Roche

Finance Report 2015

Finance in brief

Key results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)	% of sales 2015	% of sales 2014
IFRS results						
Sales	48,145	47,462	+1	+5		
Operating profit	13,821	14,090	−2	+5	28.7	29.7
Net income	9,056	9,535	−5	+4	18.8	20.1
Net income attributable to Roche shareholders	8,863	9,332	−5	+4	18.4	19.7
Diluted EPS (CHF)	10.28	10.81	−5	+7		
Dividend per share (CHF) [1]	8.10	8.00	+1			
Core results						
Research and development	9,332	8,913	+5	+5	19.4	18.8
Core operating profit	17,542	17,636	−1	+5	36.4	37.2
Core EPS (CHF)	13.49	14.29	−6	+4		
Free cash flow						
Operating free cash flow	14,872	15,778	−6	−7	30.9	33.2
Free cash flow	3,352	5,322	−37	−41	7.0	11.2

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
Net debt	(14,080)	(14,011)	0	−1
Capitalisation	46,551	47,272	−2	+3
– Debt	23,251	25,714	−10	−8
– Equity	23,300	21,558	+8	+14

1) Proposed by the Board of Directors.

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconsolidating both the 2015 and 2014 results at constant exchange rates (the average rates for the year ended 31 December 2014).

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows a transparent assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the Divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 131–134 and reconciliations between the IFRS and Core results are given there.

On the cover

By running the most stringent controls for our medicines we ensure that products which are provided to patients meet all the respective production criteria. Here, Stefan Kamber, an in-process-control expert at the Roche Solids Production unit in Basel, conducts one of the multiple checks of Cotellic, our new cancer medicine which was approved by the FDA and the European Commission in November 2015.

Finance – 2015 in brief

Roche in 2015

The **Roche Group** reported strong overall results in 2015. Sales grew by 5% at constant exchange rates (CER) while core earnings per share increased by 4%. Excluding the impact of the one-time income in 2014 from the divestment of the filgrastim franchise rights, underlying core earnings grew at 7%.

Sales

Group sales increased by 5% (CER) to CHF 48.1 billion (1% growth in CHF terms).
Pharmaceuticals sales growth was 5% (CER) due to continued strong growth in the HER2 franchise and Avastin in the oncology portfolio. In immunology sales of Esbriet and Actemra/RoActemra increased. Sales of Pegasys decreased due to competition from a new generation of treatments and Valcyte/Cymevene and Xeloda decreased due to generic competition.
Diagnostics sales showed growth of 6% (CER) with Professional Diagnostics being the major contributor.

Operating results

Core operating profit increased by 5% (CER) to CHF 17.5 billion (1% decline in CHF terms). Excluding the one-time income in 2014 from the divestment of the filgrastim franchise rights, underlying core operating profit grew at 7%.
Research and development expenditure grew by 5% (CER) to CHF 9.3 billion on a core basis, with focus on the oncology, immunology and neuroscience therapeutic areas. Research and development costs were 19.4% of Group sales.
IFRS operating results include non-core expenses of CHF 3.7 billion. The major factors are CHF 1.7 billion for the amortisation of intangible assets, and CHF 1.2 billion from global restructuring plans, notably the Pharmaceuticals Division's strategic realignment of its manufacturing network.

Non-operating results

Core net financial expenses increased by CHF 0.3 billion to CHF 1.4 billion, driven by lower income from divestments of equity securities.
IFRS net financial expenses additionally includes a loss of CHF 0.4 billion from a major debt restructuring.

Net income

IFRS net income increased by 4% at CER to CHF 9.1 billion (5% decline in CHF terms).
Core earnings per share increased by 4% at CER (–6% in CHF terms). Excluding the one-time income in 2014 from the divestment of the filgrastim franchise rights, underlying earnings per share grew at 7%.

Cash flows

Operating free cash flow was CHF 14.9 billion, a decrease of 7% at CER (–6% in CHF terms). The growth in the operating profit was offset by higher capital investments and a lower increase in accounts payable.
Free cash flow decreased by 41% at CER (–37% in CHF terms) to CHF 3.4 billion, driven by the operating free cash flow decline and higher tax and dividend payments.
Acquisitions, notably the majority stake in Foundation Medicine and the Ariosa and Kapa acquisitions in the Diagnostics sequencing business, utilised in total CHF 2.1 billion of cash.

Financial position

Net working capital decreased by 11% (CER), due to an increase in payables since the end of 2014.
Net debt was stable at CHF 14.1 billion, as the free cash flow was largely absorbed by acquisitions. Net debt as a percentage of total assets was 19%.
Credit ratings strong: Moody's at A1 and Standard & Poor's at AA.

Shareholder return

Dividends. A proposal will be made to increase dividends by 1% to CHF 8.10 per share. This will represent the 29th consecutive year of dividend growth and will result in a pay-out ratio of 60.0%, subject to AGM approval.
Total Shareholder Return (TSR) was 6% representing a combined performance of share and non-voting equity security.

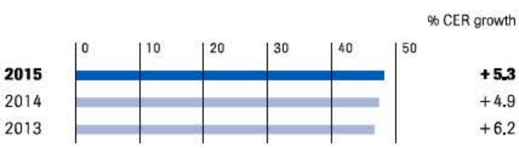
Roche Group

Roche Holding Ltd, Basel

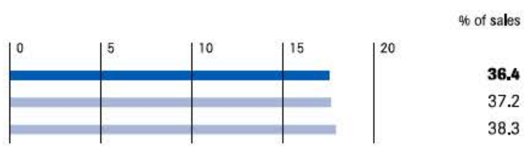
Financial Review

Roche Group results

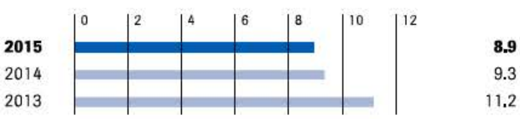
Sales in billions of CHF



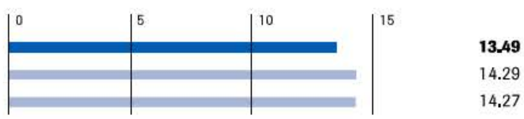
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



The Roche Group's results for 2015 showed sales growth and core operating profit growth of 5% at constant exchange rates (CER). Sales increased driven by the oncology and immunology portfolios, especially the medicines for HER2-positive breast cancer, and by the Professional Diagnostics business. Core EPS grew at a lower rate than sales due to the base effect of the one-time income in 2014 from the divestment of the filgrastim franchise rights. Excluding this item, core operating profit and core EPS both grew ahead of sales at 7%. Operating free cash flow was CHF 14.9 billion or 30.9% of sales, a decrease of 7% at CER due to increased capital expenditure, investments in intangible assets as well as a higher increase in net working capital.

Sales in the Pharmaceuticals Division rose by 5% to CHF 37.3 billion. This increase was driven by the oncology portfolio, especially by the HER2 franchise which grew by 19%. Avastin sales were 9% higher with increased use in recently launched indications. Sales in immunology grew by 24%, with Actemra/RoActemra and Xolair increasing by 23% and 25% respectively. There was a strong uptake for Esbriet following its US launch. Sales of Pegasys declined due to competition from a new generation of treatments and sales of Valcyte/Cymevene and Xeloda fell due to generic competition. Tamiflu sales fell due to a relatively mild influenza season. All regions showed growth in Pharmaceuticals sales, with the US being most significant. Diagnostics sales grew at 6% to CHF 10.8 billion, further securing the Division's leading market position. The major growth area was Professional Diagnostics, with sales increasing by 8% led by the immunodiagnostics business. Molecular Diagnostics and Tissue Diagnostics increased by 10% and 12% respectively while sales in Diabetes Care decreased by 3% due to the continued challenging market environment in the US.

Core operating profit increased by 5% in the Pharmaceuticals Division and fell by 2% in the Diagnostics Division. In the Pharmaceuticals Division growth in the underlying business more than compensated for the base effect of the divestment income of CHF 428 million from the filgrastim franchise rights in 2014. Excluding this item, core operating profit in Pharmaceuticals increased by 8%. Manufacturing costs were higher due to capacity expansion and sourcing strategy in biologics, together with higher inventory write-offs. Marketing and distribution costs grew by 4% due to the launch and rollout of new products, notably the recently acquired product Esbriet. In research and development there were continued investments in oncology and the immunology, inflammation and respiratory therapeutic areas. In Diagnostics core operating profit was lower by 2% mainly due to the higher sales being more than offset by costs from the sequencing business and increased research and development costs in Professional Diagnostics. Diabetes Care performance was impacted by further price erosion in major markets such as the US.

Operating free cash flow was CHF 14.9 billion, a decrease of 7% at CER and 6% in CHF terms. The continuous strong operating cash generation was offset by capital investments in manufacturing facilities and other site development projects, notably in Switzerland, the US and Germany, by an increased level of in-licensing activities and a lower increase in accounts payable. The free cash flow was CHF 3.4 billion with the decrease relative to 2014 mainly driven by the lower operating free cash flow, higher tax payments and higher annual dividend payments.

IFRS net income grew by 4% at CER compared to the increase of 1% in core net income. In addition to the items described above in the core results, the 2014 IFRS results include a base effect from the impairment of goodwill and intangible assets in that year of CHF 1.6 billion, net of tax.

In 2015 the Swiss franc appreciated against a number of currencies, in particular against the euro, the Japanese yen and against most Latin American and European currencies. These effects were partly offset by the stronger US dollar relative to the average rate in 2014. The overall impact is negative on the growth rates expressed in Swiss francs compared to constant exchange rates, with a 4 percentage point impact on sales, a 6 percentage point impact on core operating profit and a 10 percentage point impact on Core EPS. The currency translation sensitivity of the Group's results to movements in foreign currency exchange rates is included on page 26.

Income statement

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	48,145	47,462	+1	+5
Royalties and other operating income	2,258	2,404	-6	-10
Cost of sales	(15,460)	(13,381)	+16	+19
Marketing and distribution	(8,814)	(8,657)	+2	+5
Research and development	(9,581)	(9,895)	-3	-3
General and administration	(2,727)	(3,843)	-29	-28
Operating profit	**13,821**	**14,090**	**-2**	**+5**
Financing costs	(1,574)	(1,821)	-14	-16
Other financial income (expense)	(260)	246	–	–
Profit before taxes	**11,987**	**12,515**	**-4**	**+3**
Income taxes	(2,931)	(2,980)	-2	+1
Net income	**9,056**	**9,535**	**-5**	**+4**
Attributable to				
– Roche shareholders	8,863	9,332	-5	+4
– Non-controlling interests	193	203	-5	+4
EPS – Basic (CHF)	10.42	10.99	-5	+7
EPS – Diluted (CHF)	10.28	10.81	-5	+7
Core results				
Sales	48,145	47,462	+1	+5
Royalties and other operating income	2,258	2,404	-6	-10
Cost of sales	(12,706)	(12,341)	+3	+7
Marketing and distribution	(8,610)	(8,436)	+2	+5
Research and development	(9,332)	(8,913)	+5	+5
General and administration	(2,213)	(2,540)	-13	-12
Operating profit	**17,542**	**17,636**	**-1**	**+5**
Financing costs	(1,140)	(1,362)	-16	-17
Other financial income (expense)	(276)	246	–	–
Profit before taxes	**16,126**	**16,520**	**-2**	**+3**
Income taxes	(4,289)	(3,987)	+8	+9
Net income	**11,837**	**12,533**	**-6**	**+1**
Attributable to				
– Roche shareholders	11,626	12,329	-6	+1
– Non-controlling interests	211	204	+3	+12
Core EPS – Basic (CHF)	13.66	14.53	-6	+3
Core EPS – Diluted (CHF)	13.49	14.29	-6	+4

Sales

In 2015 sales increased by 5% at CER (+1% in CHF; –2% in USD) to CHF 48.1 billion. Sales in the Pharmaceuticals Division rose 5% to CHF 37.3 billion, driven by growth in medicines for HER2-positive breast cancer, as well as by Avastin, Esbriet, MabThera/Rituxan and Actemra/RoActemra. Avastin sales grew by 9% driven by increased use in recently launched indications. In immunology there was a strong uptake of Esbriet following its US launch in late 2014 and also for the subcutaneous formulation of Actemra/Roactemra. Sales of Xolair increased by 25%. Pharmaceuticals sales increased in all regions, and particularly in the US where the HER2 franchise grew by 19%. Sales of Pegasys declined due to competition from a new generation of treatments, while Valcyte/Cymevene and Xeloda sales declined as both products are now off-patent in the US, with Xeloda additionally off-patent in Europe. Tamiflu sales fell due to the relatively mild influenza season in late 2015 compared to the severe influenza season in the comparative period of 2014. Sales of Lucentis declined due to strong competition. The Diagnostics Division sales were CHF 10.8 billion, an increase of 6% at CER, and the Division retains its leading market position. The major growth area was Professional Diagnostics, which represents more than half of the Division's sales and grew by 8%, led by the immunodiagnostics business. Sales in Molecular Diagnostics and Tissue Diagnostics increased by 10% and 12% respectively. Diabetes Care sales decreased by 3% due to continuing US reimbursement cuts and pricing pressure.

Divisional operating results for 2015

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
Sales	37,331	10,814	–	48,145
Core operating profit	16,055	1,947	(460)	17,542
– margin, % of sales	43.0	18.0	–	36.4
Operating profit	13,003	1,289	(471)	13,821
– margin, % of sales	34.8	11.9	–	28.7
Operating free cash flow	14,482	963	(573)	14,872
– margin, % of sales	38.8	8.9	–	30.9

Divisional operating results – Development of results compared to 2014

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase at CER	+5	+6	–	+5
Core operating profit				
– % increase at CER	+5	–2	0	+5
– margin: percentage point increase	+0.2	–1.4	–	–0.2
Operating profit				
– % increase at CER	–3	+465	+3	+5
– margin: percentage point increase	–3.1	+9.8	–	–0.2
Operating free cash flow				
– % increase at CER	–5	–12	+24	–7
– margin: percentage point increase	–4.1	–2.2	–	–3.8

Core operating results

Pharmaceuticals Division. The Division's core operating profit increased 5% at CER, in line with the 5% sales increase, as cost growth was contained in line with the increased sales. The lower royalties and other operating income were driven by the one-off income of CHF 428 million in 2014 for the divestment of the filgrastim franchise rights. Excluding this income, the Division's core operating profit grew at 8%.

Diagnostics Division. Core operating profit was down by 2% at CER, compared to the 6% sales increase. The increased costs from the recently acquired companies in the sequencing business more than offset the growth of the underlying business. Diabetes Care was impacted by price erosion in major markets like the US.

Acquisitions

During 2015 the Roche Group completed the acquisition of several companies, including some previously announced in 2014. The total cost of the acquired net assets was CHF 2.3 billion in cash and CHF 0.6 billion from the fair value of contingent consideration arrangements.

On 7 April 2015 the Pharmaceuticals Division acquired a 61.3% controlling interest in Foundation Medicine ('FMI') for USD 1.0 billion. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The Pharmaceuticals Division also completed the acquisition of Trophos. In Diagnostics the Division acquired GeneWeave Biosciences in Molecular Diagnostics and, in the sequencing business, Ariosa Diagnostics, Signature Diagnostics, CAPP Medical and Kapa Biosystems.

On 29 September 2014 the Pharmaceuticals Division acquired a 100% controlling interest in InterMune for USD 8.8 billion. The acquisition added a new medicine for idiopathic pulmonary fibrosis, Esbriet, to the Roche portfolio. Non-core costs in 2015 relating to InterMune included intangible asset amortisation of CHF 1.1 billion and an expense of CHF 552 million from the release of the inventory fair value adjustment. The Group issued USD 5.75 billion of debt in 2014 to finance the transaction.

In the 2014 Annual Financial Statements the accounting for the InterMune, Dutalys and Bina acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations were finalised in 2015 and as a result the comparative balance sheet information at 31 December 2014 has been restated.

Contingent consideration provisions have increased by CHF 677 million to CHF 1.5 billion in 2015, mainly due to new provisions of CHF 567 million arising from the 2015 acquisitions. In addition there was a net increase in provisions of CHF 192 million, which was recorded as a general and administration expense, mainly due to the progression of the lead product candidate from the Seragon acquisition. This was partially offset by payments of CHF 119 million, mainly related to the IQuum acquisition.

Further details are given in Notes 5, 20 and 29 to the Annual Financial Statements.

Global restructuring plans

During 2015 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme in the Diagnostics Division's Diabetes Care business. On 12 November 2015 the Pharmaceuticals Division announced a strategic realignment of its manufacturing network, including exiting from four sites. Total costs in 2015 of CHF 1.2 billion were considerably higher than the 2014 costs of CHF 0.8 billion. This is due to the strategic realignment of the Pharmaceuticals Division's manufacturing network with costs of CHF 0.6 billion in 2015.

Global restructuring plans: costs incurred for 2015 in millions of CHF

	Diagnostics[1]	Site consolidation[2]	Other plans[3]	Total
Global restructuring costs				
– Employee-related costs	71	198	89	358
– Site closure costs	22	317	2	341
– Other reorganisation expenses	208	66	89	363
Total global restructuring costs	**301**	**581**	**180**	**1,062**
Additional costs				
– Impairment of goodwill	–	–	–	–
– Impairment of intangible assets	–	–	–	–
– Legal and environmental costs	–	107	–	107
Total costs	**301**	**688**	**180**	**1,169**

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes the Pharmaceuticals Division strategic realignment of its manufacturing network.
3) Includes plans for Pharmaceuticals Division research and development strategic realignment and field force reductions in Europe and Asia-Pacific.

Diagnostics Division. On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care's specific requirements, speed up processes and decision-making and drive efficiencies. In 2015 costs of CHF 175 million were incurred, mainly for consultancy and IT-related costs as well as employee-related costs. Spending on other smaller plans within the Division was CHF 126 million and included costs related to certain IT projects and the restructuring of the former Applied Science business.

Site consolidation. On 12 November 2015 the Pharmaceuticals Division announced a strategic realignment of its manufacturing network including exiting from the manufacturing sites at Clarecastle, Ireland; Leganés, Spain; Segrate, Italy; and Florence, US. Costs for this plan are expected to be in the order of CHF 1.6 billion, of which up to CHF 0.6 billion will be in cash. The plan is expected to run until 2021 and approximately 1,200 positions will be affected. Costs from this plan in 2015 were CHF 602 million, of which CHF 182 million were non-cash write-downs and accelerated depreciation of property, plant and equipment. Additional costs were recorded in the Pharmaceuticals Division for the outsourcing of logistics at the Rosny site in France and the closure of the manufacturing site at Toluca, Mexico. The divestment plans for the Nutley site are on track.

Other global restructuring plans. The major items were CHF 62 million from the Pharmaceuticals Division research and development strategic realignment and CHF 55 million from various initiatives to reduce the field force in the Europe and Asia-Pacific regions.

Further details are given in Note 6 to the Annual Financial Statements.

Impairment of goodwill and intangible assets

There were only minor impairments in 2015. In the Pharmaceuticals Division impairment charges totalled CHF 69 million relating to decisions to stop development of various compounds and a collaboration project with different alliance partners. There were no impairments in the Diagnostics Division.

Total impairment charges recorded against goodwill and intangible assets in 2014 were CHF 1.9 billion. The major part of this was in the Tissue Diagnostics business with impairment charges of CHF 552 million against goodwill and CHF 643 million against product intangible assets.

Further details are given in Notes 8 and 9 to the Annual Financial Statements.

Legal and environmental settlements

The legal and environmental settlements include the provision of CHF 107 million for the remediation costs at the Clarecastle production site in Ireland following the strategic realignment of the Pharmaceuticals Division's manufacturing network. There were no other significant developments in 2015. Further details are given in Note 19 to the Annual Financial Statements.

