised standard eliminated the option to defer the recognition of actuarial gains and losses from defined benefit plans, known as the 'corridor method'. The Group did not apply this option, but rather uses the option to recognise such gains and losses directly in other comprehensive income. The option currently applied by the Group is the requirement under the revised standard and therefore this change had no impact on the Group's financial statements.
- Net interest on the net defined benefit liability is comprised of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the limit on the recognition of pension assets. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking account of any changes from contribution or benefit payments. Previously, expected income on plan assets was based on the estimated long-term rate of the underlying assets in the various plans. The impact on the restated 2012 results was a reduction in net financial income of 164 million Swiss francs for the year ended 31 December 2012. The ongoing impact for 2013 and beyond is expected to be of a similar magnitude. There was no impact on the Group's operating income or net assets from this change.
- Past service costs are now 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. The impact of this change was an increase in the Group's net assets by 22 million Swiss francs at 31 December 2012 and an increase of 24 million Swiss francs at 31 December 2011.

Following the revision to IAS 19 disclosed above the Group has also made a presentational change to the income statement, which has renamed 'Financial income' to 'Other financial income (expense)' and moved this caption below 'Financing costs'.

The reconciliations between the results published previously in 2012 (using the previous accounting policy) and the restated amounts which are reported as comparatives in 2013 (using the revised accounting policy) are presented below.

Restated Roche Group consolidated income statement in millions of CHF

	Year ended 31 December 2012		
	As originally published	Application of IAS 19 (revised)	Restated
Operating profit	**14,125**	**–**	**14,125**
Associates	–	–	–
Financing costs	(2,273)	350	(1,923)
Other financial income (expense)	471	(514)	(43)
Profit before taxes	**12,323**	**(164)**	**12,159**
Income taxes	(2,550)	51	(2,499)
Net income	**9,773**	**(113)**	**9,660**
Attributable to			
– Roche shareholders	9,539	(112)	9,427
– Non-controlling interests	234	(1)	233
Earnings per share and non-voting equity security			
Basic (CHF)	11.25	(0.13)	11.12
Diluted (CHF)	11.16	(0.13)	11.03

Restated Roche Group consolidated statement of comprehensive income in millions of CHF

	Year ended 31 December 2012 As originally published	Application of IAS 19 (revised)	Restated
Net income recognised in the income statement	9,773	(113)	9,660
Other comprehensive income, net of tax	(1,948)	111	(1,837)
Total comprehensive income	**7,825**	**(2)**	**7,823**
Attributable to			
– Roche shareholders	7,864	(1)	7,863
– Non-controlling interests	(39)	(1)	(40)

Restated Roche Group consolidated balance sheet (selected items) in millions of CHF

	31 December 2012			31 December 2011		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Deferred tax assets	4,856	(7)	4,849	2,762	(9)	2,753
Defined benefit plan assets	668	10	678	568	13	581
Deferred tax liabilities	(1,394)	(3)	(1,397)	(604)	(2)	(606)
Defined benefit plan liabilities	(7,253)	22	(7,231)	(5,520)	22	(5,498)
Other net assets	19,851	–	19,851	17,276	–	17,276
Net assets	**16,728**	**22**	**16,750**	**14,482**	**24**	**14,506**
Capital and reserves attributable to Roche shareholders	14,494	20	14,514	12,095	21	12,116
Equity attributable to non-controlling interests	2,234	2	2,236	2,387	3	2,390
Total equity	**16,728**	**22**	**16,750**	**14,482**	**24**	**14,506**

Consolidation policy. As a result of IFRS 10, the Group has amended its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This change had no impact on the Group's financial statements.

Fair values. IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided all of the comparative information for new disclosures. The change had no impact on the measurements of the Group's assets and liabilities.

Presentation of items of other comprehensive income. As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that may be reclassified to the income statement in the future from those that would not. The 2012 comparative information has been restated for this change. The change had no impact on the Group's overall results and financial position.

Future new and revised standards

The Group is currently assessing the potential impacts of other new and revised standards and interpretations that will be effective from 1 January 2014 and beyond. 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.

Report of Roche Management on Internal Control over Financial Reporting

Report of Roche Management on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of its system of internal control over financial reporting as of 31 December 2013 based on the criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework version 1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the system of internal control over financial reporting was effective as of 31 December 2013.

The Statutory Auditor KPMG AG has audited the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2013, in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA). They have also issued a report on the effectiveness of the Group's system of internal control over financial reporting. This report is set out on pages 138 to 139.

Franz B. Humer Chairman of the Board of Directors	Alan Hippe Chief Financial Officer

Basel, 27 January 2014

Report of the Statutory Auditor on the Consolidated Financial Statements

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

As statutory auditor, we have audited the accompanying consolidated financial statements of Roche Holding Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 46 to 134 for the year ended 31 December 2013.

Board of Directors' Responsibility. The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion. In our opinion, the consolidated financial statements for the year ended 31 December 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS), and comply with Swiss law.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 27 January 2014

Report of the Independent Auditor on Internal Control over Financial Reporting

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

We have examined the Roche Group's system of internal control over financial reporting as of 31 December 2013, based on criteria established in *Internal Control – Integrated Framework version 1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

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

In our opinion, the Roche Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2013 based on criteria established in *Internal Control – Integrated Framework version 1992* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Swiss Auditing Standards and International Standards on Auditing, the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2013 and our report dated 27 January 2014 expressed an unqualified opinion on those consolidated financial statements.