Major debt restructuring

As a result of attractive financing conditions on capital markets the Group decided in September 2015 to restructure part of its debt. This consisted of the refinancing of USD 0.9 billion of notes with coupons of 5.25%–7.00% originally due in 2019–2039 and EUR 0.4 billion of notes with coupons of 6.50% originally due in 2021 with the issuance of USD 1.0 billion of notes due in 2025 with coupons of 3.00%. This major debt restructuring resulted in a loss of CHF 381 million. Further details are given in Note 20 to the Annual Financial Statements.

Treasury and taxation

Core financing costs were CHF 1.1 billion, a decrease of 17%, mainly due to losses on debt redemption and interest costs being lower than in 2014. Core other financial expenses were CHF 276 million, reflecting a net foreign exchange loss of CHF 386 million mainly arising from Venezuela and Argentina, partially offset by CHF 118 million of net income from equity securities. Core tax expenses increased by 9% to CHF 4.3 billion and the Group's effective core tax rate increased to 26.6% compared to 24.1% in 2014. This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with higher local tax rates than the average Group tax rate, notably in the US.

Net income and earnings per share

IFRS net income and diluted EPS both decreased by 5% in CHF terms. At CER the IFRS income increased by 4% and diluted EPS increased by 7%. Core net income increased by 1% and Core EPS increased by 4% at CER. The core basis excludes non-core items such as global restructuring costs, amortisation and impairment of goodwill and intangible assets, and alliance and business combination costs. Excluding the income in 2014 from the divestment of the filgrastim franchise rights of CHF 428 million and the related tax effects of CHF 93 million, underlying Core EPS grew at 7% at CER.

Net income

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS net income	**9,056**	**9,535**	**–5**	**+4**
Reconciling items (net of tax)				
– Global restructuring	868	416	+109	+124
– Intangible asset amortisation	854	469	+82	+77
– Goodwill and intangible asset impairment	49	1,580	–97	–97
– Alliances and business combinations	594	32	Over +500	Over +500
– Legal and environmental settlements	142	190	–25	–19
– Major debt restructuring	248	279	–11	–16
– Pension plan settlements	(4)	–	–	–
– Normalisation of tax benefits for equity compensation plans	30	32	–6	–10
Core net income	**11,837**	**12,533**	**–6**	**+1**

Supplementary net income and EPS information is given on pages 131 to 134. This includes calculations of core EPS and reconciles the core results to the Group's published IFRS results.

Financial position

Financial position

	2015 (CHF m)	2014[1] (CHF m)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	4,437	5,888	–25	–18
Long-term net operating assets	26,179	25,060	+4	+6
Diagnostics				
Net working capital	2,533	2,742	–8	+4
Long-term net operating assets	12,899	11,378	+13	+17
Corporate				
Net working capital	(108)	(96)	+13	+12
Long-term net operating assets	(258)	(418)	–38	–31
Net operating assets	**45,682**	**44,554**	**+3**	**+6**
Net debt	(14,080)	(14,011)	0	–1
Pensions	(7,699)	(8,303)	–7	–2
Income taxes	(523)	(47)	Over +500	–
Other non-operating assets, net	(80)	(635)	–87	–90
Total net assets	**23,300**	**21,558**	**+8**	**+14**

1) As disclosed in Note 5 to the Annual Financial Statements, the balance sheet at 31 December 2014 has been restated following the finalisation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

Compared to the start of 2015 the Swiss franc appreciated against most currencies, notably the euro and the Brazilian real, which resulted overall in a negative translation impact on balance sheet positions. The US dollar ended the year at the same rate against the Swiss franc as at the beginning of the year and therefore had little translation impact on balance sheet positions. The exchange rates used are given on page 26.

In the Pharmaceuticals Division net working capital decreased by 18% at CER due to an increase in other payables since the end of 2014 due to the exercise of a purchase option for offices in South San Francisco. In addition trade receivables decreased, mainly in the US, as a consequence of lower Tamiflu sales at the end of 2015 and good collections. Inventory levels rose by 2% due to the expansion of production capacities including deliveries from external manufacturing partners and also due to higher sales volumes in both new and established products. Long-term net operating assets increased as a result of the goodwill and intangible assets from the Foundation Medicine and Trophos acquisitions and higher capital expenditure as well as for the purchase option exercise for offices in South San Francisco. In Diagnostics the increase in net working capital of 4% was a result of the strong sales performance in 2015 as well as challenging political and economic situations which resulted in an increase of 9% in inventories and 9% in account receivables. Long-term net operating assets increased due to the intangible assets and goodwill from the various acquisitions in 2015.

Net debt was stable at CHF 14.1 billion as the free cash flow was largely absorbed by acquisitions. The net pension liability decreased by CHF 0.6 billion with the main driver being the translation of the euro-denominated unfunded plans in Germany into Swiss francs on consolidation. The net tax liabilities increased mainly due to the deferred tax effects from the acquisition accounting.

Free cash flow

Free cash flow

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
Pharmaceuticals	14,482	14,821	–2	–5
Diagnostics	963	1,417	–32	–12
Corporate	(573)	(460)	+25	+24
Operating free cash flow	**14,872**	**15,778**	**–6**	**–7**
Treasury activities	(870)	(756)	+15	+13
Taxes paid	(3,696)	(2,982)	+24	+25
Dividends paid	(6,954)	(6,718)	+4	+4
Free cash flow	**3,352**	**5,322**	**–37**	**–41**

The Group's operating free cash flow for 2015 was CHF 14.9 billion, a decrease of 7% at CER and 6% in CHF terms. The operating cash generation was absorbed by higher investments in property, plant and equipment for site infrastructure and office development projects and expansion of manufacturing facilities and by the increased in-licensing arrangements in the Pharmaceuticals Division. The free cash flow of CHF 3.4 billion decreased significantly compared to 2014, due to the relatively lower operating free cash flow, higher tax payments and the increase in the annual dividend.

Pharmaceuticals Division operating results

Pharmaceuticals Division operating results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	37,331	36,696	+2	+5
Royalties and other operating income	2,119	2,273	–7	–11
Cost of sales	(10,249)	(8,013)	+28	+29
Marketing and distribution	(6,154)	(6,130)	0	+3
Research and development	(8,367)	(8,380)	0	0
General and administration	(1,677)	(2,142)	–22	–21
Operating profit	**13,003**	**14,304**	**–9**	**–3**
– margin, % of sales	34.8	39.0	–4.2	–3.1
Core results [1]				
Sales	37,331	36,696	+2	+5
Royalties and other operating income	2,119	2,273	–7	–11
Cost of sales	(7,900)	(7,551)	+5	+7
Marketing and distribution	(6,066)	(5,974)	+2	+4
Research and development	(8,134)	(7,876)	+3	+4
General and administration	(1,295)	(1,567)	–17	–17
Core operating profit	**16,055**	**16,001**	**0**	**+5**
– margin, % of sales	43.0	43.6	–0.6	+0.2
Financial position				
Net working capital	4,437	5,888	–25	–18
Long-term net operating assets	26,179	25,060	+4	+6
Net operating assets	**30,616**	**30,948**	**–1**	**+1**
Free cash flow				
Operating free cash flow	14,482	14,821	–2	–5
– margin, % of sales	38.8	40.4	–1.6	–4.1

1) See pages 131–134 for definition of Core results and Core EPS.

Sales overview

Pharmaceuticals Division – Sales by therapeutic area

Therapeutic area	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Oncology	23,661	22,797	+8	63	62
Immunology	6,228	5,087	+24	17	14
Infectious diseases	2,051	3,194	–34	5	9
Ophthalmology	1,520	1,701	–15	4	5
Neuroscience	648	726	–1	2	2
Other therapeutic areas	3,223	3,191	+4	9	8
Total sales	**37,331**	**36,696**	**+5**	**100**	**100**

Pharmaceuticals Division sales increased by 5% at CER, with strong growth in oncology and immunology products. Sales growth was primarily driven by the following products: Herceptin, Avastin, Perjeta, Esbriet, MabThera/Rituxan, Actemra/RoActemra and Kadcyla. These products together contributed CHF 3.2 billion at CER to sales growth.

The growth of 19% in the HER2 franchise resulted from increased demand for Perjeta and Herceptin in combination therapy and continued uptake of Kadcyla. Avastin sales grew in all regions driven by increased use in recently launched indications. MabThera/Rituxan sales also increased, notably in the US. Sales in immunology increased due to demand for Esbriet, following its US launch in late 2014, due to the growth of Actemra/RoActemra in all regions in its subcutaneous formulation and Xolair, which grew by 25% due to increasing uptake for the recently launched indication chronic idiopathic urticaria.

Sales of Pegasys declined due to competition from a new generation of treatments and sales of Valcyte/Cymevene and Xeloda fell due to generic competition. Tamiflu sales were lower due to a relatively mild influenza season in late 2015 compared to the severe season in late 2014, while sales of Lucentis declined due to strong competition.

Product sales

Pharmaceuticals Division – Sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Oncology					
Avastin	6,684	6,417	+9	18	17
Herceptin	6,538	6,275	+10	17	17
MabThera/Rituxan [1]	5,640	5,603	+4	15	15
Perjeta	1,445	918	+61	4	3
Tarceva	1,181	1,292	–7	3	4
Kadcyla	769	536	+51	2	1
Xeloda	513	776	–31	1	2
Zelboraf	214	301	–21	1	1
Others	677	679	+5	2	2
Total Oncology	**23,661**	**22,797**	**+8**	**63**	**62**
Immunology					
Actemra/RoActemra	1,432	1,224	+23	4	3
MabThera/Rituxan [1]	1,405	1,297	+11	4	4
Xolair	1,277	975	+25	3	3
CellCept	785	811	0	2	2
Pulmozyme	652	597	+10	2	2
Esbriet	563	44	Over +500	2	0
Others	114	139	–32	0	0
Total Immunology	**6,228**	**5,087**	**+24**	**17**	**14**
Infectious diseases					
Tamiflu	705	959	–28	2	3
Pegasys	538	1,015	–44	1	3
Valcyte/Cymevene	369	726	–45	1	2
Rocephin	279	283	+2	1	1
Others	160	211	–19	0	0
Total Infectious diseases	**2,051**	**3,194**	**–34**	**5**	**9**
Ophthalmology					
Lucentis	1,520	1,701	–15	4	5
Total Ophthalmology	**1,520**	**1,701**	**–15**	**4**	**5**
Neuroscience					
Madopar	275	292	+4	1	1
Others	373	434	–4	1	1
Total Neuroscience	**648**	**726**	**–1**	**2**	**2**
Other therapeutic areas					
Activase/TNKase	935	747	+20	3	2
Mircera	475	417	+21	1	1
NeoRecormon/Epogin	366	460	–11	1	1
Nutropin	207	214	–8	1	0
Others	1,240	1,353	–2	3	4
Total other therapeutic areas	**3,223**	**3,191**	**+4**	**9**	**8**
Total sales	**37,331**	**36,696**	**+5**	**100**	**100**

1) Total MabThera/Rituxan sales of CHF 7,045 million (2014: CHF 6,900 million) split between oncology and immunology franchises.

MabThera/Rituxan. For non-Hodgkin lymphoma (NHL), chronic lymphocytic leukemia (CLL), follicular lymphoma (FL) and rheumatoid arthritis (RA) as well as certain types of ANCA-associated vasculitis.

MabThera/Rituxan regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	3,760	3,334	+7	53	48
Europe	1,818	2,014	+1	26	29
Japan	230	226	+11	3	3
International	1,237	1,326	+4	18	20
Total sales	**7,045**	**6,900**	**+5**	**100**	**100**

Sales were 5% higher, driven primarily by strong growth in the US (+7%) for oncology and immunology. Sales in the International region grew 4%, driven by growth in the Eastern Europe, Middle East and Africa sub-region and public sector sales in Latin America. Sales in Europe increased by 1% mainly due to France and Italy.

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer (Herceptin only).

Herceptin regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	2,384	1,967	+15	36	31
Europe	2,010	2,234	+1	31	36
Japan	260	270	+5	4	4
International	1,884	1,804	+16	29	29
Total sales	**6,538**	**6,275**	**+10**	**100**	**100**

Perjeta regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	804	540	+41	56	59
Europe	432	238	+102	30	26
Japan	84	79	+16	6	9
International	125	61	+140	8	6
Total sales	**1,445**	**918**	**+61**	**100**	**100**

Kadcyla regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	308	282	+4	40	53
Europe	323	176	+104	42	33
Japan	58	35	+82	8	7
International	80	43	+118	10	7
Total sales	**769**	**536**	**+51**	**100**	**100**

Overall growth in the HER2 franchise was 19%. Herceptin sales grew 10% with continued strong growth in the US (+15%) resulting from a longer duration of treatment in combination with Perjeta for both early and advanced breast cancer. Demand in the International region grew strongly (+16%) with growth in all sub-regions. In Europe sales were stable. Perjeta grew in all regions, particularly in Europe (+102%) and the US (+41%), where it was approved for use before surgery in early stage aggressive breast cancer. Kadcyla sales more than doubled in Europe (+104%) with reimbursement granted in Italy, France and Spain and sales also increased in the International region and in Japan.

Avastin. For advanced colorectal, breast, lung, kidney, cervical and ovarian cancer, and relapsed glioblastoma (a type of brain tumour).

Avastin regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	3,058	2,682	+8	46	42
Europe	1,813	1,958	+4	27	31
Japan	746	711	+14	11	11
International	1,067	1,066	+15	16	16
Total sales	**6,684**	**6,417**	**+9**	**100**	**100**

Demand for Avastin was strong, with sales growth in all regions. US sales grew (+8%) driven by expanded use in the more recently launched indications, cervical and ovarian cancer. In Europe sales grew (+4%) as a result of increasing treatment of ovarian, colorectal, lung and cervical cancer. In the International region growth of 15% was driven mainly by phasing of deliveries to the public sector and approval of new indications. In Japan sales increased by 14% due to increasing demand for use in breast and lung cancer.

Lucentis. For wet age-related macular degeneration (AMD), macular edema following retinal vein occlusion (RVO) and diabetic macular edema (DME).

Lucentis regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	1,520	1,701	−15	100	100
Total sales	**1,520**	**1,701**	**−15**	**100**	**100**

Sales of Lucentis declined by 15% due to competition in the wet AMD and DME segments. In February 2015 Lucentis was approved in an additional indication, diabetic retinopathy in people with DME.

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis and polyarticular juvenile idiopathic arthritis.

Actemra/RoActemra regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	550	406	+29	38	33
Europe	473	433	+22	33	35
Japan	221	214	+12	15	17
International	188	171	+25	14	15
Total sales	**1,432**	**1,224**	**+23**	**100**	**100**

Sales increased by 23%, with growth in all regions, notably in the US (+29%) and Europe (+22%). This was driven by strong demand for the subcutaneous formulation, which represented 31% of the total Actemra/RoActemra sales, and increased demand for both the early treatment of rheumatoid arthritis and in monotherapy.

Xolair. For moderate to severe persistent allergic asthma and chronic idiopathic urticaria (CIU).

Xolair regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	1,277	975	+25	100	100
Total sales	**1,277**	**975**	**+25**	**100**	**100**

US sales increased by 25% due to higher prescriptions for asthma, as well as strong uptake in its new indication, chronic idiopathic urticaria, which was approved in March 2014.

Tarceva. For advanced non-small cell lung (NSCLC) and pancreatic cancer.

Tarceva regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	638	641	–5	54	50
Europe	220	303	–18	19	23
Japan	92	99	+1	8	8
International	231	249	–3	19	19
Total sales	**1,181**	**1,292**	**–7**	**100**	**100**

Sales were 7% lower, with declining sales in Europe, the US and the International region due to increasing competitive pressure.

Esbriet. For idiopathic pulmonary fibrosis (IPF).

Esbriet regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	386	5	Over +500	69	11
Europe	152	36	+376	27	82
Japan	–	–	–	–	–
International	25	3	Over +500	4	7
Total sales	**563**	**44**	**Over +500**	**100**	**100**

There was strong uptake of Esbriet in the US following the approval by FDA in late 2014, while sales in Europe were driven by Germany and Italy.

Pegasys. For hepatitis B and C.

Pegasys regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	85	194	–58	16	19
Europe	101	236	–52	19	23
Japan	15	60	–73	3	6
International	337	525	–33	62	52
Total sales	**538**	**1,015**	**–44**	**100**	**100**

Sales decreased by 44%, across all regions, due to increased competition from a new generation of hepatitis C therapies.

Tamiflu. For influenza A and B.

Tamiflu regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	533	686	–26	76	72
Europe	16	74	–76	2	8
Japan	65	113	–37	9	12
International	91	86	+16	13	8
Total sales	**705**	**959**	**–28**	**100**	**100**

Sales declined mainly as there was a relatively mild influenza season in the last quarter of 2015. This contrasts with the severe epidemic influenza season in the US at the end of 2014. Sales decreased in Europe mainly due to lower governmental sales for pandemic stockpiling compared to 2014, as well as in Japan due to higher seasonal demand in the fourth quarter of 2014.

Pharmaceuticals Division – Sales by region

Region	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	17,616	15,822	+6	47	43
Europe	8,734	9,422	+4	23	26
Japan	3,224	3,301	+6	9	9
International	7,757	8,151	+5	21	22
– EEMEA[1]	*1,587*	*1,668*	*+5*	*4*	*5*
– Latin America	*2,052*	*2,460*	*+5*	*5*	*6*
– Asia-Pacific	*3,191*	*3,083*	*+4*	*9*	*8*
– Other regions	*927*	*940*	*+6*	*3*	*3*
Total sales	**37,331**	**36,696**	**+5**	**100**	**100**

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 6% led by the HER2 breast cancer franchise (+19%). The leading products were the oncology medicines MabThera/Rituxan, Avastin and Herceptin, with sales of CHF 3.8 billion (+7%), CHF 3.1 billion (+8%) and CHF 2.4 billion (+15%) respectively. In addition there was strong demand for Esbriet and Xolair (+25%). Growth was negatively impacted by the sharp decline of Valcyte/Cymevene (–78%) and Xeloda (–71%), which both are now off-patent in the US, as well as Lucentis (–15%) and Pegasys (–58%) due to increased competition.

Europe. Sales increased by 4% with continued strong growth in the HER2 breast cancer franchise (+17%) and good uptake of Esbriet. In addition there was continued sales growth of Actemra/RoActemra (+22%) and Avastin (+4%). This growth was partially offset by lower Pegasys (–52%) and Tarceva (–18%) sales. Tamiflu sales were also lower (–76%) mainly due to 2014 pandemic stockpiling.

Japan. Sales grew by 6%, with the major growth drivers being Avastin (+14%), the HER2 franchise (+14%) and newly launched Alecensa (alectinib). Avastin sales grew due to increased demand across its approved indications, in particular for use in breast and lung cancer. Alecensa, for ALK-positive non-small cell lung cancer (NSCLC), was launched in Japan in September 2014 and had sales of CHF 64 million for 2015. Sales of the osteoporosis medicine Edirol also increased (+21%).

International. Sales increased by 5% driven by the Latin America sub-region. Growth in Latin America was mainly due to the HER2 franchise (+21%) and other oncology products, especially Avastin (+21%) and MabThera/Rituxan (+5%). Actemra/RoActemra sales also increased significantly (+28%), while sales of Pegasys (–33%) and Xeloda (–23%) declined. In Asia-Pacific, the main drivers of growth were Herceptin (+21%), Avastin (+22%) and MabThera/Rituxan (+4%). Herceptin growth resulted from significant activities to ensure patient access to the medicine in China. Total sales in the E7 key emerging markets grew by 7% with strong volume growth in Brazil driven by market access activities and new product launches more than offsetting price decreases.