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 27 January 2014

Multi-Year Overview and Supplementary Information

Multi-Year Overview

Statistics, as reported

	2004	2005	2006
Income statement in millions of CHF			
Sales	31,273	35,511	42,041
EBITDA	9,566	11,404	14,436
Operating profit	8,979	8,669	11,730
Net income attributable to Roche shareholders	6,641	5,787	7,880
Research and development	5,093	5,705	6,589
Balance sheet in millions of CHF			
Non-current assets	28,670	33,739	33,519
Current assets	29,406	35,626	40,895
Total assets	58,076	69,365	74,414
Non-current liabilities	(14,882)	(18,130)	(14,908)
Current liabilities	(9,901)	(9,492)	(12,692)
Total liabilities	(24,783)	(27,622)	(27,600)
Net assets	33,293	41,743	46,814
Capital and reserves attributable to Roche shareholders	28,223	34,922	39,444
Equity attributable to non-controlling interests	5,070	6,821	7,370
Additions to property, plant and equipment	2,357	3,428	3,878
Personnel			
Number of employees at end of year	64,703	68,218	74,372
Key ratios			
Net income attributable to Roche shareholders as % of sales	21	16	19
Net income as % of equity, attributable to Roche shareholders	24	17	20
Research and development as % of sales	16	16	16
Current ratio %	297	375	322
Equity and non-controlling interests as % of total assets	57	60	63
Sales per employee in thousands of CHF	483	521	565
Data on shares and non-voting equity securities			
Number of shares	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)*	702,562,700	702,562,700	702,562,700
Total shares and non-voting equity securities	862,562,700	862,562,700	862,562,700
Total dividend in millions of CHF	1,725	2,156	2,933
Earnings per share and non-voting equity security (diluted) in CHF	7.81	6.71	9.05
Dividend per share and non-voting equity security in CHF	2.00	2.50	3.40

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

2007	2008	2009	2010	2011	2012	2013
46,133	45,617	49,051	47,473	42,531	45,499	46,780
17,068	16,637	18,028	18,517	16,933	19,040	19,802
14,468	13,924	12,277	13,486	13,454	14,125	16,376
9,761	8,969	7,784	8,666	9,343	9,539	11,164
8,385	8,845	9,874	10,026	8,326	9,552	9,270
35,349	37,485	36,086	33,408	33,344	33,434	33,003
42,834	38,604	38,479	27,612	28,232	31,371	29,164
78,183	76,089	74,565	61,020	61,576	64,805	62,167
(10,422)	(10,163)	(43,084)	(34,380)	(30,884)	(27,868)	(25,166)
(14,454)	(12,104)	(22,067)	(14,978)	(16,210)	(20,209)	(15,760)
(24,876)	(22,267)	(65,151)	(49,358)	(47,094)	(48,077)	(40,926)
53,307	53,822	9,414	11,662	14,482	16,728	21,241
45,347	44,479	7,366	9,469	12,095	14,494	19,294
7,960	9,343	2,048	2,193	2,387	2,234	1,947
3,648	3,187	2,837	2,633	2,006	2,130	2,458
78,604	80,080	81,507	80,653	80,129	82,089	85,080
21	20	16	18	22	21	24
22	20	106	92	77	66	58
18	19	20	21	20	21	20
296	319	174	184	174	155	185
68	71	13	19	24	26	34
587	570	602	589	531	554	550
160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700
3,968	4,313	5,175	5,693	5,865	6,340	6,728[a]
11.16	10.23	9.02	10.11	10.98	11.16	12.93
4.60	5.00	6.00	6.60	6.80	7.35	7.80[a]

a) 2013 dividend proposed by the Board of Directors.

Sales by division in millions of CHF

	2009	2010	2011	2012	2013
Pharmaceuticals	38,996	37,058	32,794	35,232	36,304
Diagnostics	10,055	10,415	9,737	10,267	10,476
Total	**49,051**	**47,473**	**42,531**	**45,499**	**46,780**

Sales by geographical area in millions of CHF

	2009	2010	2011	2012	2013
Switzerland	499	464	507	505	526
European Union	16,307	14,663	12,875	12,272	12,616
– *of which Germany*	*3,320*	*2,970*	*2,595*	*2,534*	*2,729*
Rest of Europe	1,480	1,563	1,426	1,570	1,454
Europe	**18,286**	**16,690**	**14,808**	**14,347**	**14,596**
United States	17,208	16,446	14,133	15,932	17,169
Rest of North America	948	1,051	1,047	1,035	1,042
North America	**18,156**	**17,497**	**15,180**	**16,967**	**18,211**
Latin America	2,940	3,397	3,115	3,410	3,363
Japan	5,036	4,718	4,314	4,735	3,936
Rest of Asia	3,166	3,591	3,616	4,368	5,129
Asia	**8,202**	**8,309**	**7,930**	**9,103**	**9,065**
Africa, Australia and Oceania	1,467	1,580	1,498	1,672	1,545
Total	**49,051**	**47,473**	**42,531**	**45,499**	**46,780**

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

	2009	2010	2011	2012	2013
Pharmaceuticals	1,644	1,464	1,049	1,049	1,294
Diagnostics	1,191	1,150	956	1,079	1,158
Corporate	2	49	1	2	6
Total	**2,837**	**2,663**	**2,006**	**2,130**	**2,458**

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

	2009	2010	2011	2012	2013
Switzerland	315	413	381	398	487
European Union	972	890	681	653	730
– *of which Germany*	*646*	*577*	*352*	*318*	*456*
Rest of Europe	20	21	24	36	43
Europe	**1,307**	**1,324**	**1,086**	**1,087**	**1,260**
United States	866	658	401	411	515
Rest of North America	13	24	5	8	51
North America	**879**	**682**	**406**	**419**	**566**
Latin America	115	127	115	135	104
Japan	230	242	185	186	137
Rest of Asia	285	254	194	270	362
Asia	**515**	**496**	**379**	**456**	**499**
Africa, Australia and Oceania	21	34	20	33	29
Total	**2,837**	**2,663**	**2,006**	**2,130**	**2,458**

European Union information is based on members of the EU at 31 December 2013. The comparative information has been restated to include new EU members for the whole five-year period.