Pharmaceuticals Division – Sales for E7 leading emerging markets

Country	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Brazil	748	912	+10	2	2
China	1,663	1,542	+4	5	4
India	91	93	–3	0	0
Mexico	330	361	+4	1	1
Russia	160	234	+5	0	1
South Korea	279	251	+14	1	1
Turkey	286	301	+12	1	1
Total sales	**3,557**	**3,694**	**+7**	**10**	**10**

Operating results

Pharmaceuticals Division – Royalties and other operating income

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Royalty income	1,702	1,609	+1
Income from out-licensing agreements	239	100	+129
Income from disposal of products and other	178	564	-69
Total – IFRS and Core basis	**2,119**	**2,273**	**-11**

The decrease of 11% at CER was due to lower income from product disposals partly offset by higher out-licensing income. Income fell due to the comparative period including CHF 428 million of income from the sale of the filgrastim franchise rights back to Amgen. Excluding this item growth was 10%. Royalty income was stable due to the receipt of certain non-recurring royalties offsetting lower royalties for Lucentis and Enbrel. The increase in out-licensing income was due to upfront and milestone payments from the exclusive licence agreement with Galenica for the commercialisation of Mircera in the US and a payment from a collaboration partner for a de-blocking amendment.

Pharmaceuticals Division – Cost of sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,584)	(4,360)	+10
Royalty expenses	(1,225)	(1,321)	-5
Collaboration and profit-sharing agreements	(2,083)	(1,816)	+9
Impairment of property, plant and equipment	(8)	(54)	-85
Cost of sales – Core basis	**(7,900)**	**(7,551)**	**+7**
Global restructuring plans	(558)	(82)	Over +500
Amortisation of intangible assets	(1,239)	(341)	+250
Business combinations – inventory fair value adjustment	(552)	(39)	Over +500
Total – IFRS basis	**(10,249)**	**(8,013)**	**+29**

Core costs increased by 7% at CER. As a percentage of sales, cost of sales increased by 0.7 percentage points. The increase in manufacturing cost of goods sold and period costs resulted mainly from the biologics manufacturing with capacity increases and sourcing strategy. In addition, inventory write-downs increased by CHF 121 million. Royalty expenses were below 2014 due to lower Tamiflu sales. Expenses from collaboration and profit-sharing agreements increased mainly driven by higher co-promotion expenses due to growing sales of MabThera/Rituxan and Xolair. Non-core costs include CHF 495 million for the strategic realignment of the manufacturing network as well as amortisation of the intangible assets from the InterMune acquisition and the release of the inventory fair value adjustment.

Pharmaceuticals Division – Marketing and distribution

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Marketing and distribution – Core basis	**(6,066)**	**(5,974)**	**+4**
Global restructuring plans	(87)	(155)	-40
Amortisation of intangible assets	(1)	(1)	0
Total – IFRS basis	**(6,154)**	**(6,130)**	**+3**

Core costs increased at CER by 4% and as a percentage of sales fell to 16.2% (2014: 16.3%). Additional costs were incurred to market Esbriet following its US launch in late 2014 as well as to ensure increased patient access to medicines such as the HER2 franchise. Marketing efforts continued to support established and launch products. Restructuring costs relate to productivity initiatives mainly in Asia and Europe as well as the outsourcing of logistics from the Rosny site in France.

Pharmaceuticals Division – Research and development

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Research and development – Core basis	**(8,134)**	**(7,876)**	**+4**
Global restructuring plans	(46)	(101)	-52
Amortisation of intangible assets	(118)	(66)	+82
Impairment of intangible assets	(69)	(337)	-80
Total – IFRS basis	**(8,367)**	**(8,380)**	**0**

Core costs increased by 4% at CER and, as a percentage of sales, increased to 21.8% (2014: 21.5%). The oncology franchise remained the primary area of research and development investments with advancement of cancer immunotherapy treatments. Activities also increased in the immunology, inflammation and respiratory area driven by programmes for asthma, inflammatory bowel disease and idiopathic pulmonary fibrosis. In addition the Pharmaceuticals Division spent CHF 441 million on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. Global restructuring costs mainly result from the Pharmaceuticals Division research and development strategic realignment, notably the transfer of oncology discovery from Penzberg, Germany to Zurich, Switzerland. There were impairment charges of CHF 69 million resulting from decisions to stop development on four compounds with different alliance partners and a decision to stop one collaboration project with an alliance partner.

Pharmaceuticals Division – General and administration

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(1,086)	(1,131)	–2
Pensions – past service costs	(7)	1	–
Gains (losses) on disposal of property, plant and equipment	0	(6)	–
Business taxes and capital taxes	(253)	(499)	–49
Other general items	51	68	–5
General and administration – Core basis	**(1,295)**	**(1,567)**	**–17**
Global restructuring plans	(65)	(53)	+25
Impairment of goodwill	0	(322)	–
Alliances and business combinations	(162)	(21)	Over +500
Legal and environmental settlements	(158)	(179)	–5
Pensions – settlement gains (losses)	3	0	–
Total – IFRS basis	**(1,677)**	**(2,142)**	**–21**

Core costs decreased by 17% at CER due to the base effect of one-time double charge (US Branded Prescription Drug fee) with an operating profit impact of CHF 202 million in 2014. As a percentage of sales, costs fell to 3.5% from 4.3%. Administration costs decreased by 2% due to lower management costs in the US. The alliance and business combination costs relate mainly to the additional contingent consideration provisions recorded in respect of the Seragon acquisition (see Note 29 to Annual Financial Statements). Legal and environmental settlements include the provision of CHF 107 million for remediation costs at the Clarecastle production site in Ireland as part of the Pharmaceuticals Division's strategic manufacturing realignment. Non-core costs in 2014 include an impairment of the goodwill from the Marcadia acquisition following the exit from cardiovascular and metabolic diseases and impairments of dedicated goodwill related to certain other previous acquisitions.

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional operating results in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
	2015	2014	2015	2014	2015	2014
Sales						
– External customers	34,107	33,395	3,224	3,301	37,331	36,696
– Within Division	1,310	1,232	502	476	1,812	1,708
Core operating profit	15,383	15,393	710	661	16,055	16,001
– margin, % of sales to external customers	45.1	46.1	22.0	20.0	43.0	43.6
Operating profit	12,372	13,734	669	623	13,003	14,304
– margin, % of sales to external customers	36.3	41.1	20.8	18.9	34.8	39.0
Operating free cash flow	13,971	14,441	511	380	14,482	14,821
– margin, % of sales	41.0	43.2	15.8	11.5	38.8	40.4

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of CHF 38 million (2014: CHF 53 million) of unrealised inter-company profits between Roche Pharmaceuticals and Chugai.

The fall in the exchange rate of the Japanese yen has a negative impact of approximately 8 percentage points on Chugai's sales growth and 10 percentage points on the core operating profit growth when expressed in Swiss francs as compared to the growth rates in Japanese yen. Sales to external customers by Chugai increased by 6% in Japanese yen and sales to Roche by Chugai were also significantly higher. This resulted in an increase of 17% in Chugai core operating profit and an increase in Chugai's operating profit margins, as the additional revenues flowed through to increase the operating profit. Chugai's operating free cash flow increased by 46% due to the increased revenues and lower trade receivables which resulted from the timing of sales and improved customer payment terms.

Financial position

Pharmaceuticals Division – Net operating assets

	2015 (CHF m)	2014[1] (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA (CHF m)
Trade receivables	5,550	6,238	–11	–5	(315)	(373)
Inventories	5,655	5,736	–1	+2	39	(120)
Trade payables	(1,541)	(1,372)	+12	+16	(200)	31
Net trade working capital	**9,664**	**10,602**	**–9**	**–4**	**(476)**	**(462)**
Other receivables/(payables)	(5,227)	(4,714)	+11	+14	(637)	124
Net working capital	**4,437**	**5,888**	**–25**	**–18**	**(1,113)**	**(338)**
Property, plant and equipment	13,082	11,919	+10	+12	1,378	(215)
Goodwill and intangible assets	16,320	15,727	+4	+5	645	(52)
Provisions	(3,298)	(2,982)	+11	+15	(376)	60
Other long-term assets, net	75	396	–81	–79	(310)	(11)
Long-term net operating assets	**26,179**	**25,060**	**+4**	**+6**	**1,337**	**(218)**
Net operating assets	**30,616**	**30,948**	**–1**	**+1**	**224**	**(556)**

1) As disclosed in Note 5 to the Annual Financial Statements, the balance sheet at 31 December 2014 has been restated following the finalisation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

The absolute amount of the movement between the 2015 and 2014 consolidated balances reported in Swiss francs is split between actual 2015 transactions (translated at average rates for 2014) and the currency translation adjustment (CTA) that arises on consolidation. The 2015 transactions include non-cash movements and therefore the movements in this table are not the same as amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 39 of the Annual Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 136.

Currency translation effects on balance sheet amounts. Compared to the start of 2015 the Swiss franc appreciated against most currencies, notably the euro and the Brazilian real, which resulted overall in a negative translation impact on net operating assets. The US dollar ended the year at the same rate against the Swiss franc as at the beginning of the year and therefore had little translation impact on balance sheet positions. The exchange rates used are given on page 26.

Net working capital. The decrease of 18% at CER was mainly due to an increase in other payables since the end of 2014 due to the exercise of a purchase option for offices in South San Francisco. Trade receivables decreased compared to the end of 2014 mainly due to lower Tamiflu sales in the US at the end of 2015 and good collections. The decrease in inventories from the release of the non-cash InterMune inventory fair value adjustment was offset by an increase in inventory levels from the expansion of production capacities including deliveries from external manufacturing partners. Inventory levels also rose to support the sales volume increases in both new and established products.

Long-term net operating assets. These increased by 6% mainly due to significant additions to property, plant and equipment, as well as goodwill and intangible assets resulting from the acquisitions of Foundation Medicine and Trophos. Property, plant and equipment increased by 12% as investments continue to be made in site infrastructure and office development projects and expansion of manufacturing facilities, in particular in Switzerland, the US and Germany. Property, plant and equipment increased following the exercise of a purchase option for offices in South San Francisco. The 15% increase in provisions resulted mainly from higher contingent consideration provisions from the Seragon acquisition and new restructuring provisions for the strategic realignment of the manufacturing network.

Free cash flow

Pharmaceuticals Division – Operating free cash flow

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
Operating profit	**13,003**	**14,304**	**–9**	**–3**
– Depreciation, amortisation and impairment	2,705	2,150	+26	+25
– Provisions	249	143	+74	+109
– Equity compensation plans	323	282	+15	+11
– Other	1,037	204	+408	–
Operating profit cash adjustments [1)]	**4,314**	**2,779**	**+55**	**+12**
Operating profit, net of operating cash adjustments	**17,317**	**17,083**	**+1**	**–1**
(Increase) decrease in net working capital	(260)	(202)	+29	+68
Investments in property, plant and equipment	(2,062)	(1,741)	+18	+20
Investments in intangible assets	(513)	(319)	+61	+58
Operating free cash flow	**14,482**	**14,821**	**–2**	**–5**
– as % of sales	38.8	40.4	–1.6	–4.1

1) A detailed breakdown is provided on page 135.

The Pharmaceuticals Division's operating free cash flow decreased to CHF 14.5 billion. The operating profit, net of operating cash adjustments, decreased by 1% at CER. The strong operating performance was offset by higher capital expenditure and an increased level of in-licensing transactions which led to a 5% decline in operating free cash flow. The increase in net working capital was mainly due to a lower increase of accounts payable.

Diagnostics Division operating results

Diagnostics Division operating results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	10,814	10,766	0	+6
Royalties and other operating income	139	131	+6	+5
Cost of sales	(5,211)	(5,368)	–3	+3
Marketing and distribution	(2,660)	(2,527)	+5	+11
Research and development	(1,214)	(1,515)	–20	–18
General and administration	(579)	(1,242)	–53	–53
Operating profit	**1,289**	**245**	**+426**	**+465**
– margin, % of sales	11.9	2.3	+9.6	+9.8
Core results [1]				
Sales	10,814	10,766	0	+6
Royalties and other operating income	139	131	+6	+5
Cost of sales	(4,806)	(4,790)	0	+7
Marketing and distribution	(2,544)	(2,462)	+3	+9
Research and development	(1,198)	(1,037)	+16	+18
General and administration	(458)	(512)	–11	–9
Core operating profit	**1,947**	**2,096**	**–7**	**–2**
– margin, % of sales	18.0	19.5	–1.5	–1.4
Financial position				
Net working capital	2,533	2,742	–8	+4
Long-term net operating assets	12,899	11,378	+13	+17
Net operating assets	**15,432**	**14,120**	**+9**	**+15**
Free cash flow				
Operating free cash flow	963	1,417	–32	–12
– margin, % of sales	8.9	13.2	–4.3	–2.2

1) See pages 131–134 for definition of Core results and Core EPS.

Sales

The Diagnostics Division continued to increase sales with a growth of 6% at CER to CHF 10.8 billion. Professional Diagnostics, with 8% sales growth, was the main growth contributor led by its immunodiagnostics business. Molecular Diagnostics sales increased by 10%, with growth in the underlying molecular businesses of 7% as well as in the genome sequencing business where sales doubled. Diabetes Care sales decreased by 3% due to the continued challenging market environment, notably in the US. The growth in Tissue Diagnostics was driven by the advanced staining product portfolio.

Diagnostics Division – Sales by business area

Business area	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Professional Diagnostics	6,175	6,045	+8	57	56
Diabetes Care	2,128	2,392	–3	20	22
Molecular Diagnostics	1,719	1,613	+10	16	15
Tissue Diagnostics	792	716	+12	7	7
Total sales	**10,814**	**10,766**	**+6**	**100**	**100**

Professional Diagnostics. With an increase in sales of 8%, the business area was the major contributor to Divisional performance in all regions, with growth being primarily driven by the immunodiagnostics business (+13%), which now represents 28% of Divisional sales. This was also supported by the clinical chemistry (+3%) and coagulation monitoring (+6%) businesses. The Professional Diagnostics business grew in all regions, but especially in Asia-Pacific (+17%) due to strong sales in China. The growth reported in the Europe, Middle East and Africa ('EMEA') region of 4% was mainly due to the immunodiagnostics (+8%) and clinical chemistry businesses (+2%).

Professional Diagnostics regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	2,411	2,585	+4	39	43
North America	1,327	1,236	+3	21	20
Rest of the World	2,437	2,224	+14	40	37
Total sales	**6,175**	**6,045**	**+8**	**100**	**100**

An improved version of the cobas h 232 Troponin T test was launched in June 2015 for use in prehospital and emergency care settings.

Diabetes Care. Sales decreased by 3% mainly due to challenging market conditions for the blood glucose monitoring portfolio in major markets like the US. Sales of the Accu-Chek Mobile grew by 8% and lancing devices sales were up 5%. This sales growth outweighed the negative impact of the phase-out of older products such as Accu-Chek Advantage and Accu-Chek Compact, as well as Accu-Chek Aviva/Performa which decreased by 1%. The insulin delivery systems (IDS) business grew by 8%, driven by infusion systems and the newly launched Accu-Chek Insight system. Sales in North America were down by 15% mainly due to the spillover of Medicare prices to commercial plans in the US and due to reimbursement changes in Canada's largest provinces. Sales in the EMEA region decreased by 2% with increased sales in Germany, the Nordics and in the Middle East more than offset by lower sales in Russia and Algeria. Sales grew in the Latin America and Asia-Pacific regions, mainly driven by Argentina, Brazil, and India.

Diabetes Care regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	1,285	1,475	–2	60	62
North America	383	442	–15	18	18
Rest of the World	460	475	+5	22	20
Total sales	**2,128**	**2,392**	**–3**	**100**	**100**

Further progress was made in the implementation of specific initiatives that Roche Diabetes Care started in 2013 with the goal to streamline processes and decision-making and to drive efficiencies while continuing to develop innovative solutions.

Molecular Diagnostics. Sales rose 10% with growth in the underlying molecular businesses of 7%, with the major contributions coming from the virology, the HPV (cervical cancer screening) and the genomics and oncology businesses. This was partly offset by a sales decline in the blood screening business. Sales from the sequencing business, driven by NIPT (non-invasive prenatal testing), also contributed to the overall growth. Regional growth was driven by EMEA (+14%) with increased sales coming from Germany, South Africa and Turkey. Sales grew in North America (+11%) due to strong US sales.

Molecular Diagnostics regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	650	628	+14	38	39
North America	671	579	+11	39	36
Rest of the World	398	406	+2	23	25
Total sales	**1,719**	**1,613**	**+10**	**100**	**100**

Tissue Diagnostics. Sales rose 12%, driven by 11% growth in the advanced staining portfolio. Companion diagnostics sales grew by 51%. Regionally, growth was driven by North America (+9%) and EMEA (+12%). In both regions growth was driven by the advanced staining portfolio. Sales in Asia-Pacific grew by 22%, with China as the main market. Revenues from existing external partnerships showed continued growth.

Tissue Diagnostics regional sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	200	198	+12	25	28
North America	475	415	+9	60	58
Rest of the World	117	103	+20	15	14
Total sales	**792**	**716**	**+12**	**100**	**100**

Diagnostics Division – Sales by region

Region	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	4,546	4,886	+4	42	45
North America	2,856	2,672	+3	26	25
Asia-Pacific	2,239	1,956	+15	21	19
Latin America	760	804	+11	7	7
Japan	413	448	0	4	4
Total sales	**10,814**	**10,766**	**+6**	**100**	**100**

The sales growth of the Diagnostics Division was driven by the Asia-Pacific and EMEA regions, mainly in Professional Diagnostics. The sales increase in Asia-Pacific was mainly driven by increasing sales in China (+22%) resulting from governmental healthcare investments, public demand and the Division's expanding presence and wide portfolio. In the EMEA region, the Division's largest market, sales increased by 4% led by growth in Professional Diagnostics and Molecular Diagnostics. Sales in the Latin America region increased by 11%, driven by Professional Diagnostics and Diabetes Care. Sales in Japan remained stable with higher sales in Professional Diagnostics compensating lower Molecular Diagnostics sales.

Diagnostics Division – Sales for E7 leading emerging markets

Country	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Brazil	200	242	+11	2	2
China	1,333	1,062	+22	12	10
India	127	108	+18	1	1
Mexico	120	135	0	1	1
Russia	109	185	–12	1	2
South Korea	178	179	+2	2	2
Turkey	126	123	+21	1	1
Total sales	**2,193**	**2,034**	**+14**	**20**	**19**

Operating results

Diagnostics Division – Royalties and other operating income

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Royalty income	123	113	+10
Income from out-licensing agreements	1	6	–91
Income from disposal of products and other	15	12	+20
Total – IFRS and Core basis	**139**	**131**	**+5**

Royalty income increased by 10% at CER due to back royalty payments in Professional Diagnostics.

Diagnostics Division – Cost of sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,589)	(4,598)	+7
Royalty expenses	(217)	(192)	+12
Cost of sales – Core basis	**(4,806)**	**(4,790)**	**+7**
Global restructuring plans	(96)	(57)	+83
Amortisation of intangible assets	(309)	(296)	+5
Impairment of intangible assets	0	(225)	–
Total – IFRS basis	**(5,211)**	**(5,368)**	**+3**

Core costs increased by 7% at CER primarily due to an increase in period costs driven by higher technical service costs, start-up and validation costs and additional depreciation from third-party instruments supporting the growth in emerging markets. The cost of sales ratio was stable at 44.5%. Global restructuring costs were incurred mainly due to the ongoing 'Autonomy and Speed' project in Diabetes Care and the initiative to harmonise processes and systems within Diagnostics.

Diagnostics Division – Marketing and distribution

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Marketing and distribution – Core basis	**(2,544)**	**(2,462)**	**+9**
Global restructuring plans	(116)	(64)	+95
Amortisation of intangible assets	0	(1)	–
Total – IFRS basis	**(2,660)**	**(2,527)**	**+11**

Core costs increased by 9% at CER, reflecting higher spend in Professional Diagnostics and the sequencing business, particularly in marketing support and sales force. The increase in spending was mainly driven by the Asia-Pacific and EMEA regions. There were also higher allowances for doubtful receivables in Southern Europe. On a core basis, marketing and distribution costs as a percentage of sales were 23.5% compared to 22.9% in 2014. Global restructuring costs were mainly due to the reorganisation of the Diabetes Care business.

Diagnostics Division – Research and development

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Research and development – Core basis	**(1,198)**	**(1,037)**	**+18**
Global restructuring plans	(11)	(5)	+153
Amortisation of intangible assets	(5)	(1)	+292
Impairment of intangible assets	0	(472)	–
Total – IFRS basis	**(1,214)**	**(1,515)**	**-18**

Core costs increased by 18% at CER, driven by increased spending for major projects in Professional Diagnostics and investments in the sequencing business. As a percentage of sales, research and development core costs increased to 11.1% from 9.6% in 2014. The comparative period of 2014 includes CHF 472 million of intangible asset impairment related to the Tissue Diagnostics business area.

Diagnostics Division – General and administration

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(431)	(394)	+12
Pensions – past service costs	0	(5)	–
Gains (losses) on disposal of property, plant and equipment	(1)	(2)	–19
Business taxes and capital taxes	(39)	(41)	–6
Other general items	13	(70)	–
General and administration – Core basis	**(458)**	**(512)**	**-9**
Global restructuring plans	(77)	(138)	–40
Impairment of goodwill and intangible assets	0	(552)	–
Alliances and business combinations	(39)	(2)	Over +500
Legal and environmental settlements	(7)	(38)	–83
Pensions – settlement gains (losses)	2	0	–
Total – IFRS basis	**(579)**	**(1,242)**	**-53**

Core costs decreased by 9% at CER. Administration expenses grew by 12% driven by the organisational structure in the sequencing business, including the new acquisitions. As a percentage of sales, core costs decreased to 4.2% from 4.8% in 2014. The comparative period of 2014 includes CHF 552 million of goodwill impairment related to the Tissue Diagnostics business area.

Financial position

Diagnostics Division – Net operating assets

	2015 (CHF m)	2014[1] (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA (CHF m)
Trade receivables	2,872	2,869	0	+9	253	(250)
Inventories	1,993	2,007	–1	+9	159	(173)
Trade payables	(895)	(767)	+17	+25	(174)	46
Net trade working capital	**3,970**	**4,109**	**–3**	**+6**	**238**	**(377)**
Other receivables/(payables)	(1,437)	(1,367)	+5	+10	(128)	58
Net working capital	**2,533**	**2,742**	**–8**	**+4**	**110**	**(319)**
Property, plant and equipment	5,250	5,136	+2	+10	499	(385)
Goodwill and intangible assets	8,623	7,002	+23	+25	1,811	(190)
Provisions	(947)	(714)	+33	+36	(264)	31
Other long-term assets, net	(27)	(46)	–41	–26	10	9
Long-term net operating assets	**12,899**	**11,378**	**+13**	**+17**	**2,056**	**(535)**
Net operating assets	**15,432**	**14,120**	**+9**	**+15**	**2,166**	**(854)**

1) As disclosed in Note 5 to the Annual Financial Statements, the balance sheet at 31 December 2014 has been restated following the finalisation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

The absolute amount of the movement between the 2015 and 2014 consolidated balances reported in Swiss francs is split between actual 2015 transactions (translated at average rates for 2014) and the currency translation adjustment (CTA) that arises on consolidation. The 2015 transactions include non-cash movements and therefore the movements in this table are not the same as amounts shown in the operating free cash flow (which only include the cash movements). A full consolidated balance sheet is given on page 39 of the Annual Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 136.

Currency translation effects on balance sheet amounts. Compared to the start of 2015 the Swiss franc appreciated against most currencies, notably the euro, which resulted overall in a negative translation impact on net operating assets. The Diagnostics Division has a significant net asset position in euros so the appreciation of the Swiss franc against the euro had a major impact. The US dollar ended the year at the same rate against the Swiss franc as at the beginning of the year and therefore had little translation impact on balance sheet positions. The exchange rates used are given on page 26.

Net working capital. Net trade working capital increased by 6% at CER. Inventories increased by 9% due to higher demand in emerging markets, notably Brazil, Mexico and China. Trade payables increased by 25% as a result of improving payment terms with suppliers. Trade receivables increased by 9% due to the sales growth and fewer factoring initiatives in Southern Europe in 2015.

Long-term net operating assets. The increase of 17% at CER was due to the increase in intangible assets and goodwill from the Ariosa, Signature, CAPP Medical, GeneWeave and Kapa Biosystems acquisitions and various in-licensing arrangements. Property, plant and equipment increased due to manufacturing site expansions in the US and Germany, as well as headquarter developments in Switzerland. Provisions increased by 36% due to the contingent consideration provisions arising from the acquisitions.

Free cash flow

Diagnostics Division – Operating free cash flow

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
Operating profit	**1,289**	**245**	**+426**	**+465**
– Depreciation, amortisation and impairment	1,188	2,424	–51	–48
– Provisions	32	(81)	–	–
– Equity compensation plans	53	43	+23	+20
– Other	108	151	–28	+104
Operating profit cash adjustments[1]	**1,381**	**2,537**	**–46**	**–36**
Operating profit, net of operating cash adjustments	**2,670**	**2,782**	**–4**	**+9**
(Increase) decrease in net working capital	(180)	(94)	+91	+53
Investments in property, plant and equipment	(1,398)	(1,222)	+14	+22
Investments in intangible assets	(129)	(49)	+163	+159
Operating free cash flow	**963**	**1,417**	**–32**	**–12**
– as % of sales	8.9	13.2	–4.3	–2.2

1) A detailed breakdown is provided on page 135.

The operating free cash flow of the Diagnostics Division decreased to CHF 0.9 billion. The cash generation of the business was more than offset by increases in net working capital, which are noted above in the comments on the financial position. Property, plant and equipment increased due to instrument placements and site development in Germany, the US and Switzerland. Increased investments in intangible assets came from in-licensing arrangements.

Corporate operating results

Corporate operating results summary

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(431)	(428)	+1
Business taxes and capital taxes	(13)	(14)	–3
Other general items	(16)	(19)	–4
General and administration costs – Core basis[1]	**(460)**	**(461)**	**0**
Global restructuring plans	(6)	0	–
Legal and environmental settlements	(5)	2	–
Total costs – IFRS basis	**(471)**	**(459)**	**+3**
Financial position			
Net working capital	(108)	(96)	+12
Long-term net operating assets	(258)	(418)	–31
Net operating assets	**(366)**	**(514)**	**–23**
Free cash flow			
Operating free cash flow	(573)	(460)	+24

1) See pages 131–134 for definition of Core results and Core EPS.

General and administration costs were stable at CER. The change in net operating assets was mainly due to the utilisation of provisions for remediation activities in Nutley, US and Grenzach, Germany. Corporate operating free cash flow showed a higher outflow mainly due to the utilisation of these provisions.

Foreign exchange impact on operating results

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

Growth (reported at CER and in CHF)

	% change (CER) 2015	% change (CER) 2014	% change (CHF) 2015	% change (CHF) 2014
Pharmaceuticals Division				
Sales	+5	+4	+2	+1
Core operating profit	+5	+4	0	–1
Diagnostics Division				
Sales	+6	+6	0	+3
Core operating profit	–2	+2	–7	–4
Group				
Sales	+5	+5	+1	+1
Core operating profit	+5	+3	–1	–1

Exchange rates against the Swiss franc

	31 December 2015	Average 2015	31 December 2014	Average 2014
1 USD	0.99	0.96	0.99	0.91
1 EUR	1.08	1.07	1.20	1.21
100 JPY	0.82	0.80	0.83	0.86

In 2015 compared to 2014, the Swiss franc was stronger against most currencies, in particular the euro, the Japanese yen and against most Latin American and European currencies. The US dollar appreciation partially offsets this negative impact. For sales, these developments resulted in a negative growth impact of 4 percentage points, equivalent to CHF 1.8 billion when translated into Swiss francs. The currency translation loss on the operating profit growth is 6 percentage points, mainly driven by the depreciation of the euro.

On 15 January 2015 the Swiss National Bank (SNB) announced that it was discontinuing the minimum exchange rate of 1.20 Swiss francs per euro. As a consequence, stock markets in Switzerland fell significantly and the value of the Swiss franc increased. For the Roche Group, no fundamental impact is foreseen. For example, the Group incurs less than 20% of its overall costs in Switzerland. By the same token, key markets such as the US, Europe and Japan have complete value chains, meaning that costs are incurred in local currencies, not in Swiss francs. See also Note 29 to the Annual Financial Statements. The Group uses the Swiss franc as the presentation currency in its Annual Financial Statements and therefore a weakening of foreign currencies against the Swiss franc will have a negative currency translation impact on the Group's consolidated results when reported in Swiss francs. The sensitivity of Group sales and core operating profit to a 1% change in average foreign currency exchange rates against the Swiss franc during 2015 is shown in the table below.

Currency sensitivities

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (CHF m)	Core operating profit (CHF m)
US dollar	218	90
Euro	93	43
Japanese yen	36	20
All other currencies	126	65

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

Treasury and taxation results

Treasury and taxation results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	13,821	14,090	–2	+5
Financing costs	(1,574)	(1,821)	–14	–16
Other financial income (expense)	(260)	246	–	–
Profit before taxes	**11,987**	**12,515**	**–4**	**+3**
Income taxes	(2,931)	(2,980)	–2	+1
Net income	**9,056**	**9,535**	**–5**	**+4**
Attributable to				
– Roche shareholders	8,863	9,332	–5	+4
– Non-controlling interests	193	203	–5	+4
Core results[1]				
Operating profit	17,542	17,636	–1	+5
Financing costs	(1,140)	(1,362)	–16	–17
Other financial income (expense)	(276)	246	–	–
Profit before taxes	**16,126**	**16,520**	**–2**	**+3**
Income taxes	(4,289)	(3,987)	+8	+9
Net income	**11,837**	**12,533**	**–6**	**+1**
Attributable to				
– Roche shareholders	11,626	12,329	–6	+1
– Non-controlling interests	211	204	+3	+12
Financial position – Treasury and taxation				
Net debt	(14,080)	(14,011)	0	–1
Pensions	(7,699)	(8,303)	–7	–2
Income taxes	(523)	(47)	Over +500	–
Financial non-current assets	321	288	+11	+13
Derivatives, net	(470)	(479)	–2	+5
Collateral, net	454	76	+497	+493
Interest payable	(445)	(547)	–19	–17
Other non-operating assets, net	60	27	+122	+106
Total net assets (liabilities)	**(22,382)**	**(22,996)**	**–3**	**–3**
Free cash flow – Treasury and taxation				
Treasury activities	(870)	(756)	+15	+13
Taxes paid	(3,696)	(2,982)	+24	+25
Dividends paid	(6,954)	(6,718)	+4	+4
Total	**(11,520)**	**(10,456)**	**+10**	**+10**

1) See pages 131–134 for definition of Core results and Core EPS.

Financing costs

In 2015 financing costs on an IFRS basis were 16% lower at CER mainly due to higher losses on debt redemption in 2014 and lower interest expenses in 2015. Core financing costs were CHF 1,140 million, a decrease of CHF 222 million or 17% at CER compared to 2014. Interest expenses decreased by 9% due to the continued repayment of debt and despite the new debt issued for the InterMune acquisition in 2014. The loss on early redemption of debt was CHF 79 million compared to CHF 215 million in 2014. The net interest cost of defined benefit pension plans decreased by 8% to CHF 176 million due to lower discount rates partially offset by a decrease in the funding status at the end of 2014. During 2015 the Group restructured part of its debt, resulting in a loss on repurchase of CHF 381 million. A full analysis of financing costs is given in Note 3 to the Annual Financial Statements and details of the major debt restructuring and other repayments and redemptions are given in Note 20.

Other financial income (expense)

Core other financial income (expense) was a net expense of CHF 276 million compared to a net income of CHF 246 million in 2014. Net income from equity securities was CHF 118 million as against CHF 330 million in the comparative period. The net foreign exchange result reflects hedging costs and losses on unhedged positions. Net foreign exchange losses in the period of 2015 were CHF 386 million compared to net losses of CHF 105 million in the same period of 2014. The 2015 results include a loss of CHF 254 million for Venezuela and CHF 105 million for Argentina. A full analysis of other financial income (expense) is given in Note 3 to the Annual Financial Statements.

Income taxes

The Group's effective core tax rate increased by 2.5 percentage points to 26.6% in 2015 (2014: 24.1%). This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with higher local tax rates than the average Group tax rate, notably in the US.

Analysis of the Group's effective tax rate

			2015			2014
	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)
Group's effective tax rate – Core basis	**16,126**	**(4,289)**	**26.6**	**16,520**	**(3,987)**	**24.1**
Global restructuring plans	(1,063)	195	18.3	(657)	241	36.7
Goodwill and intangible assets	(1,741)	838	48.1	(2,614)	565	21.6
Alliances and business combinations	(777)	183	23.6	(71)	39	54.9
Legal and environmental	(182)	40	22.0	(234)	44	18.8
Major debt restructuring	(381)	133	34.9	(429)	150	35.0
Normalisation of tax benefits for equity compensation plans	–	(30)	–	–	(32)	–
Other	5	(1)	20.0	–	–	–
Group's effective tax rate – IFRS basis	**11,987**	**(2,931)**	**24.5**	**12,515**	**(2,980)**	**23.8**

Financial position

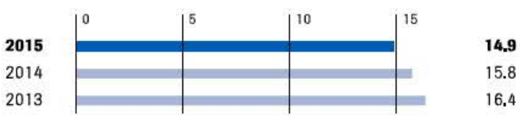
The net debt position remained stable in 2015. The net pension liability decreased due to the translation of the euro-denominated obligation of the Group's plans in Germany. Net tax liabilities increased mainly due to the deferred tax effects from the newly acquired companies. Interest payable relates mostly to bonds and notes with coupon payment dates in March and September, and the decline is due to CHF 0.9 billion of coupon payments on bonds and notes during 2015, partly offset by interest accrued in the same period. At 31 December 2015 the Group held financial long-term assets with a market value of CHF 0.4 billion, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations. The US dollar ended the year at the same rate against the Swiss franc as at the beginning of the year and therefore had little translation impact on the Group's US dollar-denominated debt when translated into Swiss francs on consolidation.

Free cash flow

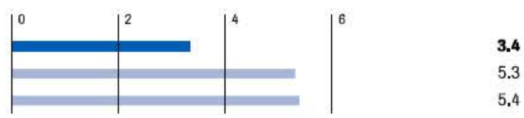
The cash outflow from treasury activities increased by CHF 0.1 billion due to lower proceeds from sales of equity investments partly offset by lower interest payments. Total taxes paid in 2015 were CHF 3.7 billion, an increase of 25% on the tax payments made in 2014, which were relatively low due to tax prepayments made at the end of 2013. Total dividends paid in 2015 were CHF 7.0 billion, an increase of CHF 0.2 billion compared to 2014, reflecting the 3% increase of the Roche Group annual dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
2015				
Operating profit – IFRS basis	13,003	1,289	(471)	13,821
Operating profit cash adjustments	4,314	1,381	(103)	5,592
Operating profit, net of operating cash adjustments	**17,317**	**2,670**	**(574)**	**19,413**
(Increase) decrease in net working capital	(260)	(180)	9	(431)
Investments in property, plant and equipment	(2,062)	(1,398)	(8)	(3,468)
Investments in intangible assets	(513)	(129)	0	(642)
Operating free cash flow	**14,482**	**963**	**(573)**	**14,872**
Treasury activities				(870)
Taxes paid				(3,696)
Dividends paid				(6,954)
Free cash flow				**3,352**
2014				
Operating profit – IFRS basis	14,304	245	(459)	14,090
Operating profit cash adjustments	2,779	2,537	(36)	5,280
Operating profit, net of operating cash adjustments	**17,083**	**2,782**	**(495)**	**19,370**
(Increase) decrease in net working capital	(202)	(94)	38	(258)
Investments in property, plant and equipment	(1,741)	(1,222)	(3)	(2,966)
Investments in intangible assets	(319)	(49)	0	(368)
Operating free cash flow	**14,821**	**1,417**	**(460)**	**15,778**
Treasury activities				(756)
Taxes paid				(2,982)
Dividends paid				(6,718)
Free cash flow				**5,322**

Operating free cash flow was CHF 14.9 billion, a decrease of 7% at CER (6% in CHF terms), mainly due to higher capital expenditure on property, plant and equipment in Switzerland, the US and Germany, higher investments for in-licensing arrangements in the Pharmaceuticals Division and increased net working capital.

The cash outflow from treasury activities increased, mainly due to lower proceeds from sales of equity investments in 2015. Total taxes paid were CHF 3.7 billion, an increase due to the timing of tax prepayments. Total dividends paid were higher due to the 3% increase of the annual Roche Group dividend.

The free cash flow of CHF 3.4 billion was lower than in 2014, due to the lower operating free cash flow, the higher tax payments and the increase in the dividend.

Net debt in millions of CHF

At 31 December 2014	
Cash and cash equivalents	3,742
Marketable securities	7,961
Long-term debt	(19,347)
Short-term debt	(6,367)
Net debt at beginning of period	**(14,011)**
Change in net debt during 2015	
Free cash flow for 2015	3,352
Transactions in own equity instruments	(169)
Business combinations, net of divestments of subsidiaries	(2,134)
Hedging and collateral arrangements	(400)
Currency translation, fair value and other movements	(718)
Change in net debt during period	**(69)**
At 31 December 2015	
Cash and cash equivalents	3,731
Marketable securities	5,440
Long-term debt	(17,100)
Short-term debt	(6,151)
Net debt at end of period	**(14,080)**

Net debt – currency profile in millions of CHF

	Cash and marketable securities 2015	2014	Debt 2015	2014
US dollar [1]	1,494	2,241	(17,464)	(20,983)
Euro	2,986	3,316	(2,175)	(1,208)
Swiss franc	2,170	3,129	(2,598)	(2,594)
Japanese yen	1,813	1,704	(6)	–
Pound sterling	320	633	(291)	(305)
Other	388	680	(717)	(624)
Total	**9,171**	**11,703**	**(23,251)**	**(25,714)**

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

The net debt position of the Group at 31 December 2015 was CHF 14.1 billion, an increase of CHF 0.1 billion from 31 December 2014. The free cash flow of CHF 3.4 billion, which includes the annual dividend payment of CHF 7.0 billion, was offset by the net cash outflow of CHF 2.1 billion for acquisitions and the net outflow of CHF 0.4 billion on hedging and collateral arrangements. The US dollar ended the year at the same rate against the Swiss franc as at the beginning of the year and therefore had little translation impact on the Group's US dollar-denominated debt when translated into Swiss francs on consolidation.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. In 2015 the cash collateral balance increased by CHF 0.4 billion. The collateral balance in relation to the hedges on the non-US dollar-denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to pound sterling. Currently the collateral balance moves by approximately USD 36 million if all of these foreign exchange rates move by 1% simultaneously.

The issuance, redemption and repurchase of bonds and notes during 2015 (see Note 20 to the Annual Financial Statements) had an impact on liquid funds, but had no impact on the net debt position.

Pensions and other post-employment benefits

Post-employment benefit plans are classified for IFRS as 'defined contribution plans' if the Group pays fixed contributions into a separate fund or to a third-party financial institution and will have no further legal or constructive obligation to pay further contributions. In 2015 expenses for the Group's defined contribution plans were CHF 421 million (2014: CHF 364 million). All other plans are classified as 'defined benefit plans', even if the Group's potential obligation is minor or has a relatively remote possibility of arising. Plans are usually established as trusts which are independent of the Group and are funded by payments from the Group and by employees, but in some cases the plan is unfunded and the Group pays pensions to retired employees directly from its own financial resources.

Defined benefit plans

Expenses for the Group's defined benefit plans were CHF 709 million (2014: CHF 586 million). The increase was mainly due to an increase in the current service cost of CHF 137 million driven by lower discount rates at the beginning of 2015 compared to the beginning of 2014. Based on the revised actuarial assumptions at the end of 2015, expenses for the Group's defined benefit plans in 2016 are expected to be approximately CHF 687 million driven by higher discount rates at the beginning of 2016. These estimates for 2016 pension expenses do not include any settlement or past service/curtailment effects that might arise during the year.