Supplementary Core results and EPS information

The Group's basic and diluted earnings per share is given in Note 27 to the Annual Financial Statements. To allow for a transparent assessment of both the actual results and the underlying performance of the business the full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis.

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

- Global restructuring plans (see Note 6) are excluded.
- Amortisation and impairment of intangible assets (see Note 9) and impairment of goodwill (see Note 8) are excluded.
- Acquisition accounting and other one-time impacts from Alliance arrangements and Business Combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) would be excluded.
- Legal and environmental expenses (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control (currently none) would be excluded.
- Material one-time treasury items such as major debt restructurings (currently none) would be excluded.
- Pension plan settlements (see Note 25) are excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 4).

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

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

Core results reconciliation – 2013 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Pension plan settlements	Normali-sation of ECP tax benefit	Core
Sales	46,780	–	–	–	–	–	–	–	46,780
Royalties and other operating income	1,832	–	–	–	–	–	–	–	1,832
Cost of sales	(11,948)	(386)	442	–	–	–	–	–	(11,892)
Marketing and distribution	(8,373)	127	5	–	–	–	–	–	(8,241)
Research and development	(9,270)	152	56	362	–	–	–	–	(8,700)
General and administration	(2,645)	273	–	288	32	196	(19)	–	(1,875)
Operating profit	**16,376**	**166**	**503**	**650**	**32**	**196**	**(19)**	**–**	**17,904**
Financing costs	(1,580)	–	–	–	–	–	–	–	(1,580)
Other financial income (expense)	(119)	–	–	–	–	–	–	–	(119)
Profit before taxes	**14,677**	**166**	**503**	**650**	**32**	**196**	**(19)**	**–**	**16,205**
Income taxes	(3,304)	(2)	(168)	(131)	(4)	(55)	7	(22)	(3,679)
Net income	**11,373**	**164**	**335**	**519**	**28**	**141**	**(12)**	**(22)**	**12,526**
Attributable to									
– Roche shareholders	11,164	164	334	519	28	141	(12)	(22)	12,316
– Non-controlling interests	209	–	1	–	–	–	–	–	210

Core results reconciliation – 2012 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Pension plan settlements	Normali-sation of ECP tax benefit	Core
Sales	45,499	–	–	–	–	–	–	–	45,499
Royalties and other operating income	1,945	–	–	–	–	–	–	–	1,945
Cost of sales	(12,175)	203	487	41	–	–	–	–	(11,444)
Marketing and distribution	(8,539)	141	6	–	–	–	–	–	(8,392)
Research and development	(9,552)	556	37	484	–	–	–	–	(8,475)
General and administration	(3,053)	536	–	187	(32)	389	–	–	(1,973)
Operating profit	**14,125**	**1,436**	**530**	**712**	**(32)**	**389**	**–**	**–**	**17,160**
Financing costs	(1,923)	–	–	–	–	–	–	–	(1,923)
Other financial income (expense)	(43)	–	–	–	–	–	–	–	(43)
Profit before taxes	**12,159**	**1,436**	**530**	**712**	**(32)**	**389**	**–**	**–**	**15,194**
Income taxes	(2,499)	(399)	(181)	(173)	(5)	(146)	–	(26)	(3,429)
Net income	**9,660**	**1,037**	**349**	**539**	**(37)**	**243**	**–**	**(26)**	**11,765**
Attributable to									
– Roche shareholders	9,427	1,037	348	539	(37)	243	–	(26)	11,531
– Non-controlling interests	233	–	1	–	–	–	–	–	234

As disclosed in Note 32 in the Roche Group Annual Financial Statements, the core results for the year ended 31 December 2012 have been restated following the accounting policy changes which were adopted in 2013. The adjustments made to the published IFRS results are the same for the core results.

Divisional core results reconciliation – 2013 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Pension plan settlements	Core
Pharmaceuticals								
Sales	36,304	–	–	–	–	–	–	36,304
Royalties and other operating income	1,702	–	–	–	–	–	–	1,702
Cost of sales	(7,014)	(461)	122	–	–	–	–	(7,353)
Marketing and distribution	(5,844)	49	–	–	–	–	–	(5,795)
Research and development	(8,189)	101	55	350	–	–	–	(7,683)
General and administration	(1,326)	197	–	–	3	74	(15)	(1,067)
Operating profit	**15,633**	**(114)**	**177**	**350**	**3**	**74**	**(15)**	**16,108**
Diagnostics								
Sales	10,476	–	–	–	–	–	–	10,476
Royalties and other operating income	130	–	–	–	–	–	–	130
Cost of sales	(4,934)	75	320	–	–	–	–	(4,539)
Marketing and distribution	(2,529)	78	5	–	–	–	–	(2,446)
Research and development	(1,081)	51	1	12	–	–	–	(1,017)
General and administration	(821)	67	–	288	13	28	(2)	(427)
Operating profit	**1,241**	**271**	**326**	**300**	**13**	**28**	**(2)**	**2,177**
Corporate								
General and administration	(498)	9	–	–	16	94	(2)	(381)
Operating profit	**(498)**	**9**	**–**	**–**	**16**	**94**	**(2)**	**(381)**