Funding status and balance sheet position

	2015 (CHF m)	2014 (CHF m)
Funded plans		
– Fair value of plan assets	12,363	12,452
– Defined benefit obligation	(15,629)	(15,601)
Over (under) funding	**(3,266)**	**(3,149)**
Unfunded plans		
– Defined benefit obligation	(4,544)	(5,314)
Total funding status	**(7,810)**	**(8,463)**
Limit on asset recognition	(14)	0
Reimbursement rights	125	160
Net recognised asset (liability)	**(7,699)**	**(8,303)**

Overall the funding status on an IFRS basis of the Group's funded defined benefit plans is stable compared to the start of the year. The funded status of the pension funds is monitored by the local pension fund governance bodies as well as being closely reviewed at a Group level.

The unfunded plans are mainly those in the Group's German affiliates, where the fully reserved pension obligations are invested in the local affiliate's operations. The unfunded liabilities for these plans decreased by CHF 0.8 billion due to an increase in the discount rates in Germany and due to the translation of the euro-denominated unfunded plans in Germany into Swiss francs on consolidation.

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

Roche shares

Share price and market capitalisation (at 31 December)

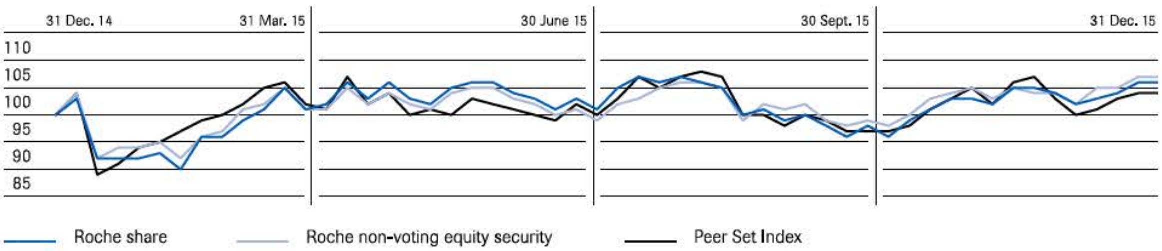
	2015	2014	% change (CHF)
Share price (CHF)	276.75	267.75	+3
Non-voting equity security *(Genussschein)* price (CHF)	276.40	269.90	+2
Market capitalisation (billions of CHF)	236	229	+3

In 2015 Roche ranked number 5 among a peer group consisting of Roche and 15 other healthcare companies[1] for Total Shareholder Return (TSR), defined as share price growth plus dividends, measured in Swiss francs at actual exchange rates. At constant exchange rates (CER) Roche ranked number 6, with the year-end return being 7% for Roche shares and 6% for Roche non-voting equity securities. The combined performance of share and non-voting equity security was 6% compared to a weighted average return for the peer group of 4% in CHF terms and 5% at CER.

The healthcare sector once again outperformed other key market sectors in 2015 despite continuing price and rising political pressure. Roche shares performed in line to peers in 2015 in constant exchange rates with global macroeconomic concerns causing major volatility throughout the year. Roche outperformed its peers, in CHF terms, and the Swiss Market Index, with positive news flow towards the end of 2015 such as phase III results for ocrelizumab (multiple sclerosis) and a strong third quarter sales announcement and target upgrade.

1) Peer group for 2015: Abbott, AbbVie, Amgen, Astellas, AstraZeneca, Bayer, Bristol-Myers Squibb, GlaxoSmithKline, Johnson & Johnson, Lilly, Merck & Co., Novartis, Pfizer, Roche, Sanofi and Takeda.

Total Shareholder Return development



Source: Datastream. Data for Roche and the peer index has been re-based to 100 at 1 January 2015. The Peer Index was converted into Swiss francs at daily actual exchange rates. Currency fluctuations have an influence on the representation of the relative performance of Roche versus the peer index.

Proposed dividend

The Board of Directors is proposing an increase of 1% in the dividend for 2015 to CHF 8.10 per share and non-voting equity security (2014: CHF 8.00) for approval at the Annual General Meeting. This is the 29th consecutive increase in the dividend. If the dividend proposal is approved by shareholders, dividend payments on the total shares and non-voting equity securities will amount to CHF 7.0 billion (2014: CHF 6.9 billion), resulting in a pay-out ratio (based on core net income) of 60.0% (2014: 56.0%). Based on the prices at year-end 2015, the dividend yield on the Roche share was 2.9% (2014: 3.0%) and the yield on the non-voting equity security was 2.9% (2014: 3.0%). Further information on the Roche securities is given on pages 138 to 139.

Information per share and non-voting equity security

	2015 (CHF)	2014 (CHF)	% change (CHF)
EPS – Basic	10.42	10.99	–5
EPS – Diluted	10.28	10.81	–5
Core EPS – Basic	13.66	14.53	–6
Core EPS – Diluted	13.49	14.29	–6
Equity attributable to Roche shareholders per share	24.62	23.05	+7
Dividend per share	8.10	8.00	+1

For further details please refer to Notes 21 and 27 of the Annual Financial Statements and page 134. The pay-out ratio is calculated as dividend per share divided by core earnings per share.

Debt

During 2015 there was the early partial redemption of USD 600 million of notes originally due 1 March 2019 that were redeemed on 26 March 2015 following the exercise of an early-call option in December 2014, the redemption on the due date of 4 March 2015 of GBP 481 million of notes, the redemption on the due date of 15 July 2015 of USD 1.0 billion of notes and all of the notes redeemed following the debt restructuring. On 30 December 2015 the Group resolved to exercise its option to call for early redemption of USD 600 million of notes that were due 1 March 2019. These notes will be repaid on 24 March 2016.

As a result of attractive financing conditions on capital markets the Group decided in September 2015 to restructure part of its debt. The debt restructuring includes the redemption of USD 543 million of notes originally due 1 March 2019, the redemption of USD 337 million notes originally due 1 March 2039, the redemption of USD 25 million of notes originally due 15 July 2035 and the redemption of EUR 433 million of notes originally due 4 March 2021. These were mostly refinanced by issuing USD 1.0 billion of notes due on 10 November 2025. This major debt restructuring resulted in a loss of CHF 381 million.

All the above transactions are further described in Note 20 to the Annual Financial Statements.

The maturity schedule of the Group's bonds and notes outstanding at 31 December 2015 is shown in the table below.

Bonds and notes: nominal amounts at 31 December 2015 by contractual maturity

	US dollar (USD m)	Euro (EUR m)	Pound sterling (GBP m)	Swiss franc (CHF m)	Total[1] (USD m)	Total[1] (CHF m)
2016	600	2,100[2]	–	–	2,896	2,863
2017	1,150	–	–	1,500	2,667	2,637
2018	–	1,000	–	600	1,700	1,681
2019	2,857	–	–	–	2,857	2,824
2020	600	–	–	–	600	593
2021–2025	3,950	2,317[2]	200	500	7,285	7,203
2026 and beyond	2,244	–	–	–	2,244	2,219
Total	**11,401**	**5,417**	**200**	**2,600**	**20,249**	**20,020**

1) Total translated at 31 December 2015 exchange rates.
2) Of the proceeds from these bonds and notes, EUR 3.3 billion have been swapped into US dollars, and therefore in the consolidated results these bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In 2015 the free cash flow was CHF 3.4 billion, which included the cash generated from operations, as well as payment of interest, tax and dividends. For short-term financing requirements, the Group has a commercial paper program in the US under which it can issue up to USD 7.5 billion of unsecured commercial paper notes and committed credit lines of USD 7.5 billion available as back-stop lines. Commercial paper notes totalling USD 2.5 billion were outstanding as of 31 December 2015 (31 December 2014: USD 3.4 billion). For longer-term financing the Group maintains strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's which should facilitate efficient access to international capital markets.

Further information on the Group's debt is given in Note 20 to the Annual Financial Statements.

Credit ratings for the Roche Group at 31 December 2015

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

Financial risks

At 31 December 2015 the Group has a net debt position of CHF 14.1 billion (2014: CHF 14.0 billion). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

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

Cash and marketable securities

	2015		2014	
	(CHF m)	(% of total)	(CHF m)	(% of total)
Cash and cash equivalents	3,731	41	3,742	32
Money market instruments	3,945	43	6,139	52
Debt securities	1,390	15	1,269	11
Equity securities	105	1	553	5
Total cash and marketable securities	**9,171**	**100**	**11,703**	**100**

Credit risk. Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's CHF 9.1 billion of cash and fixed income marketable securities remained strong with 95% being invested in the A-AAA range. The Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of CHF 9.0 billion. Since the beginning of 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 at 31 December 2015 has trade receivables of EUR 0.7 billion (CHF 0.7 billion) with public customers in these countries. This is a decrease of 9% compared to 31 December 2014 in EUR terms. The Group uses different measures to improve collections in these countries, including intense communication with customers, forfaiting, negotiations of payment plans, charging of interest for late payments, and legal actions. Strict commercial policies are in place with selected hospitals in Greece and Italy; accounts with hospitals in Spain and Portugal are closely monitored. Since 2011 the Group's trade receivables balance in Southern Europe has decreased by 55% in EUR terms.

As at 31 December 2015 the Group has trade receivables in Greece of EUR 163 million (CHF 176 million). During 2015 the economic situation in Greece was volatile which has increased the credit risk for these trade receivables. The Group is closely monitoring the situation and has taken appropriate steps to manage its exposure.

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

Roche enjoys strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling CHF 7.7 billion of which CHF 7.4 billion serve as back-stop line for the commercial paper program. As at 31 December 2015 no debt has been drawn under these credit lines.

Market risk. Market risk arises from changing market prices of the Group's financial assets or financial liabilities. The exposures are predominantly related to changes in interest rates, foreign exchange rates and equity prices. The Group uses Value-at-Risk (VaR) to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The Group's VaR remained stable in 2015.

Interest rate risk. Interest rate risk arises from movements in interest rates which could affect the Group financial result or the value of the Group equity. The Group may use interest rate derivatives to manage its interest-rate-related exposure and financial result.

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

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2015 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2016 which the Group has not yet applied. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position. The Group is also assessing other new and revised standards which are not mandatory until after 2016, notably IFRS 9 'Financial Instruments', IFRS 15 'Revenues from Contracts with Customers' and IFRS 16 'Leases'.

Roche Group
Consolidated Financial Statements

Roche Group consolidated income statement for the year ended 31 December 2015 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**37,331**	**10,814**	**–**	**48,145**
Royalties and other operating income [2]	2,119	139	–	2,258
Cost of sales	(10,249)	(5,211)	–	(15,460)
Marketing and distribution	(6,154)	(2,660)	–	(8,814)
Research and development [2]	(8,367)	(1,214)	–	(9,581)
General and administration	(1,677)	(579)	(471)	(2,727)
Operating profit [2]	**13,003**	**1,289**	**(471)**	**13,821**
Financing costs [3]				(1,574)
Other financial income (expense) [3]				(260)
Profit before taxes				**11,987**
Income taxes [4]				(2,931)
Net income				**9,056**
Attributable to				
– Roche shareholders [21]				8,863
– Non-controlling interests [23]				193
Earnings per share and non-voting equity security [27]				
Basic (CHF)				10.42
Diluted (CHF)				10.28

Roche Group consolidated income statement for the year ended 31 December 2014 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**36,696**	**10,766**	**–**	**47,462**
Royalties and other operating income [2]	2,273	131	–	2,404
Cost of sales	(8,013)	(5,368)	–	(13,381)
Marketing and distribution	(6,130)	(2,527)	–	(8,657)
Research and development [2]	(8,380)	(1,515)	–	(9,895)
General and administration	(2,142)	(1,242)	(459)	(3,843)
Operating profit [2]	**14,304**	**245**	**(459)**	**14,090**
Financing costs [3]				(1,821)
Other financial income (expense) [3]				246
Profit before taxes				**12,515**
Income taxes [4]				(2,980)
Net income				**9,535**
Attributable to				
– Roche shareholders [21]				9,332
– Non-controlling interests [23]				203
Earnings per share and non-voting equity security [27]				
Basic (CHF)				10.99
Diluted (CHF)				10.81

Roche Group consolidated statement of comprehensive income in millions of CHF

	Year ended 31 December 2015	2014
Net income recognised in income statement	**9,056**	**9,535**
Other comprehensive income		
Remeasurements of defined benefit plans [21]	229	(2,012)
Items that will never be reclassified to the income statement	**229**	**(2,012)**
Available-for-sale investments [21]	(6)	37
Cash flow hedges [21]	(55)	(41)
Currency translation of foreign operations [21]	(1,007)	(255)
Items that are or may be reclassified to the income statement	**(1,068)**	**(259)**
Other comprehensive income, net of tax	**(839)**	**(2,271)**
Total comprehensive income	**8,217**	**7,264**
Attributable to		
– Roche shareholders [21]	8,051	7,108
– Non-controlling interests [23]	166	156
Total	**8,217**	**7,264**

Roche Group consolidated balance sheet in millions of CHF

	31 December 2015	31 December 2014	31 December 2013
Non-current assets			
Property, plant and equipment [7]	18,473	17,195	15,760
Goodwill [5, 8]	11,082	9,930	7,145
Intangible assets [5, 9]	13,861	12,799	3,944
Deferred tax assets [4]	2,564	2,829	4,707
Defined benefit plan assets [25]	642	691	636
Other non-current assets [14]	959	982	811
Total non-current assets	**47,581**	**44,426**	**33,003**
Current assets			
Inventories [10]	7,648	7,743	5,906
Accounts receivable [11]	8,329	9,003	8,808
Current income tax assets [4]	239	244	218
Other current assets [15]	2,795	2,421	2,297
Marketable securities [12]	5,440	7,961	7,935
Cash and cash equivalents [13]	3,731	3,742	4,000
Total current assets	**28,182**	**31,114**	**29,164**
Total assets	**75,763**	**75,540**	**62,167**
Non-current liabilities			
Long-term debt [20]	(17,100)	(19,347)	(16,423)
Deferred tax liabilities [4, 5]	(545)	(504)	(1,282)
Defined benefit plan liabilities [25]	(8,341)	(8,994)	(6,062)
Provisions [19]	(2,204)	(1,778)	(1,097)
Other non-current liabilities [17]	(505)	(251)	(302)
Total non-current liabilities	**(28,695)**	**(30,874)**	**(25,166)**
Current liabilities			
Short-term debt [20]	(6,151)	(6,367)	(2,220)
Current income tax liabilities [4]	(2,781)	(2,616)	(1,805)
Provisions [19]	(2,432)	(2,465)	(2,148)
Accounts payable [18]	(3,207)	(2,883)	(2,162)
Other current liabilities [18]	(9,197)	(8,777)	(7,425)
Total current liabilities	**(23,768)**	**(23,108)**	**(15,760)**
Total liabilities	**(52,463)**	**(53,982)**	**(40,926)**
Total net assets	**23,300**	**21,558**	**21,241**
Equity			
Capital and reserves attributable to Roche shareholders [21]	20,979	19,586	19,294
Equity attributable to non-controlling interests [23]	2,321	1,972	1,947
Total equity	**23,300**	**21,558**	**21,241**

As disclosed in Note 5, the balance sheet at 31 December 2014 has been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

Roche Group consolidated statement of cash flows in millions of CHF

	Year ended 31 December 2015	2014
Cash flows from operating activities		
Cash generated from operations [28]	20,651	20,305
(Increase) decrease in net working capital	(431)	(258)
Payments made for defined benefit plans [25]	(538)	(520)
Utilisation of provisions [19]	(835)	(873)
Disposal of products	70	255
Other operating cash flows	30	3
Cash flows from operating activities, before income taxes paid	**18,947**	**18,912**
Income taxes paid	(3,696)	(2,982)
Total cash flows from operating activities	**15,251**	**15,930**
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,468)	(2,966)
Purchase of intangible assets	(642)	(368)
Disposal of property, plant and equipment	45	64
Disposal of intangible assets	–	–
Business combinations [5]	(2,140)	(9,633)
Divestment of subsidiaries [22]	6	–
Interest and dividends received [28]	28	35
Sales of marketable securities	55,660	68,426
Purchases of marketable securities	(53,738)	(67,887)
Other investing cash flows	(27)	325
Total cash flows from investing activities	**(4,276)**	**(12,004)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [20]	2,663	6,407
Redemption and repurchase of bonds and notes [20]	(4,058)	(3,662)
Increase (decrease) in commercial paper [20]	(791)	2,342
Increase (decrease) in other debt [20]	130	124
Hedging and collateral arrangements	(400)	(669)
Changes in non-controlling interests	(2)	–
Equity contribution by non-controlling interests	40	–
Interest paid	(967)	(976)
Dividends paid [28]	(6,954)	(6,718)
Equity-settled equity compensation plans, net of transactions in own equity [26]	(169)	(812)
Other financing cash flows	–	–
Total cash flows from financing activities	**(10,508)**	**(3,964)**
Net effect of currency translation on cash and cash equivalents	(478)	(220)
Increase (decrease) in cash and cash equivalents	**(11)**	**(258)**
Cash and cash equivalents at 1 January	3,742	4,000
Cash and cash equivalents at 31 December [13]	**3,731**	**3,742**

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Year ended 31 December 2014								
At 1 January 2014	**160**	**25,643**	**123**	**95**	**(6,727)**	**19,294**	**1,947**	**21,241**
Net income recognised in income statement	–	9,332	–	–	–	9,332	203	9,535
Available-for-sale investments	–	–	34	–	–	34	3	37
Cash flow hedges	–	–	–	(28)	–	(28)	(13)	(41)
Currency translation of foreign operations	–	–	9	9	(241)	(223)	(32)	(255)
Remeasurements of defined benefit plans	–	(2,007)	–	–	–	(2,007)	(5)	(2,012)
Total comprehensive income	**–**	**7,325**	**43**	**(19)**	**(241)**	**7,108**	**156**	**7,264**
Dividends	–	(6,617)	–	–	–	(6,617)	(140)	(6,757)
Equity compensation plans, net of transactions in own equity	–	(195)	–	–	–	(195)	5	(190)
Changes in non-controlling interests [23]	–	(4)	–	–	–	(4)	4	–
At 31 December 2014	**160**	**26,152**	**166**	**76**	**(6,968)**	**19,586**	**1,972**	**21,558**
Year ended 31 December 2015								
At 1 January 2015	**160**	**26,152**	**166**	**76**	**(6,968)**	**19,586**	**1,972**	**21,558**
Net income recognised in income statement	–	8,863	–	–	–	8,863	193	9,056
Available-for-sale investments	–	–	(12)	–	–	(12)	6	(6)
Cash flow hedges	–	–	–	(50)	–	(50)	(5)	(55)
Currency translation of foreign operations	–	–	1	1	(986)	(984)	(23)	(1,007)
Remeasurements of defined benefit plans	–	234	–	–	–	234	(5)	229
Total comprehensive income	**–**	**9,097**	**(11)**	**(49)**	**(986)**	**8,051**	**166**	**8,217**
Dividends	–	(6,807)	–	–	–	(6,807)	(108)	(6,915)
Equity compensation plans, net of transactions in own equity	–	155	–	–	–	155	9	164
Business combinations [5]	–	–	–	–	–	–	238	238
Changes in non-controlling interests [23]	–	(6)	–	–	–	(6)	4	(2)
Equity contribution by non-controlling interests [23]	–	–	–	–	–	–	40	40
At 31 December 2015	**160**	**28,591**	**155**	**27**	**(7,954)**	**20,979**	**2,321**	**23,300**

Notes to the Roche Group Consolidated Financial Statements

1. General accounting principles

Basis of preparation

The consolidated financial statements (hereafter 'the Annual Financial Statements') of the Roche Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value. They were approved for issue by the Board of Directors on 26 January 2016 and are subject to approval by the Annual General Meeting of shareholders on 1 March 2016.

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

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

Key accounting judgements, estimates and assumptions

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

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

At 31 December 2015 the Group had CHF 2,316 million in provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the US and similar rebates in other countries. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience. At 31 December 2015 the Group had CHF 567 million in provisions for doubtful receivables (see Note 11). Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and the Group's experience, taking also into account current economic conditions.