Divisional core results reconciliation – 2012 in millions of CHF

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

Core EPS (basic)

	2013	2012
Core net income attributable to Roche shareholders (CHF millions)	12,316	11,531
Weighted average number of shares and non-voting equity securities in issue (millions) [27]	848	848
Core earnings per share (basic) (CHF)	**14.52**	**13.60**

Core EPS (diluted)

	2013	2012
Core net income attributable to Roche shareholders (CHF millions)	12,316	11,531
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
Net income used to calculate diluted earnings per share (CHF millions)	**12,315**	**11,530**
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions) [27]	**863**	**855**
Core earnings per share (diluted) (CHF)	**14.27**	**13.49**

As disclosed in Note 32 in the Roche Group Annual Financial Statements, the earnings per share for the year ended 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. This resulted in the core earnings per share for the year ended 31 December 2012 also being restated.

Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

	Pharmaceuticals 2013	Pharmaceuticals 2012	Diagnostics 2013	Diagnostics 2012	Corporate 2013	Corporate 2012	Group 2013	Group 2012
Depreciation, amortisation and impairment								
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
Total	**1,063**	**2,171**	**1,487**	**1,418**	**7**	**6**	**2,557**	**3,595**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	295	306	40	35	25	22	360	363
– Net (income) expense for provisions	740	847	219	209	91	307	1,050	1,363
– Net gain (loss) from disposals	18	(129)	10	39	–	–	28	(90)
– Non-cash working capital and other items	18	122	90	166	(106)	1	2	289
Deduct								
– Utilisation of provisions	(697)	(687)	(257)	(133)	(46)	(8)	(1,000)	(828)
– Proceeds from disposals	31	180	40	67	–	–	71	247
Total	**405**	**639**	**142**	**383**	**(36)**	**322**	**511**	**1,344**
Operating profit cash adjustments	**1,468**	**2,810**	**1,629**	**1,801**	**(29)**	**328**	**3,068**	**4,939**
EBITDA								
Core operating profit	16,108	15,488	2,177	2,187	(381)	(515)	17,904	17,160
Depreciation and impairment of property, plant and equipment – Core basis	1,040	1,050	851	824	7	6	1,898	1,880
EBITDA	**17,148**	**16,538**	**3,028**	**3,011**	**(374)**	**(509)**	**19,802**	**19,040**
– margin, % of sales	47.2	46.9	28.9	29.3	–	–	42.3	41.8

The Group has refined the calculation of free cash flow in 2013 to exclude the impact of employee stock options in line with its peer group. As a result the operating profit cash adjustments for the year ended 31 December 2012 have been restated to exclude the net cash flow from equity-settled compensation plans. This resulted in an increase of 746 million Swiss francs in the Group operating profit cash adjustments for the year ended 31 December 2012. The divisional impacts were increases of 658 million Swiss francs in Pharmaceuticals, 64 million Swiss francs in Diagnostics and 24 million Swiss francs in Corporate.

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation – 2013 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	10,898	4,721	141	–	15,760
Goodwill	2,082	5,063	–	–	7,145
Intangible assets	1,878	2,066	–	–	3,944
Inventories	4,069	1,837	–	–	5,906
Provisions	(2,151)	(522)	(572)	–	(3,245)
Current income tax net liabilities	–	–	–	(1,587)	(1,587)
Deferred tax net assets	–	–	–	3,425	3,425
Defined benefit plan net liabilities	–	–	–	(5,426)	(5,426)
Marketable securities	–	–	–	7,935	7,935
Cash and cash equivalents	–	–	–	4,000	4,000
Debt	–	–	–	(18,643)	(18,643)
Other net assets (liabilities)					
– Net working capital	1,382	945	(58)	–	2,269
– Long-term net operating assets	245	(78)	(12)	–	155
– Other	–	–	–	(397)	(397)
Total net assets	**18,403**	**14,032**	**(501)**	**(10,693)**	**21,241**

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

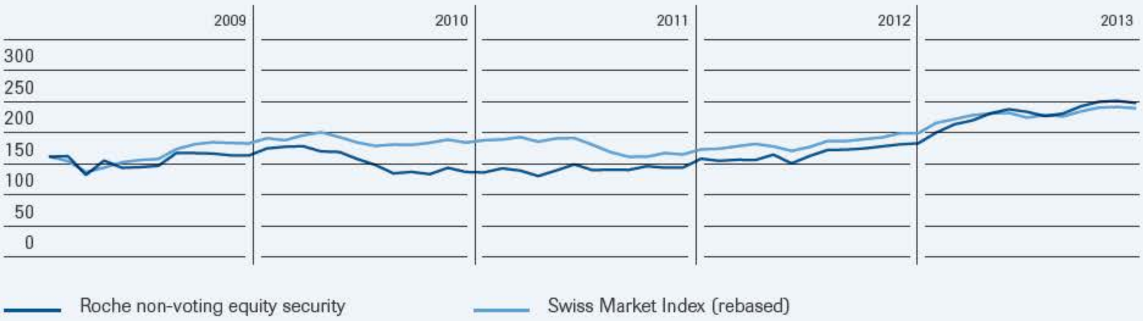
	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	10,704	4,572	126	–	15,402
Goodwill	2,164	5,316	–	–	7,480
Intangible assets	2,094	2,120	–	–	4,214
Inventories	3,584	1,958	–	–	5,542
Provisions	(2,249)	(530)	(421)	–	(3,200)
Current income tax net liabilities	–	–	–	(1,871)	(1,871)
Deferred tax net assets	–	–	–	3,452	3,452
Defined benefit plan net liabilities	–	–	–	(6,553)	(6,553)
Marketable securities	–	–	–	9,461	9,461
Cash and cash equivalents	–	–	–	4,530	4,530
Debt	–	–	–	(24,590)	(24,590)
Other net assets (liabilities)					
– Net working capital	1,964	1,389	(71)	–	3,282
– Long-term net operating assets	242	(96)	(14)	–	132
– Other	–	–	–	(531)	(531)
Total net assets	**18,503**	**14,729**	**(380)**	**(16,102)**	**16,750**