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

Impairment. At 31 December 2015 the Group had CHF 18,473 million in property, plant and equipment (see Note 7), CHF 11,082 million in goodwill (see Note 8) and CHF 13,861 million in intangible assets (see Note 9). Goodwill and intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairment.

Pensions and other post-employment benefits. The Group operates a number of defined benefit plans and the fair values of the recognised plan assets and liabilities are based upon statistical and actuarial calculations. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate, inflation rate, expected mortality and medical cost trend rate assumptions. At 31 December 2015 the present value of the Group's defined benefit obligation is CHF 20,173 million (see Note 25). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the defined benefit plan assets and liabilities recognised in the balance sheet in future periods.

Legal provisions. The Group provides for anticipated legal settlement costs when there is a probable outflow of resources that can be reliably estimated. At 31 December 2015 the Group had CHF 700 million in legal provisions. The status of significant legal cases is disclosed in Note 19. These estimates consider the specific circumstances of each legal case, relevant legal advice and are inherently judgemental due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material.

Environmental provisions. The Group provides for anticipated environmental remediation costs when there is a probable outflow of resources that can be reasonably estimated. At 31 December 2015 the Group had CHF 585 million in environmental provisions (see Note 19). Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgemental due to uncertainties related to the detection of previously unknown contamination, the method and extent of remediation, the percentage of the problematic materials attributable to the Group at the remediation sites, and the financial capabilities of other potentially responsible parties. The estimates could change substantially over time as new facts emerge and each environmental remediation progresses.

Contingent consideration provisions. The Group makes provision for the estimated fair value of contingent consideration arrangements arising from business combinations. At 31 December 2015 the Group had CHF 1,492 million in contingent consideration provisions (see Note 19) and the total potential payments under contingent consideration arrangements could be up to CHF 2,908 million (see Note 29). The estimated amounts provided are the expected payments, determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario, which is then discounted to a net present value. The estimates could change substantially over time as new facts emerge and each scenario develops.

Income taxes. At 31 December 2015 the Group had a current income tax net liability of CHF 2,542 million and a deferred tax net asset of CHF 2,019 million (see Note 4). Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Factors that may impact on current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

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

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

2. Operating segment information

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

Divisional information in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group	
	2015	2014	2015	2014	2015	2014	2015	2014
Revenues from external customers								
Sales	37,331	36,696	10,814	10,766	–	–	48,145	47,462
Royalties and other operating income	2,119	2,273	139	131	–	–	2,258	2,404
Total	**39,450**	**38,969**	**10,953**	**10,897**	**–**	**–**	**50,403**	**49,866**
Revenues from other operating segments								
Sales	–	–	11	9	–	–	11	9
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(11)	(9)
Total	**–**	**–**	**11**	**9**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	13,003	14,304	1,289	245	(471)	(459)	13,821	14,090
Capital expenditure								
Business combinations	1,700	11,698	2,009	919	–	–	3,709	12,617
Additions to property, plant and equipment	2,706	1,674	1,363	1,228	8	3	4,077	2,905
Additions to intangible assets	441	398	129	49	–	–	570	447
Total	**4,847**	**13,770**	**3,501**	**2,196**	**8**	**3**	**8,356**	**15,969**
Research and development								
Research and development costs	8,367	8,380	1,214	1,515	–	–	9,581	9,895
Other segment information								
Depreciation of property, plant and equipment	1,098	1,037	863	872	7	8	1,968	1,917
Amortisation of intangible assets	1,358	408	314	298	–	–	1,672	706
Impairment of property, plant and equipment	180	46	11	5	–	–	191	51
Impairment of goodwill	–	322	–	552	–	–	–	874
Impairment of intangible assets	69	337	–	697	–	–	69	1,034
Inventory fair value adjustment	552	39	–	–	–	–	552	39
Equity compensation plan expenses	323	280	53	45	27	25	403	350

Pharmaceuticals sub-divisional information in millions of CHF

	Roche Pharmaceuticals 2015	Roche Pharmaceuticals 2014	Chugai 2015	Chugai 2014	Pharmaceuticals Division 2015	Pharmaceuticals Division 2014
Revenues from external customers						
Sales	34,107	33,395	3,224	3,301	37,331	36,696
Royalties and other operating income	2,088	2,182	31	91	2,119	2,273
Total	**36,195**	**35,577**	**3,255**	**3,392**	**39,450**	**38,969**
Revenues from other operating segments						
Sales	1,310	1,232	502	476	1,812	1,708
Royalties and other operating income	30	29	212	122	242	151
Elimination of income within Division					(2,054)	(1,859)
Total	**1,340**	**1,261**	**714**	**598**	**–**	**–**
Segment results						
Operating profit	12,372	13,734	669	623	13,041	14,357
Elimination of profit within Division					(38)	(53)
Operating profit	**12,372**	**13,734**	**669**	**623**	**13,003**	**14,304**
Capital expenditure						
Business combinations	1,700	11,698	–	–	1,700	11,698
Additions to property, plant and equipment	2,485	1,532	221	142	2,706	1,674
Additions to intangible assets	400	383	41	15	441	398
Total	**4,585**	**13,613**	**262**	**157**	**4,847**	**13,770**
Research and development						
Research and development costs	7,800	7,695	674	709	8,474	8,404
Elimination of costs within Division					(107)	(24)
Total	**7,800**	**7,695**	**674**	**709**	**8,367**	**8,380**
Other segment information						
Depreciation of property, plant and equipment	988	920	110	117	1,098	1,037
Amortisation of intangible assets	1,330	370	28	38	1,358	408
Impairment of property, plant and equipment	178	31	2	15	180	46
Impairment of goodwill	–	322	–	–	–	322
Impairment of intangible assets	60	337	9	–	69	337
Inventory fair value adjustment	552	39	–	–	552	39
Equity compensation plan expenses	320	277	3	3	323	280

Net operating assets in millions of CHF

	Assets 2015	Assets 2014	Assets 2013	Liabilities 2015	Liabilities 2014	Liabilities 2013	Net assets 2015	Net assets 2014	Net assets 2013
Pharmaceuticals	42,460	41,686	26,672	(11,844)	(10,738)	(8,269)	30,616	30,948	18,403
Diagnostics	19,408	17,475	16,846	(3,976)	(3,355)	(2,814)	15,432	14,120	14,032
Corporate	149	160	164	(515)	(674)	(665)	(366)	(514)	(501)
Total operating	**62,017**	**59,321**	**43,682**	**(16,335)**	**(14,767)**	**(11,748)**	**45,682**	**44,554**	**31,934**
Non-operating	13,746	16,219	18,485	(36,128)	(39,215)	(29,178)	(22,382)	(22,996)	(10,693)
Group	**75,763**	**75,540**	**62,167**	**(52,463)**	**(53,982)**	**(40,926)**	**23,300**	**21,558**	**21,241**

As disclosed in Note 5, the operating assets for the Pharmaceuticals and Diagnostics Divisions and the non-operating liabilities for the Group at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

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

	Assets 2015	Assets 2014	Assets 2013	Liabilities 2015	Liabilities 2014	Liabilities 2013	Net assets 2015	Net assets 2014	Net assets 2013
Roche Pharmaceuticals	39,024	38,480	23,688	(10,842)	(9,860)	(7,472)	28,182	28,620	16,216
Chugai	4,246	3,985	3,725	(1,002)	(878)	(797)	3,244	3,107	2,928
Elimination within Division	(810)	(779)	(741)	–	–	–	(810)	(779)	(741)
Pharmaceuticals Division	**42,460**	**41,686**	**26,672**	**(11,844)**	**(10,738)**	**(8,269)**	**30,616**	**30,948**	**18,403**

As disclosed in Note 5, the operating assets for Roche Pharmaceuticals at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune and Dutalys acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

Information by geographical area in millions of CHF

	Revenues from external customers: Sales	Revenues from external customers: Royalties and other operating income	Non-current assets: Property, plant and equipment	Non-current assets: Goodwill and intangible assets
2015				
Switzerland	497	165	4,637	4,370
Germany	2,734	24	3,186	1,128
Rest of Europe	10,046	4	1,049	357
Europe	**13,277**	**193**	**8,872**	**5,855**
United States	20,164	2,024	6,305	18,913
Rest of North America	855	1	90	–
North America	**21,019**	**2,025**	**6,395**	**18,913**
Latin America	2,832	–	309	8
Japan	3,648	31	1,351	165
Rest of Asia	6,006	9	1,458	–
Asia	**9,654**	**40**	**2,809**	**165**
Africa, Australia and Oceania	1,363	–	88	2
Total	**48,145**	**2,258**	**18,473**	**24,943**
2014				
Switzerland	526	604	4,187	2,271
Germany	2,900	19	3,235	1,343
Rest of Europe	11,119	8	1,117	712
Europe	**14,545**	**631**	**8,539**	**4,326**
United States	18,041	1,675	5,450	18,226
Rest of North America	962	1	109	–
North America	**19,003**	**1,676**	**5,559**	**18,226**
Latin America	3,285	–	352	11
Japan	3,755	90	1,259	164
Rest of Asia	5,327	7	1,397	–
Asia	**9,082**	**97**	**2,656**	**164**
Africa, Australia and Oceania	1,547	–	89	2
Total	**47,462**	**2,404**	**17,195**	**22,729**

As disclosed in Note 5, the goodwill and intangible assets for Europe and North America at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

Supplementary unaudited information on sales by therapeutic areas in the Pharmaceuticals Division and by business areas in the Diagnostics Division are given in the Financial Review. Sales are allocated to geographical areas by destination according to the location of the customer. Royalties and other operating income are allocated according to the location of the Group company that receives the revenue.

Major customers

In total three US national wholesale distributors represent just over a quarter of the Group's revenues in 2015. The three US national wholesale distributors are AmerisourceBergen Corp. with CHF 5 billion (2014: CHF 5 billion); McKesson Corp. with CHF 6 billion (2014: CHF 5 billion) and Cardinal Health, Inc. with CHF 4 billion (2014: CHF 3 billion). Approximately 93% of these revenues were in the Pharmaceuticals operating segment, with the residual in the Diagnostics segment.

3. Net financial expense

Financing costs in millions of CHF

	2015	2014
Interest expense	(866)	(926)
Amortisation of debt discount [20]	(19)	(20)
Net gains (losses) on redemption and repurchase of bonds and notes [20]	(79)	(215)
Loss on major debt restructuring [20]	(381)	(429)
Discount unwind [19]	(53)	(30)
Net interest cost of defined benefit plans [25]	(176)	(201)
Total financing costs	**(1,574)**	**(1,821)**

Other financial income (expense) in millions of CHF

	2015	2014
Net gains (losses) on sale of equity securities	142	336
Net gains (losses) on equity security derivatives	–	–
Dividend income	2	3
Write-downs and impairments of equity securities	(10)	(9)
Net income from equity securities	**134**	**330**
Interest income	24	34
Net gains (losses) on sale of debt securities	7	5
Net interest income and income from debt securities	**31**	**39**
Net foreign exchange gains (losses)	(470)	105
Net gains (losses) on foreign currency derivatives	84	(210)
Foreign exchange gains (losses)	**(386)**	**(105)**
Net other financial income (expense)	(39)	(18)
Associates	–	–
Total other financial income (expense)	**(260)**	**246**

Net financial expense in millions of CHF

	2015	2014
Financing costs	(1,574)	(1,821)
Other financial income (expense)	(260)	246
Net financial expense	**(1,834)**	**(1,575)**
Financial result from Treasury management	(1,658)	(1,374)
Financial result from Pension management	(176)	(201)
Associates	–	–
Net financial expense	**(1,834)**	**(1,575)**

4. Income taxes

Income tax expenses in millions of CHF

	2015	2014
Current income taxes	(4,001)	(3,954)
Deferred taxes	1,070	974
Total income tax (expense)	**(2,931)**	**(2,980)**

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

The Group's average expected tax rate increased to 24.9% in 2015 (2014: 20.5%). The main driver for the increase was the higher proportion of the Group's profits from the US, which has a relatively higher local tax rate than the average Group rate. The proportion of US profits in 2014 was lowered by goodwill impairments. There were no significant local tax rate changes in the main operating areas of the Group compared to 2014.

The Group's effective tax rate increased to 24.5% in 2015 (2014: 23.8%). The main driver for the increase was the higher average expected tax rate disclosed above. This was partially offset by the tax benefit from the intra-group transfer of intangible rights in 2015 and the 2014 goodwill impairments that were not tax deductible.

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

Reconciliation of the Group's effective tax rate

	2015	2014
Average expected tax rate	24.9%	20.5%
Tax effect of		
– Non-taxable income/non-deductible expenses	+2.4%	+4.0%
– Equity compensation plans	+0.2%	+0.2%
– Research and development tax credits and manufacturing deductions	–2.9%	–2.5%
– US state tax impacts	+0.6%	+0.5%
– Tax on unremitted earnings	+1.9%	+1.2%
– Utilisation of previously unrecognised tax losses	–0.6%	–
– Deferred tax on intra-group transfers	–2.0%	–
– Other differences	–	–0.1%
Group's effective tax rate	**24.5%**	**23.8%**

The income tax benefit recorded in respect of equity compensation plans, which varies according to the price of the underlying equity, was CHF 81 million (2014: CHF 64 million). Had the income tax benefits been recorded solely on the basis of the IFRS 2 expense multiplied by the applicable tax rate, then a benefit of approximately CHF 111 million (2014: CHF 96 million) would have been recorded.

Tax effects of other comprehensive income in millions of CHF

	2015 Pre-tax amount	2015 Tax	2015 After-tax amount	2014 Pre-tax amount	2014 Tax	2014 After-tax amount
Remeasurements of defined benefit plans	339	(110)	229	(2,714)	702	(2,012)
Available-for-sale investments	(23)	17	(6)	40	(3)	37
Cash flow hedges	(84)	29	(55)	(66)	25	(41)
Currency translation of foreign operations	(1,007)	–	(1,007)	(255)	–	(255)
Other comprehensive income	**(775)**	**(64)**	**(839)**	**(2,995)**	**724**	**(2,271)**

Income tax assets (liabilities) in millions of CHF

	2015	2014	2013
Current income taxes			
– Assets	239	244	218
– Liabilities	(2,781)	(2,616)	(1,805)
Net current income tax assets (liabilities)	**(2,542)**	**(2,372)**	**(1,587)**
Deferred taxes			
– Assets	2,564	2,829	4,707
– Liabilities	(545)	(504)	(1,282)
Net deferred tax assets (liabilities)	**2,019**	**2,325**	**3,425**

As disclosed in Note 5, the deferred tax liabilities at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

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

	2015	2014
Net current income tax asset (liability) at 1 January	(2,372)	(1,587)
Income taxes paid	3,696	2,982
Business combinations	(3)	(9)
(Charged) credited to the income statement	(4,001)	(3,954)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	142	311
Currency translation effects and other movements	(4)	(115)
Net current income tax asset (liability) at 31 December	**(2,542)**	**(2,372)**

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

	Property, plant and equipment	Intangible assets	Defined benefit plans	Other temporary differences	Total
Year ended 31 December 2014					
At 1 January 2014	(851)	(660)	1,067	3,869	3,425
Business combinations [5]	–	(3,310)	–	337	(2,973)
(Charged) credited to the income statement	46	576	(16)	368	974
(Charged) credited to other comprehensive income [21]	–	–	702	22	724
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	–	–	(30)	(30)
Currency translation effects and other movements	(19)	(136)	44	316	205
At 31 December 2014	**(824)**	**(3,530)**	**1,797**	**4,882**	**2,325**
Year ended 31 December 2015					
At 1 January 2015	(824)	(3,530)	1,797	4,882	2,325
Business combinations [5]	–	(905)	–	7	(898)
(Charged) credited to the income statement	48	872	26	124	1,070
(Charged) credited to other comprehensive income [21]	–	–	(110)	46	(64)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	–	–	(214)	(214)
Currency translation effects and other movements	22	32	(91)	(163)	(200)
At 31 December 2015	**(754)**	**(3,531)**	**1,622**	**4,682**	**2,019**

As disclosed in Note 5, the net deferred tax assets (liabilities) at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

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

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

Unrecognised tax losses: expiry

	Amount (CHF m)	2015 Applicable tax rate	Amount (CHF m)	2014 Applicable tax rate
Within one year	95	14%	–	–
Between one and five years	884	13%	588	14%
More than five years	7,782	5%	6,349	5%
Total unrecognised tax losses	**8,761**	**6%**	**6,937**	**6%**

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

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the remittance of earnings of foreign subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group, regarded as permanently reinvested, were CHF 25.7 billion at 31 December 2015 (2014: CHF 29.3 billion).

5. Business combinations

Acquisitions – 2015

Acquisitions – 2015: net assets acquired in millions of CHF

	Pharmaceuticals	Diagnostics	Total
Intangible assets			
– Product intangibles: in use [9]	512	887	1,399
– Product intangibles: not available for use [9]	435	523	958
– Marketing intangibles: in use [9]	–	15	15
Cash and cash equivalents	300	29	329
Deferred tax liabilities [4]	(339)	(559)	(898)
Other net assets (liabilities)	(20)	24	4
Net identifiable assets	**888**	**919**	**1,807**
Non-controlling interests [23]	(238)	–	(238)
Fair value of previously held equity interest	(20)	–	(20)
Goodwill [8]	729	570	1,299
Total consideration	**1,359**	**1,489**	**2,848**
Cash	1,118	1,163	2,281
Contingent consideration [29]	241	326	567
Total consideration	**1,359**	**1,489**	**2,848**

Pharmaceuticals

Trophos. On 3 March 2015 the Group acquired a 100% controlling interest in Trophos, a privately owned company based in Marseille, France. Trophos' proprietary screening platform generated olesoxime (TRO19622), which is being developed for spinal muscular atrophy (SMA), a rare and debilitating genetic neuromuscular disease that is most commonly diagnosed in children. Trophos is reported in the Pharmaceuticals Division. The total consideration was EUR 345 million, of which EUR 120 million was paid in cash and EUR 225 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and EUR 350 million.

Foundation Medicine, Inc. On 7 April 2015 the Group acquired a 61.3% controlling interest in Foundation Medicine, Inc. ('FMI'), a publicly owned US company based in Cambridge, Massachusetts. FMI is listed on Nasdaq under the stock code 'FMI'. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The transaction included both a broad research and development collaboration agreement and a commercial collaboration agreement aimed at expanding the global sales efforts for FMI's current and future products. FMI is reported in the Pharmaceuticals Division. The total cash consideration was USD 1.0 billion.

The identifiable assets acquired and liabilities assumed are set out in the table below.

Pharmaceuticals acquisitions – 2015: net assets acquired in millions of CHF

	Trophos	FMI	Total
Intangible assets			
– Product intangibles: in use	–	512	512
– Product intangibles: not available for use	435	–	435
Cash and cash equivalents	1	299	300
Deferred tax liabilities	(150)	(189)	(339)
Other net assets (liabilities)	(14)	(6)	(20)
Net identifiable assets	**272**	**616**	**888**
Non-controlling interests	–	(238)	(238)
Fair value of previously held equity interest	–	(20)	(20)
Goodwill: allocated to Foundation Medicine [8]	–	95	95
Goodwill: allocated to Roche Pharmaceuticals	98	536	634
Total consideration	**370**	**989**	**1,359**
Cash	129	989	1,118
Contingent consideration	241	–	241
Total consideration	**370**	**989**	**1,359**

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 10.0% for Trophos and 9.5% for FMI. The valuations were performed by independent valuers.

The FMI accounts receivable is comprised of gross contractual amounts due of CHF 10 million which are all expected to be collectable at the date of acquisition.

For Trophos the goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired company into the Group's existing business. None of the goodwill is expected to be deductible for income tax purposes.

For FMI the goodwill represents the strategic value to Roche Pharmaceuticals of accessing FMI's molecular information and genomic analysis. It also represents the premium paid over the traded market price to obtain control of the business, the acquired workforce and expected synergies. None of the goodwill is expected to be deductible for income tax purposes. The non-controlling interests in FMI were measured at the date of acquisition at their proportionate share (38.7%) of FMI's identifiable net assets.