As disclosed in Note 32 in the Roche Group Annual Financial Statements, the Taxation and Treasury net assets at 31 December 2012 have been restated following the accounting policy changes which were adopted in 2013.

Roche Securities

Price development of share in CHF

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



Price development of American Depositary Receipt (ADR) in USD

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

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

	2009	2010	2011	2012	2013
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**
Number of own shares and non-voting equity securities *(Genussscheine)* held	(6,682,120)	(11,214,765)	(15,084,967)	(14,093,890)	(13,537,704)
Total in issue	**855,880,580**	**851,347,935**	**847,477,733**	**848,468,810**	**849,024,996**

Data per share and non-voting equity security in CHF

		2009	2010	2011	2012	2013
Earnings (basic)		9.07	10.14	11.01	11.12	13.16
Earnings (diluted)		9.02	10.11	10.98	11.03	12.93
Core earnings (basic)		12.40	12.81	12.33	13.60	14.52
Core earnings (diluted)		12.34	12.78	12.30	13.49	14.27
Equity attributable to Roche shareholders		8.61	11.12	14.27	17.08	22.73
Dividend		6.00	6.60	6.80	7.35	7.80[c]
Stock price of share[b]	Opening	168.70	181.00	142.80	166.60	186.90
	High	182.10	191.70	167.00	191.70	258.50
	Low	130.30	134.30	123.80	157.10	186.90
	Year-end	181.00	142.80	166.60	186.90	247.40
Stock price of non-voting equity security *(Genussschein)*[b]	Opening	162.50	175.80	137.00	159.20	184.00
	High	179.00	186.00	159.70	188.60	258.50
	Low	124.10	130.20	117.00	149.20	184.00
	Year-end	175.80	137.00	159.20	184.00	249.20

The earnings (basic and diluted), core earnings (basic and diluted) and equity attributable to Roche shareholders per share and non-voting equity security for 2012 have been restated following the accounting policy changes which were adopted in 2013 as disclosed in Note 32 in the Roche Group Annual Financial Statements. The information for 2009, 2010 and 2011 has not been restated for this change in accounting policy.

Market capitalisation in millions of CHF

	2009	2010	2011	2012	2013
Year-end	151,296	117,563	136,102	156,582	211,291

Key ratios (year-end)

	2009	2010	2011	2012	2013
Dividend yield of shares in %	3.3	4.6	4.1	3.9	3.2
Dividend yield of non-voting equity securities *(Genussscheine)* in %	3.4	4.8	4.3	4.0	3.1
Price/earnings of shares	20	14	15	17	19
Price/earnings of non-voting equity securities *(Genussscheine)*	19	14	15	16	19

a) Each non-voting equity security *(Genussschein)* confers the same rights as any of the shares to participate in the available earnings and any remaining proceeds from liquidation following repayment of the nominal value of the shares and the participation certificate capital (if any). Shares and non-voting equity securities are listed on the SIX Swiss Exchange. Roche Holding Ltd has no restrictions as to ownership of its shares or non-voting equity securities.
b) All stock price data reflect daily closing prices.
c) 2013 dividend proposed by the Board of Directors.

Ticker symbols

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

ROCHE HOLDING LTD, BASEL

Financial Statements

Income statement in millions of CHF

	Year ended 31 December 2013	2012
Income		
Income from participations	6,842	5,060
Interest income from loans to Group companies	29	48
Interest and investment income	7	5
Guarantee fee income from Group companies	142	189
Other income	28	26
Total income	**7,048**	**5,328**
Expenses		
Financial expenses	(24)	(27)
Administration expenses	(31)	(32)
Other expenses	(35)	(32)
Total expenses	**(90)**	**(91)**
Profit before taxes	**6,958**	**5,237**
Taxes	(15)	(21)
Net income	**6,943**	**5,216**

Balance sheet in millions of CHF

	31 December 2013	31 December 2012
Non-current assets		
Participations	9,157	10,025
Long-term loans to Group companies	531	554
Total non-current assets	**9,688**	**10,579**
Current assets		
Accounts receivable from Group companies	3,827	1,674
Other accounts receivable	4	11
Marketable securities	1,742	2,271
Liquid funds	1,159	1,389
Total current assets	**6,732**	**5,345**
Total assets	**16,420**	**15,924**
Equity		
Share capital	160	160
Non-voting equity securities *(Genussscheine)*	p.m.	p.m.
Legal reserve:		
– General legal reserve	300	300
– Reserve for own equity instruments	217	–
Free reserve	5,783	6,000
Special reserve	2,152	2,152
Available earnings:		
– Balance brought forward from previous year	802	1,926
– Net profit for the year	6,943	5,216
Total equity	**16,357**	**15,754**
Non-current liabilities		
Provisions	35	35
Total non-current liabilities	**35**	**35**
Current liabilities		
Accounts payable to Group companies	14	112
Other liabilities	14	23
Total current liabilities	**28**	**135**
Total liabilities	**63**	**170**
Total equity and liabilities	**16,420**	**15,924**

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

Notes to the Financial Statements

1. Summary of significant accounting policies

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

Participations
The major participations of the company are listed in Note 31 to the Roche Group Annual Financial Statements.

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

Taxes
The tax charge includes corporate income and capital taxes.

2. Equity

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

Own equity instruments
During 2013 the company purchased 1.5 million Roche shares with a purchase price of 228.80 Swiss francs per share and sold 551,650 of these shares with an average sales price of 238.36 Swiss francs per share. At 31 December 2013 the remaining 948,350 Roche shares with a net book value of 217 million Swiss francs are included in marketable securities.

Movement in recognised amounts in millions of CHF

	Share capital	Legal reserve	Free reserve	Special reserve	Available earnings	Total equity
As at 1 January 2011	160	300	4,706	2,152	6,130	13,448
Net income	–	–	–	–	8,648	8,648
Dividends	–	–	–	–	(5,693)	(5,693)
As at 31 December 2011	**160**	**300**	**4,706**	**2,152**	**9,085**	**16,403**
Net income	–	–	–	–	5,216	5,216
Dividends	–	–	–	–	(5,865)	(5,865)
Transfer to free reserve	–	–	1,294	–	(1,294)	–
As at 31 December 2012	**160**	**300**	**6,000**	**2,152**	**7,142**	**15,754**
Net income	–	–	–	–	6,943	6,943
Dividends	–	–	–	–	(6,340)	(6,340)
Reserve for own equity instruments	–	217	(217)	–	–	–
As at 31 December 2013	**160**	**517**	**5,783**	**2,152**	**7,745**	**16,357**

3. Contingent liabilities

Guarantees

The company has issued guarantees for certain bonds and notes, commercial paper and credit facilities of Group companies. The nominal amount outstanding at 31 December 2013 was 16.7 billion Swiss francs (2012: 22.8 billion Swiss francs). These are described in Note 20 to the Roche Group Annual Financial Statements on pages 83 to 87.

4. Significant shareholders

All shares in the Company are bearer shares, and for this reason the Company does not keep a register of shareholders. The following figures are based on information from shareholders, the shareholder validation check at the Annual General Meeting of 5 March 2013 and on other information available to the Company.

Controlling shareholders

At 31 December 2013 and 2012, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

At 31 December 2013, based on information supplied to the Group, 53,332,863 shares (2012: 53,332,863 shares) are owned by Novartis Ltd, Basel, including affiliates thereof (participation below 33⅓%).

5. Risk management

The detailed disclosures regarding risk management that are required by Swiss law are included in Note 29 to the Roche Group Annual Financial Statements on pages 107 to 117.

6. Board and Executive remuneration

Board of Directors

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

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

	2013	2012
B. Gehrig [a]	72	400
A. Hoffmann	400	400
P. Baschera	330	330
J.I. Bell	330	330
P. Bulcke	330	330
W.M. Burns	353	353
L.J.R. de Vink [a]	54	330
C. Franz	330	330
D. Julius	360	360
A.D. Levinson	607	681
A. Oeri	360	360
S. Schwan [b]	–	–
P.R. Voser	330	330
B. Weder di Mauro	330	330
Total	**4,186**	**4,864**

a) At the Annual General Meeting on 5 March 2013, Prof. Gehrig and Mr de Vink did not stand for re-election.
b) At the Annual General Meeting on 5 March 2013, Dr Schwan was elected as a new member of the Board of Directors. His remuneration is included in the tables below as a member of the Corporate Executive Committee.

The remuneration for Dr Levinson includes payments for his consulting work and for his Board membership of Genentech totalling 277 thousand Swiss francs (2012: 351 thousand Swiss francs). The Chairman of the Board of Directors, Dr Franz B. Humer, received remuneration as shown in the table below.

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

	2013	2012	2011
Annual salary, including cash-settled bonus	4,000	6,500	5,600
Bonus Stock Awards	2,792	–	–
Pensions and other post-employment benefits	1,809	1,808	2,984
Equity compensation plans	75	75	75
Other employee benefits	103	279	226
Total remuneration received	**8,779**	**8,662**	**8,885**
Social security costs	379	291	370
Total	**9,158**	**8,953**	**9,255**

At the Annual Shareholders Meeting on 4 March 2014 it will be proposed that Dr Christoph Franz be elected as Chairman of the Board of Directors to succeed Dr Humer, who is not standing for re-election in 2014.

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

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

		2013		2012		2011
	Total CEC	– of which S. Schwan	Total CEC	– of which S. Schwan	Total CEC	– of which S. Schwan
Annual salary, including cash-settled bonus	20,000	4,000	21,573	4,000	18,488	5,500
Bonus Stock Awards	1,117	1,117	3,143	2,513	3,610	929
Pensions and other post-employment benefits	2,463	545	4,457	747	4,318	459
Equity compensation plans	17,640	6,219	12,921	5,237	11,285	4,480
Retirement awards	–	–	–	–	4,000	–
Other employee benefits	579	36	768	40	832	35
Total remuneration received	**41,799**	**11,917**	**42,862**	**12,537**	**42,533**	**11,403**
Social security costs	2,993	1,284	1,871	675	1,392	371
Total	**44,792**	**13,201**	**44,733**	**13,212**	**43,925**	**11,774**

Bonus Stock Awards. The Chairman of the Board of Directors and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2013. These will be issued by the end of April 2014 with a total fair value for the employee of 3,909 thousand Swiss francs. The fair value of these awards for the employee is calculated taking into account the period in which they are blocked (3 years: 83.962%, 10 years: 55.839%). The number of awards and fair value per award will be calculated at the grant date.