The Group recognised a financial gain of CHF 16 million from fair valuing the 1.2% equity interest in FMI held by the Group prior to the transaction. This gain is included in other financial income (expense) for 2015.

Directly attributable transaction costs of CHF 9 million are reported in the Pharmaceuticals operating segment within general and administration expenses and mainly relate to the FMI acquisition.

The impact of the Trophos and FMI acquisitions on the 2015 results for the Pharmaceuticals Division and the Group were not material.

Diagnostics

Ariosa Diagnostics, Inc. On 12 January 2015 the Group acquired a 100% controlling interest in Ariosa Diagnostics, Inc. ('Ariosa'), a US privately owned company based in San Jose, California. Ariosa is a molecular diagnostics testing service provider that provides a highly targeted and accurate non-invasive prenatal testing (NIPT) service through their CLIA laboratory using cell-free DNA (cfDNA) technology. Ariosa's proprietary Harmony prenatal test is a blood test that is performed as early as ten weeks into pregnancy. Ariosa is reported in the Diagnostics operating segment as part of the sequencing business. The total consideration was USD 565 million, of which USD 411 million was paid in cash and USD 154 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 225 million.

Signature Diagnostics AG. On 12 February 2015 the Group acquired a 100% controlling interest in Signature Diagnostics AG ('Signature'), a privately owned company based in Potsdam, Germany. Signature is a translational oncology and genomics company that develops large blood plasma and tissue biobanks in multiple cancers, including colorectal cancer and lung cancer, which are constructed from multi-centre prospective clinical studies. Signature is reported in the Diagnostics operating segment as part of the sequencing business. The total cash consideration was EUR 28 million.

CAPP Medical, Inc. On 9 April 2015 the Group acquired a 100% controlling interest in CAPP Medical, Inc. ('CAPP'), a US privately owned company based in Palo Alto, California. CAPP is developing technology for cancer screening and monitoring through the detection of circulating tumour DNA (ctDNA) in blood. CAPP is reported in the Diagnostics operating segment as part of the sequencing business. The total consideration was USD 96 million, of which USD 70 million was paid in cash and USD 26 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 55 million.

GeneWeave Biosciences, Inc. On 14 August 2015 the Group acquired a 100% controlling interest in GeneWeave Biosciences, Inc. ('GeneWeave'), a US privately owned company based in Los Gatos, California. GeneWeave focuses on advancing clinical microbiology with diagnostic solutions supporting healthcare providers in the fight against drug-resistant bacteria. GeneWeave's solutions aid impactful surveillance programmes, early therapy guidance and successful antibiotic stewardship. GeneWeave is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The total consideration was USD 350 million, of which USD 192 million was paid in cash and USD 158 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 235 million.

Kapa Biosystems, Inc. On 30 November 2015 the Group acquired a 100% controlling interest in Kapa Biosystems, Inc. ('Kapa'), a US privately owned company based in Wilmington, Massachusetts. Kapa has R&D and manufacturing operations in Cape Town, South Africa. Kapa has core protein engineering technologies which enable enzymes to be tailored to suit specific applications in sample preparation for next-generation DNA and RNA sequencing, DNA amplification and molecular diagnostics. Kapa is reported in the Diagnostics operating segment as part of the sequencing business. The total cash consideration was USD 445 million.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for GeneWeave and Kapa are provisional based on preliminary information and valuations of the assets and liabilities are subject to adjustment during 2016.

Diagnostics acquisitions – 2015: net assets acquired in millions of CHF

	Ariosa	Signature	CAPP	GeneWeave	Kapa	Total
Intangible assets						
– Product intangibles: in use	525	39	–	–	323	887
– Product intangibles: not available for use	–	–	111	412	–	523
– Marketing intangibles: in use	–	–	–	–	15	15
Cash and cash equivalents	16	4	–	1	8	29
Deferred tax liabilities	(210)	(12)	(44)	(158)	(135)	(559)
Other net assets (liabilities)	17	(1)	(3)	2	9	24
Net identifiable assets	**348**	**30**	**64**	**257**	**220**	**919**
Goodwill	225	–	26	80	239	570
Total consideration	**573**	**30**	**90**	**337**	**459**	**1,489**
Cash	417	30	68	189	459	1,163
Contingent consideration	156	–	22	148	–	326
Total consideration	**573**	**30**	**90**	**337**	**459**	**1,489**

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 10.0% for Ariosa, 17.1% for CAPP, 9.5% for GeneWeave and 11.7% for Kapa. The valuations for Ariosa, CAPP, GeneWeave and Kapa were performed by independent valuers.

The Ariosa and Kapa accounts receivable is comprised of gross contractual amounts due of CHF 12 million and CHF 8 million respectively, which are all expected to be collectable at the date of acquisition.

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired companies into the Group's existing business. None of the goodwill is expected to be deductible for income tax purposes.

Directly attributable transaction costs of CHF 5 million are reported in the Diagnostics operating segment within general and administration expenses.

The impact of the Ariosa, Signature, CAPP, GeneWeave and Kapa acquisitions on the 2015 results for the Diagnostics Division and the Group were not material.

Acquisitions – 2014

Acquisitions – 2014: net assets acquired in millions of CHF

	Pharmaceuticals	Diagnostics	Total
Intangible assets			
– Product intangibles: in use [9]	1,810	236	2,046
– Product intangibles: not available for use [9]	6,987	225	7,212
– Technology intangibles: in use [9]	305	–	305
Deferred tax assets [4]	481	6	487
Inventories	760	2	762
Accounts receivable	37	–	37
Marketable securities	321	–	321
Cash and cash equivalents	340	5	345
Deferred tax liabilities [4]	(3,288)	(172)	(3,460)
Other net assets (liabilities)	(455)	(2)	(457)
Net identifiable assets	**7,298**	**300**	**7,598**
Goodwill [8]	2,596	457	3,053
Total consideration	**9,894**	**757**	**10,651**
Cash	9,382	471	9,853
Deferred consideration	59	12	71
Contingent consideration [29]	447	274	721
Settlement of pre-existing relationship	6	–	6
Total consideration	**9,894**	**757**	**10,651**

As disclosed below, the net assets acquired have been restated following the finalisation of the valuation of the InterMune, Dutalys and Bina acquisitions.

Pharmaceuticals

Seragon Pharmaceuticals, Inc. On 27 August 2014 the Group acquired a 100% controlling interest in Seragon Pharmaceuticals, Inc. ('Seragon'), a US private company based in San Diego, California. Seragon is reported in the Pharmaceuticals Division. The total consideration was USD 988 million, of which USD 668 million was paid in cash, USD 65 million was deferred cash consideration which was paid by February 2015 and USD 255 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 1 billion.

Santaris Pharma A/S. On 2 September 2014 the Group acquired a 100% controlling interest in Santaris Pharma A/S ('Santaris'), a private company based near Copenhagen, Denmark. Santaris is reported in the Pharmaceuticals Division. The total consideration was USD 319 million, of which USD 254 million was paid in cash, USD 59 million arose from a contingent consideration arrangement and USD 6 million arose from the settlement of a pre-existing relationship. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 200 million.

InterMune, Inc. On 29 September 2014 the Group acquired a 100% controlling interest in InterMune, Inc. ('InterMune'), a publicly owned US company based in Brisbane, California that had been listed on Nasdaq. The acquisition added a new medicine for idiopathic pulmonary fibrosis, Esbriet, to the Group's portfolio. Esbriet was approved by the FDA in October 2014. InterMune is reported in the Pharmaceuticals Division. The total consideration was USD 8.8 billion which was paid in cash. On 29 September 2014 the Group issued USD 5.75 billion aggregate principal amount of senior notes to part finance the transaction.

Dutalys GmbH. On 18 December 2014 the Group acquired a 100% controlling interest in Dutalys GmbH ('Dutalys'), a private company based in Vienna, Austria. Dutalys is reported in the Pharmaceuticals Division. The total consideration was USD 294 million, of which USD 134 million was paid in cash and USD 160 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 355 million.

The identifiable assets acquired and liabilities assumed are set out in the table below.

Pharmaceuticals acquisitions – 2014: net assets acquired in millions of CHF

	Seragon	Santaris	InterMune	Dutalys	Total
Intangible assets					
– Product intangibles: in use	–	–	1,810	–	1,810
– Product intangibles: not available for use	829	53	6,023	82	6,987
– Technology intangibles: in use	–	155	–	150	305
Deferred tax assets	10	10	461	–	481
Inventories	–	–	760	–	760
Accounts receivable	–	2	35	–	37
Marketable securities	–	–	321	–	321
Cash and cash equivalents	16	3	321	–	340
Deferred tax liabilities	(296)	(49)	(2,886)	(57)	(3,288)
Other net assets (liabilities)	(12)	(14)	(429)	–	(455)
Net identifiable assets	**547**	**160**	**6,416**	**175**	**7,298**
Goodwill	357	139	1,989	111	2,596
Total consideration	**904**	**299**	**8,405**	**286**	**9,894**
Cash	611	236	8,405	130	9,382
Deferred consideration	59	–	–	–	59
Contingent consideration	234	57	–	156	447
Settlement of pre-existing relationship	–	6	–	–	6
Total consideration	**904**	**299**	**8,405**	**286**	**9,894**

As disclosed below, the net assets acquired have been restated following the finalisation of the valuation of the InterMune and Dutalys acquisitions.

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 9.5% for Seragon, 8.9% to 9.4% for Santaris, 9.0% to 9.5% for InterMune and 9.5% for Dutalys. The valuations were performed by independent valuers.

The fair value of InterMune inventories is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort to complete and sell the inventories. The InterMune accounts receivable is comprised of gross contractual amounts due of CHF 35 million.

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired companies into the Group's existing business. For InterMune the control premium represents the premium paid over the traded market price to obtain control of the business. None of the goodwill is expected to be deductible for income tax purposes.

Directly attributable transaction costs of CHF 15 million were reported in the Pharmaceuticals operating segment within general and administration expenses and mainly related to the InterMune acquisition.

In the three months to 31 December 2014 InterMune contributed revenue of CHF 44 million and a net loss of CHF 292 million to the results reported for the Pharmaceuticals Division and the Group. The impact of the Seragon, Santaris and Dutalys acquisitions on the 2014 results were not material.

Diagnostics

Genia Technologies, Inc. On 3 June 2014 the Group acquired a 100% controlling interest in Genia Technologies, Inc. ('Genia'), a US private company based in California. Genia is reported in the Diagnostics operating segment as part of the sequencing business. The total consideration was USD 257 million, of which USD 125 million was paid in cash and USD 132 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until June 2024 and the range of undiscounted outcomes is between zero and USD 225 million.

IQuum, Inc. On 10 June 2014 the Group acquired a 100% controlling interest in IQuum, Inc. ('IQuum'), a US private company based in Massachusetts. IQuum is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The total consideration was USD 432 million, of which USD 282 million was paid in cash and USD 150 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until the first half of 2017 and the range of undiscounted outcomes is between zero and USD 175 million. In addition, the Group acquired 100% controlling interest in the related intellectual property holding company for a cash consideration of USD 35 million.

Bina Technologies, Inc. On 19 December 2014 the Group acquired a 100% controlling interest in Bina Technologies, Inc. ('Bina'), a US private company based in Redwood City, California. Bina is reported in the Diagnostics operating segment as part of the sequencing business. The total consideration was USD 114 million, of which USD 78 million was paid in cash, USD 13 million was deferred cash consideration which is being paid over the period from the date of control to the end of 2017 and USD 23 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and USD 30 million.

The identifiable assets acquired and liabilities assumed are set out in the table below.

Diagnostics acquisitions – 2014: net assets acquired in millions of CHF

	Genia	IQuum	Bina	Total
Intangible assets				
– Product intangibles: in use	–	212	24	236
– Product intangibles: not available for use	225	–	–	225
Deferred tax assets	5	1	–	6
Inventories	–	2	–	2
Cash and cash equivalents	–	4	1	5
Deferred tax liabilities	(90)	(72)	(10)	(172)
Other net assets (liabilities)	–	(1)	(1)	(2)
Net identifiable assets	**140**	**146**	**14**	**300**
Goodwill	89	271	97	457
Total consideration	**229**	**417**	**111**	**757**
Cash	112	283	76	471
Deferred consideration	–	–	12	12
Contingent consideration	117	134	23	274
Total consideration	**229**	**417**	**111**	**757**

As disclosed below, the net assets acquired have been restated following the finalisation of the valuation of the Bina acquisition.

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 13.7% for Genia and 10.0% for IQuum. The fair value of the intangible asset for Bina was determined using a replacement cost method. The valuations were performed by independent valuers.

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired companies into the Group's existing business. None of the goodwill is expected to be deductible for income tax purposes.

Directly attributable transaction costs of CHF 4 million were reported in the Diagnostics operating segment within general and administration expenses.

The impact of the Genia, IQuum and Bina acquisitions on the 2014 results reported for the Diagnostics Division and the Group were not material.

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	Pharmaceuticals	Diagnostics	2015 Total	Pharmaceuticals	Diagnostics	2014 Total
Cash consideration paid	(1,118)	(1,163)	(2,281)	(9,382)	(471)	(9,853)
Deferred consideration paid [19]	(52)	(3)	(55)	(7)	–	(7)
Contingent consideration paid [29]	(4)	(115)	(119)	(39)	(60)	(99)
Cash in acquired company	300	29	329	340	5	345
Transaction costs	(9)	(5)	(14)	(15)	(4)	(19)
Total net cash outflow	**(883)**	**(1,257)**	**(2,140)**	**(9,103)**	**(530)**	**(9,633)**

Restated Balance Sheet – 31 December 2014

In the 2014 Annual Financial Statements the accounting for the InterMune (29 September 2014), Dutalys (18 December 2014) and Bina (19 December 2014) acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations were finalised in 2015 and as a result the comparative balance sheet information at 31 December 2014 has been restated. The reconciliation between the balance sheet and the net assets acquired published previously for 2014 (using provisional acquisition accounting) and the restated amounts which are reported as comparatives in 2015 (using final acquisition accounting), as required by IFRS 3 'Business Combinations', are presented below.

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

	31 December 2014 As originally published	Measurement adjustment	Restated
Goodwill	9,949	(19)	9,930
Intangible assets	12,881	(82)	12,799
Deferred tax liabilities	(605)	101	(504)
Other net liabilities	(667)	–	(667)
Net assets	**21,558**	**–**	**21,558**

The measurement adjustments in the table above are at the closing exchange rate on 31 December 2014.

Restated Pharmaceuticals acquisitions – 2014: net assets acquired (selected items) in millions of CHF

	InterMune As originally published	Measurement adjustment	Restated	Dutalys As originally published	Measurement adjustment	Restated
Intangible assets	7,833	–	7,833	219	13	232
Deferred tax liabilities	(2,953)	67	(2,886)	(47)	(10)	(57)
Other net assets (liabilities)	1,469	–	1,469	–	–	–
Net identifiable assets	**6,349**	**67**	**6,416**	**172**	**3**	**175**
Goodwill	2,056	(67)	1,989	114	(3)	111
Total consideration	**8,405**	**–**	**8,405**	**286**	**–**	**286**

Restated Diagnostics acquisition – 2014: net assets acquired (selected items) in millions of CHF

	Bina As originally published	Measurement adjustment	Restated
Intangible assets	112	(88)	24
Deferred tax liabilities	(45)	35	(10)
Other net assets (liabilities)	–	–	–
Net identifiable assets	**67**	**(53)**	**14**
Goodwill	44	53	97
Total consideration	**111**	**–**	**111**

The measurement adjustments in the tables above are at the exchange rate on the date of control for each acquisition.

In the 2014 Annual Financial Statements the acquisition accounting for the Seragon and Santaris acquisitions was also provisional and is now final with no changes to the amounts recorded at 31 December 2014.

6. Global restructuring plans

During 2015 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme in the Diagnostics Division's Diabetes Care business. On 12 November 2015 the Pharmaceuticals Division announced a strategic realignment of its manufacturing network, including exiting from four sites. Total costs in 2015 of CHF 1.2 billion were considerably higher than the 2014 costs of CHF 0.8 billion. This is due to the strategic realignment of the Pharmaceuticals Division's manufacturing network with costs of CHF 0.6 billion.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics[1]	Site consolidation[2]	Other plans[3]	Total
Year ended 31 December 2015				
Global restructuring costs				
– Employee-related costs	71	198	89	358
– Site closure costs	22	317	2	341
– Divestment of products and businesses [22]	–	–	23	23
– Other reorganisation expenses	208	66	66	340
Total global restructuring costs	**301**	**581**	**180**	**1,062**
Additional costs				
– Impairment of goodwill	–	–	–	–
– Impairment of intangible assets	–	–	–	–
– Legal and environmental costs	–	107	–	107
Total costs	**301**	**688**	**180**	**1,169**
Year ended 31 December 2014				
Global restructuring costs				
– Employee-related costs	52	15	248	315
– Site closure costs	16	80	1	97
– Other reorganisation expenses	178	17	48	243
Total global restructuring costs	**246**	**112**	**297**	**655**
Additional costs				
– Impairment of goodwill	–	–	139	139
– Impairment of intangible assets	–	–	–	–
– Legal and environmental costs	–	–	–	–
Total costs	**246**	**112**	**436**	**794**

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes the Pharmaceuticals Division strategic realignment of its manufacturing network.
3) Includes plans for Pharmaceuticals Division research and development strategic realignment and field force reductions in Europe and Asia-Pacific.

Diagnostics Division

On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. In 2015 total costs of CHF 175 million were incurred, mainly for consultancy and IT-related costs as well as employee-related costs. Spending on other smaller plans within the Division was CHF 126 million and included costs related to certain IT projects and the restructuring of the former Applied Science business.

Site consolidation

On 12 November 2015 the Pharmaceuticals Division announced a strategic realignment of its manufacturing network including exiting from the manufacturing sites at Clarecastle, Ireland; Leganés, Spain; Segrate, Italy; and Florence, US. Costs for this plan are expected to be in the order of CHF 1.6 billion, of which up to CHF 0.6 billion will be in cash. The plan is expected to run until 2021 and approximately 1,200 positions will be affected. Costs from this plan in 2015 were CHF 602 million, of which CHF 182 million were non-cash write-downs and accelerated depreciation of property, plant and equipment. Additional costs were recorded in the Pharmaceuticals Division for the outsourcing of logistics at the Rosny site in France and the closure of the manufacturing site at Toluca, Mexico. The divestment plans for the Nutley site are on track.

Other global restructuring plans

In 2015 total costs were CHF 180 million, with the major items being CHF 62 million from the Pharmaceuticals Division research and development strategic realignment and CHF 55 million from various initiatives to reduce the field force in the Europe and Asia-Pacific regions. As part of this realignment on 23 April 2015 the Group sold its wholly owned subsidiary Marcadia Biotech, Inc. to a third party with a loss on disposal of CHF 23 million (see Note 22). The remaining minor plans totalled CHF 63 million.

In 2014 total costs were CHF 436 million, with a major item being a goodwill impairment of CHF 139 million related to the Marcadia Biotech, Inc. acquisition in 2010. Other significant costs included CHF 121 million relating to European field force reductions in the Pharmaceuticals Division's Specialty Care unit, InterMune integration costs of CHF 79 million, costs of CHF 46 million from the implementation of the global outsourcing of clinical trial monitoring in the Pharmaceuticals Division and the remaining minor plans totalled CHF 51 million.