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

Equity Compensation Plans. The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements. The fair values used in the Roche Group Annual Financial Statements represent the cost to the company at grant date and reflect amongst other matters the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions. For the purposes of these remuneration disclosures the values are calculated based on the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions.

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

During 2013 members of the Corporate Executive Committee were granted 201,921 Stock-settled Stock Appreciation Rights (S-SARs). The individual awards relating to 2013 are shown in the table below. The fair value of these awards for the employees was 7,345 thousand Swiss francs, which was calculated using the Trinomial model for American options.

During 2013 members of the Corporate Executive Committee were granted 19,838 Restricted Stock Units (RSUs). The individual awards relating to 2013 are shown in the table below. The fair value of these awards for the employees was 3,249 thousand Swiss francs, which was calculated based on the average market non-voting equity security price over the 90-day period prior to the grant date.

Members of the Corporate Executive Committee and other members of senior management participate in the Roche Performance Share Plan (PSP). The Group has three overlapping three-year PSPs. The target awards for the three-year cycle are defined at the beginning of the cycle and the awards are considered to form part of the employee's remuneration in three equal annual amounts over the three-year cycle. Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets and the discretion of the Board of Directors. The individual awards relating to 2013 are shown in the table below. The number of the awards is calculated as follows:

- PSP 2011–2013: At the end of the cycle the performance targets were achieved and accordingly the participants received 175% of the originally targeted non-voting equity securities.
- PSP 2012–2014: One non-voting equity security per award.
- PSP 2013–2015: One non-voting equity security per award.
- The resulting allocations are multiplied by the non-voting equity security price at 31 December 2013 of 249.20 Swiss francs to give the fair value for the remuneration received by the employee.

Remuneration from equity compensation plans in 2013

	S. Schwan Number	S. Schwan Fair value (CHF thousands)	Other CEC members Number	Other CEC members Fair value (CHF thousands)	Total CEC Number	Total CEC Fair value (CHF thousands)
Roche Connect						
– Employer contributions	–	100	–	122	–	222
S-SARs						
– 2013 awards	71,472	2,600	130,449	4,746	201,921	7,346
RSUs						
– 2013 awards	7,023	782	12,815	2,467	19,838	3,249
PSP						
– PSP 2011–2013	16,555	–	22,100	–	38,655	–
– PSP 2012–2014	9,079	–	13,746	–	22,825	–
– PSP 2013–2015	7,314	–	13,346	–	20,660	–
– Fair value	–	2,737	–	4,086	–	6,823
Total fair value	**–**	**6,219**	**–**	**11,421**	**–**	**17,640**

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

Transactions with former members of the Corporate Executive Committee. Pensions totalling 2 million Swiss francs were paid by the Group in 2013 to former Corporate Executive Committee members (2012: 2 million Swiss francs, 2011: 2 million Swiss francs).

7. Board and Executive shareholdings

Board of Directors

Directors Mr André Hoffmann and Dr Andreas Oeri and other members of the founder's families who are closely associated with them belong to a shareholder group with pooled voting rights. At the end of 2013 and 2012 this group held 72,018,000 shares (45.01% of issued shares). Detailed information about this group is given in Note 4. In addition at the end of the year the members of the Board of Directors and persons closely associated with them held shares and non-voting equity securities *(Genussscheine)* as shown in the table below.

Shareholdings of members of the Board of Directors

	Shares 2013	Shares 2012	Non-voting equity securities *(Genussscheine)* 2013	Non-voting equity securities *(Genussscheine)* 2012	Other
F.B. Humer	7,492	7,492	67,725	85,216	b)
B. Gehrig	n/a	50	n/a	300	
A. Hoffmann	– a)	– a)	200	200	c)
P. Baschera	1	1	4,600	4,600	
J.I. Bell	300	300	1,647	1,647	
P. Bulcke	–	–	1,350	1,350	
W.M. Burns	3	3	84,735	83,990	b)
L.J.R. de Vink	n/a	–	n/a	–	d)
C. Franz	–	–	350	350	
D. Julius	350	350	2,050	1,550	
A.D. Levinson	–	–	–	–	
A. Oeri	– a)	– a)	187,793	187,793	c)
S. Schwan	–	n/a	–	n/a	b) e)
P.R. Voser	–	–	3,600	3,600	
B. Weder di Mauro	200	200	800	800	
Total	**8,346**	**8,396**	**354,850**	**371,396**	

a) Does not include shares held in the shareholder group with pooled voting rights.
b) Equity compensation awards: Roche Option Plan, S-SARs, RSUs and Roche Performance Share Plan. See below.
c) In 2012 Mr Hoffmann and Dr Oeri each held 250,000 UBS Long/Short Certificates on Roche shares (RO) versus Roche non-voting equity securities *(Genussscheine)* (ROG).
d) Mr de Vink held 31,600 Roche American Depositary Receipts (ADRs) in 2012.
e) Dr Schwan was appointed to the Board of Directors on 5 March 2013 and his shareholdings are disclosed in the tables below as a member of the Corporate Executive Committee.

Corporate Executive Committee

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

Shareholdings of members of the Corporate Executive Committee

	Shares 2013	Shares 2012	Non-voting equity securities (Genussscheine) 2013	Non-voting equity securities (Genussscheine) 2012	Other
S. Schwan	10,000	7,000	68,518	47,813	a)
S. Ayyoubi	3	3	16,032	15,832	a)
R. Diggelmann	–	–	836	802	a)
A. Hippe	2,885	–	6,851	8,892	a)
G.A. Keller	2,153	2,153	21,413	25,783	a) b)
D. O'Day	3	3	6,177	5,492	a)
Total	**15,044**	**9,159**	**119,827**	**104,614**	

a) Equity compensation awards: Roche Option Plan, S-SARs, RSUs and Roche Performance Share Plan.
b) Close relatives of Dr Keller held 1,100 Roche shares (2012: 1,100 Roche shares).

At 31 December 2013 the Chairman of the Board of Directors, Mr Burns and members of the Corporate Executive Committee held Roche Option Plan awards (ROPs) and Stock-settled Stock Appreciation Rights (S-SARs) as shown in the table below. The awards held by Dr Humer, the current Chairman of the Board of Directors, and Mr Burns, a current member of the Board of Directors, were issued to them in their previous capacities as members of the Corporate Executive Committee. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report, which is included in the Business Report (Part 1 of this Annual Report) on pages 130 to 146.

ROPs and S-SARs awards held at 31 December 2013

Year of issue	2013	2012	2011	2010	2009	2008	2007	Total
S. Schwan	71,472	163,869	77,161	57,013	–	–	–	369,515
S. Ayyoubi	21,441	49,161	46,298	–	–	–	–	116,900
R. Diggelmann	17,874	15,000	12,732	6,489	4,263	5,295	–	61,653
A. Hippe	28,590	65,547	3,589	–	–	–	–	97,726
G.A. Keller	26,805	61,452	28,936	–	–	–	7,000	124,193
D. O'Day	35,739	53,259	19,291	25,742	–	–	–	134,031
Total CEC	**201,921**	**408,288**	**188,007**	**89,244**	**4,263**	**5,295**	**7,000**	**904,018**
F.B. Humer	–	–	–	–	–	–	–	–
W.M. Burns	–	–	–	–	109,602	105,576	–	215,178
Total	**201,921**	**408,288**	**188,007**	**89,244**	**113,865**	**110,871**	**7,000**	**1,119,196**
Strike price (CHF)	214.00	157.50	140.10 a)	175.50	145.40	195.80 b)	229.60	
Expiry date	Mar. 2020	Mar. 2019	Feb. 2018 a)	Feb. 2017	Feb. 2016	Jan. 2015 b)	Feb. 2014	

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

At 31 December 2013 members of the Corporate Executive Committee as shown in the table below held PSP awards from the PSP performance cycles 2012–2014 and 2013–2015. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report on pages 130 to 146 of the Business Report (Part 1 of this Annual Report). Each award will result in between zero and two non-voting equity securities (before value adjustment), depending upon the achievement of the performance targets and the discretion of the Board of Directors. At the end of the 2011–2013 cycle the performance targets were achieved and accordingly the participants will receive 175% of the originally targeted non-voting equity securities. The total target number of awards for the other outstanding performance cycles as at 31 December 2013 are shown in the table below.

Roche Performance Share Plan awards held at 31 December 2013

	PSP 2012–2014	PSP 2013–2015
S. Schwan	9,079	7,314
S. Ayyoubi	2,723	2,194
R. Diggelmann	1,038	1,828
A. Hippe	3,631	2,925
G.A. Keller	3,404	2,742
D. O'Day	2,950	3,657
Total CEC	**22,825**	**20,660**
Allocation date	Feb. 2015	Feb. 2016

At 31 December 2012 the Chairman of the Board of Directors, Mr Burns and members of the Corporate Executive Committee at that time held a total of 1,790,392 Stock-settled Stock Appreciation Rights, and had outstanding a total of 44,913 awards granted under the Roche Performance Share Plan.

Appropriation of Available Earnings

Proposals to the Annual General Meeting in CHF

	2013	2012
Available earnings		
Balance brought forward from previous year	801,940,014	1,925,766,591
Net profit for the year	6,942,928,717	5,216,009,268
Total available earnings	**7,744,868,731**	**7,141,775,859**
Appropriation of available earnings		
Distribution of an ordinary dividend of CHF 7.80 gross per share and non-voting equity security *(Genussschein)* as against CHF 7.35 last year	(6,727,989,060)	(6,339,835,845)
Transfer to free reserve	–	–
Total appropriation of available earnings	**(6,727,989,060)**	**(6,339,835,845)**
To be carried forward on this account	**1,016,879,671**	**801,940,014**

Report of the Statutory Auditor on the Financial Statements

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

As statutory auditor, we have audited the accompanying financial statements of Roche Holding Ltd, which comprise the income statement, balance sheet and notes on pages 154 to 164 for the year ended 31 December 2013.

Board of Directors' Responsibility. The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's Articles of Incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Opinion. In our opinion, the financial statements for the year ended 31 December 2013 comply with Swiss law and the company's Articles of Incorporation.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

KPMG

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 27 January 2014

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Next Annual General Meeting:
4 March 2014

Cautionary statement regarding forward-looking statements

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

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2013 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

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

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