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

	2015	2014
Employee-related costs		
– Termination costs	283	279
– Defined benefit plans	12	(1)
– Other employee-related costs	63	37
Total employee-related costs	**358**	**315**
Site closure costs		
– Impairment of property, plant and equipment	174	5
– Accelerated depreciation of property, plant and equipment	48	41
– (Gains) losses on disposal of property, plant and equipment	1	1
– Other site closure costs	118	50
Total site closure costs	**341**	**97**
Loss on divestment of subsidiary	23	–
Total costs on divestment of products and businesses	**23**	**–**
Other reorganisation expenses	340	243
Total global restructuring costs	**1,062**	**655**
Additional costs		
– Impairment of goodwill	–	139
– Impairment of intangible assets	–	–
– Legal and environmental costs	107	–
Total costs	**1,169**	**794**

Global restructuring plans: classification of costs in millions of CHF

	2015 Depreciation, amortisation and impairment	2015 Other costs	2015 Total	2014 Depreciation, amortisation and impairment	2014 Other costs	2014 Total
Cost of sales						
– Pharmaceuticals	211	347	558	42	40	82
– Diagnostics	9	87	96	7	50	57
Marketing and distribution						
– Pharmaceuticals	–	87	87	–	155	155
– Diagnostics	–	116	116	–	64	64
Research and development						
– Pharmaceuticals	–	46	46	–	101	101
– Diagnostics	1	10	11	(3)	8	5
General and administration						
– Pharmaceuticals	1	171	172	139	53	192
– Diagnostics	–	77	77	–	138	138
– Corporate	–	6	6	–	–	–
Total	**222**	**947**	**1,169**	**185**	**609**	**794**
Total by operating segment						
– Roche Pharmaceuticals	212	651	863	181	348	529
– Chugai	–	–	–	–	1	1
– Diagnostics	10	290	300	4	260	264
– Corporate	–	6	6	–	–	–
Total	**222**	**947**	**1,169**	**185**	**609**	**794**

7. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At 1 January 2014					
Cost	823	11,934	16,745	1,947	31,449
Accumulated depreciation and impairment	–	(4,998)	(10,611)	(80)	(15,689)
Net book value	**823**	**6,936**	**6,134**	**1,867**	**15,760**
Year ended 31 December 2014					
At 1 January 2014	823	6,936	6,134	1,867	15,760
Business combinations	–	–	1	–	1
Additions	11	179	949	1,766	2,905
Disposals	(5)	(22)	(50)	(3)	(80)
Transfers	–	435	764	(1,199)	–
Depreciation charge	–	(492)	(1,425)	–	(1,917)
Impairment charge	(5)	(3)	(32)	(11)	(51)
Other	–	–	1	–	1
Currency translation effects	40	304	184	48	576
At 31 December 2014	**864**	**7,337**	**6,526**	**2,468**	**17,195**
Cost	867	12,910	18,039	2,521	34,337
Accumulated depreciation and impairment	(3)	(5,573)	(11,513)	(53)	(17,142)
Net book value	**864**	**7,337**	**6,526**	**2,468**	**17,195**
Year ended 31 December 2015					
At 1 January 2015	864	7,337	6,526	2,468	17,195
Business combinations	–	11	25	2	38
Additions	86	786	1,062	2,143	4,077
Disposals	(3)	(6)	(61)	–	(70)
Transfers	1	810	858	(1,669)	–
Depreciation charge	–	(550)	(1,418)	–	(1,968)
Impairment charge	–	(14)	(167)	(10)	(191)
Other	–	–	(10)	–	(10)
Currency translation effects	(15)	(187)	(321)	(75)	(598)
At 31 December 2015	**933**	**8,187**	**6,494**	**2,859**	**18,473**
Cost	933	14,064	18,300	2,897	36,194
Accumulated depreciation and impairment	–	(5,877)	(11,806)	(38)	(17,721)
Net book value	**933**	**8,187**	**6,494**	**2,859**	**18,473**

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

	2015	2014
Cost of sales	(182)	(62)
Marketing and distribution	–	(1)
Research and development	(1)	4
General and administration	(8)	8
Total impairment charge	**(191)**	**(51)**

In 2015 no reimbursements were received from insurance companies in respect of impairments to property, plant and equipment (2014: none). In 2015 no borrowing costs were capitalised as property, plant and equipment (2014: none).

Genentech property purchase option exercise

In 2004 Genentech entered into a Master Lease Agreement ('MLA') with Slough SSF LLC ('Slough'), which was subsequently acquired by Health Care Properties, for the lease of property adjacent to Genentech's South San Francisco site, which was to be developed by Slough. The development included a total of eight buildings and construction was completed during 2008, at which time Genentech fully occupied the property. The property lease was until 2020 with extension options to 2030. On 1 November 2015 Genentech exercised a purchase option contained in the MLA to acquire the eight buildings and land. The closing payments will be made in November 2016 and July 2018 for a total of USD 580 million. At 31 December 2015 the Group has recorded an addition to 'land' and 'buildings and land improvements' and corresponding short-term and long-term liabilities for the cash outflows in 2016 and 2018. The Group has also reclassified the finance lease accounting balances that previously applied to these buildings.

Leasing arrangements where the Group is the lessee

Finance leases. At 31 December 2015 the capitalised cost of property, plant and equipment under finance leases was CHF 42 million (2014: CHF 290 million) and the net book value of these assets was CHF 27 million (2014: CHF 131 million). The carrying value of the leasing obligation was CHF 5 million (2014: CHF 177 million), which is reported as part of Debt (see Note 20).

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

	Future minimum lease payments		Present value of minimum lease payments	
	2015	2014	2015	2014
Within one year	1	36	1	25
Between one and five years	4	155	4	132
More than five years	–	17	–	20
Total	**5**	**208**	**5**	**177**
Future finance charges	–	–	–	31
Total future minimum lease payments (undiscounted)	**5**	**208**	**5**	**208**

Operating leases. Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the Group. Total operating lease rental expense was CHF 428 million (2014: CHF 440 million).

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

	2015	2014
Within one year	264	244
Between one and five years	573	549
More than five years	170	180
Total minimum payments	**1,007**	**973**

Leasing arrangements where the Group is the lessor

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

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

	Gross investment in lease		Present value of minimum lease receipts	
	2015	2014	2015	2014
Within one year	43	47	37	41
Between one and five years	82	93	74	82
More than five years	2	3	2	3
Total	**127**	**143**	**113**	**126**
Unearned finance income	(12)	(16)	n/a	n/a
Unguaranteed residual value	n/a	n/a	2	1
Net investment in lease	**115**	**127**	**115**	**127**

The accumulated allowance for uncollectible minimum lease payments was CHF 4 million (2014: CHF 3 million). There were no contingent rents recognised in income.

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

At 31 December 2015 machinery and equipment with an original cost of CHF 4.0 billion (2014: CHF 4.1 billion) and a net book value of CHF 1.5 billion (2014: CHF 1.5 billion) was being leased to third parties. There were no contingent rents recognised in income.

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

	2015	2014
Within one year	49	64
Between one and five years	77	85
More than five years	2	1
Total minimum receipts	**128**	**150**

Capital commitments

The Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totalling CHF 1.6 billion (2014: CHF 1.5 billion).

8. Goodwill

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

	2015	2014
At 1 January		
Cost	11,361	7,601
Accumulated impairment	(1,431)	(456)
Net book value	**9,930**	**7,145**
Year ended 31 December		
At 1 January	9,930	7,145
Business combinations [5]	1,299	3,053
Impairment charge	–	(874)
Currency translation effects	(147)	606
At 31 December	**11,082**	**9,930**
Cost	12,342	11,361
Accumulated impairment	(1,260)	(1,431)
Net book value	**11,082**	**9,930**
Allocated to the following cash-generating units		
Roche Pharmaceuticals	5,176	4,552
Foundation Medicine [5]	98	–
Chugai	91	91
Total Pharmaceuticals Division	**5,365**	**4,643**
Diabetes Care	827	834
Professional Diagnostics	1,731	1,753
Molecular Diagnostics	383	301
Tissue Diagnostics	–	–
Sequencing	677	200
Strategic goodwill (held at Divisional level)	2,099	2,199
Total Diagnostics Division	**5,717**	**5,287**

As disclosed in Note 5, the goodwill at 31 December 2014 has been restated following the finalisation of the valuation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published goodwill is provided in Note 5.

Impairment charge – 2015

There were no impairments of goodwill during 2015.

Impairment charge – 2014

During 2014 impairment charges totalling CHF 874 million were recorded which related to:

- A goodwill impairment charge of CHF 552 million was recorded for the full write-off of the goodwill in the Tissue Diagnostics business area within the Diagnostics Division. The factors leading to this impairment were: (i) A decrease in forecasted cash flows following a reassessment of a late-stage future product development which was returned to a pre-design phase, combined with additional US reductions in immunohistochemistry testing reimbursement to laboratories and the business plan projection period being reduced from ten years to five years; and (ii) An increase in the pre-tax discount rate used for impairment testing. In addition impairments of CHF 643 million were recorded for product intangibles in the Tissue Diagnostics business (see Note 9).
- A goodwill impairment charge of CHF 322 million was recorded in the Pharmaceuticals Division for the full write-off of goodwill from the Marcadia Biotech, Inc. acquisition in 2010, the Memory acquisition in 2009 and the ARIUS and Piramed acquisitions in 2008 which are all deemed to have been disposed of.

Impairment testing

Pharmaceuticals Division. The Division's operating segments are the cash-generating units used for the testing of goodwill. Part of the goodwill arising from the Foundation Medicine acquisition is recorded and monitored at a Roche Pharmaceuticals level as it relates to the strategic development of Roche Pharmaceuticals. Therefore the cash-generating unit for this strategic goodwill is Roche Pharmaceuticals.

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

The business plans are projected over five years. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 7.0% (2014: 7.7%), which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 28.0% (2014: 25.6%) is used in the calculations and the corresponding pre-tax discount rate is 9.8% (2014: 10.4%).

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

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

The business plans are projected over five years, except for the sequencing business which is projected over ten years reflecting the long-term nature of this business. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 7.0% (2014: 7.7%), which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 17.1% (2014: 18.4%) is used in the calculations and the corresponding pre-tax discount rate is 8.5% (2014: 9.5%).

Sensitivity analysis

Management has performed sensitivity analyses for Roche Pharmaceuticals and the Diagnostics Division, which increased the discount rate by 1% combined with decreasing the forecast cash flows by 5%, and for Chugai and Foundation Medicine, which decreased the publicly quoted share prices by 5%. Except for Molecular Diagnostics, the results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount at 31 December 2015. The above key assumption changes would result in a goodwill impairment of CHF 245 million for Molecular Diagnostics at 31 December 2015.

9. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At 1 January 2014					
Cost	12,888	2,668	35	632	16,223
Accumulated amortisation and impairment	(10,812)	(869)	(32)	(566)	(12,279)
Net book value	**2,076**	**1,799**	**3**	**66**	**3,944**
Year ended 31 December 2014					
At 1 January 2014	2,076	1,799	3	66	3,944
Business combinations [5]	2,046	7,212	–	305	9,563
Additions	26	417	4	–	447
Transfers	5,868	(5,868)	–	–	–
Amortisation charge	(678)	–	(2)	(26)	(706)
Impairment charge	(225)	(809)	–	–	(1,034)
Currency translation effects	630	(47)	–	2	585
At 31 December 2014	**9,743**	**2,704**	**5**	**347**	**12,799**
Cost	22,002	4,281	39	998	27,320
Accumulated amortisation and impairment	(12,259)	(1,577)	(34)	(651)	(14,521)
Net book value	**9,743**	**2,704**	**5**	**347**	**12,799**
Allocation by operating segment					
Roche Pharmaceuticals	8,596	2,073	–	342	11,011
Chugai	50	17	5	1	73
Diagnostics	1,097	614	–	4	1,715
Total Group	**9,743**	**2,704**	**5**	**347**	**12,799**
Year ended 31 December 2015					
At 1 January 2015	9,743	2,704	5	347	12,799
Business combinations [5]	1,399	958	15	–	2,372
Additions	92	422	5	51	570
Divestment of subsidiary [22]	(26)	–	–	–	(26)
Transfers	121	(121)	–	–	–
Amortisation charge	(1,595)	–	(1)	(76)	(1,672)
Impairment charge	(5)	(64)	–	–	(69)
Currency translation effects	(76)	(2)	(1)	(34)	(113)
At 31 December 2015	**9,653**	**3,897**	**23**	**288**	**13,861**
Cost	22,746	5,025	56	1,013	28,840
Accumulated amortisation and impairment	(13,093)	(1,128)	(33)	(725)	(14,979)
Net book value	**9,653**	**3,897**	**23**	**288**	**13,861**
Allocation by operating segment					
Roche Pharmaceuticals	7,925	2,720	–	236	10,881
Chugai	30	34	9	1	74
Diagnostics	1,698	1,143	14	51	2,906
Total Group	**9,653**	**3,897**	**23**	**288**	**13,861**

As disclosed in Note 5, the intangible assets at 31 December 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published intangible assets is provided in Note 5.

Significant intangible assets at 31 December 2015 in millions of CHF

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
InterMune acquisition	Roche Pharmaceuticals	6,779	6 years
Foundation Medicine acquisition	Roche Pharmaceuticals	497	12 years
Tanox acquisition	Roche Pharmaceuticals	156	4 years
Ariosa acquisition	Diagnostics	486	19 years
Kapa acquisition	Diagnostics	310	15 years
Corange/Boehringer Mannheim acquisition	Diagnostics	225	2 years
IQuum acquisition	Diagnostics	216	18 years
Product intangibles not available for use			
Seragon acquisition	Roche Pharmaceuticals	887	n/a
Trophos acquisition	Roche Pharmaceuticals	482	n/a
GeneWeave acquisition	Diagnostics	423	n/a
CMI acquisition	Diagnostics	280	n/a
Genia acquisition	Diagnostics	250	n/a
Technology intangibles in use			
Dutalys acquisition	Roche Pharmaceuticals	109	5 years
Santaris acquisition	Roche Pharmaceuticals	84	2 years

Classification of intangible asset amortisation and impairment expenses in millions of CHF

	Amortisation 2015	Amortisation 2014	Impairment 2015	Impairment 2014
Cost of sales				
– Pharmaceuticals	(1,239)	(341)	–	–
– Diagnostics	(309)	(296)	–	(225)
Marketing and distribution				
– Pharmaceuticals	(1)	(1)	–	–
– Diagnostics	–	(1)	–	–
Research and development				
– Pharmaceuticals	(118)	(66)	(69)	(337)
– Diagnostics	(5)	(1)	–	(472)
Total	**(1,672)**	**(706)**	**(69)**	**(1,034)**

Internally generated intangible assets

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

Intangible assets with indefinite useful lives

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

Intangible assets not available for use

These mostly represent in-process research and development assets acquired either through in-licensing arrangements, business combinations or separate purchases. At 31 December 2015 approximately 89% (2014: 29%) of the projects in the Pharmaceuticals Division have known decision points within the next twelve months which in certain circumstances could lead to impairment.
Due to the inherent uncertainties in the research and development processes, intangible assets not available for use are particularly at risk of impairment if the project is not expected to result in a commercialised product.

Intangible asset impairment

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

Impairment charges – 2015

Pharmaceuticals Division. Impairment charges totalling CHF 69 million were recorded which related to:

- Decisions to stop development of four compounds with different alliance partners (CHF 64 million). The assets concerned, which were not yet being amortised, were fully written down.
- A decision to stop one collaboration project with an alliance partner (CHF 5 million). The asset concerned, which was being amortised, was fully written down.

Impairment charges – 2014

Pharmaceuticals Division. Impairment charges totalling CHF 337 million were recorded which related to:

- A clinical data assessment of one development project (CHF 102 million). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop development of a compound acquired as part of a previous business combination (CHF 88 million). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop development of a compound with an alliance partner (CHF 78 million). The asset concerned, which was not yet being amortised, was fully written down.
- A reassessment of two projects within the hepatitis C virus (HCV) franchise (CHF 37 million) mainly due to the negative outcome of an arbitration against a competitor. The assets concerned, which were not yet being amortised, were fully written down.
- A decision to stop development of one compound (CHF 24 million). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop one collaboration project with an alliance partner (CHF 8 million). The asset concerned, which was not yet being amortised, was fully written down.

Diagnostics Division. Impairment charges totalling CHF 697 million were recorded which related to:

- Tissue Diagnostics product intangibles not available for use (CHF 472 million). The factors leading to this impairment were a reassessment of a late-stage future product development which was returned to a pre-design phase to demonstrate feasibility and quality improvement. The asset concerned, which was not yet in use, was fully written down.
- Tissue Diagnostics product intangibles in use (CHF 171 million). The factors leading to this impairment were a decrease in forecasted cash flows following the US reductions in immunohistochemistry testing reimbursement to laboratories and an increase in the asset-specific pre-tax discount rate used for impairment testing. The assets concerned, which were being amortised, were written down to their estimated recoverable value of CHF 122 million.
- Diabetes Care technology intangibles in use (CHF 54 million). The factors leading to this impairment were a decrease in forecasted cash flows following a change in the timelines for future product development and an increase in the asset-specific pre-tax discount rate used for impairment testing. The assets concerned, which were being amortised, were written down to their estimated recoverable value of CHF 39 million.

Potential commitments from alliance collaborations and purchase agreements

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

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

Potential future third-party collaboration and purchase payments at 31 December 2015 in millions of CHF

	Pharmaceuticals	Diagnostics	Group
Within one year	291	25	316
Between one and two years	543	24	567
Between two and three years	387	14	401
Total	**1,221**	**63**	**1,284**

10. Inventories

Inventories in millions of CHF

	2015	2014	2013
Raw materials and supplies	1,091	1,066	921
Work in process	133	180	125
Intermediates	5,458	5,396	4,111
Finished goods	1,485	1,520	1,177
Provision for slow-moving and obsolete inventory	(519)	(419)	(428)
Total inventories	**7,648**	**7,743**	**5,906**

Inventories expensed through cost of sales totalled CHF 10.2 billion (2014: CHF 9.1 billion). Inventory write-downs during the year resulted in an expense of CHF 480 million (2014: CHF 370 million).

11. Accounts receivable

Accounts receivable in millions of CHF

	2015	2014	2013
Trade receivables	9,011	9,729	9,296
Notes receivable	90	94	141
Other receivables	37	41	44
Allowances for doubtful accounts	(567)	(625)	(425)
Charge-backs and other allowances	(242)	(236)	(248)
Total accounts receivable	**8,329**	**9,003**	**8,808**

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

	2015	2014
At 1 January	(625)	(425)
Additional allowances created	(224)	(502)
Unused amounts reversed	174	266
Utilised during the year	62	39
Currency translation effects	46	(3)
At 31 December	**(567)**	**(625)**

Bad debt expense to marketing and distribution totalled CHF 38 million (2014: expense of CHF 76 million).

12. Marketable securities

Marketable securities in millions of CHF

	2015	2014	2013
Available-for-sale financial assets			
Equity securities	105	553	436
Debt securities	1,390	1,269	793
Money market instruments and time accounts over three months	3,945	6,139	6,706
Other investments	–	–	–
Total marketable securities	**5,440**	**7,961**	**7,935**

Marketable securities are held for fund management purposes and are primarily denominated in Swiss francs, US dollars and euros. Money market instruments are contracted to mature within one year of 31 December 2015.

Debt securities – contracted maturity in millions of CHF

	2015	2014	2013
Within one year	302	214	267
Between one and five years	959	918	477
More than five years	129	137	49
Total debt securities	**1,390**	**1,269**	**793**

13. Cash and cash equivalents

Cash and cash equivalents in millions of CHF

	2015	2014	2013
Cash – cash in hand and in current or call accounts	2,826	3,262	3,329
Cash equivalents – time accounts with a maturity of three months or less	905	480	671
Total cash and cash equivalents	**3,731**	**3,742**	**4,000**

14. Other non-current assets

Other non-current assets in millions of CHF

	2015	2014	2013
Available-for-sale investments – held at fair value [29]	219	177	169
Available-for-sale investments – held at cost	90	69	40
Loans receivable	11	11	12
Long-term trade receivables	16	18	12
Restricted cash	2	31	32
Other receivables	76	86	77
Total financial non-current assets	**414**	**392**	**342**
Long-term employee benefits	243	264	243
Other assets	302	326	214
Total non-financial non-current assets	**545**	**590**	**457**
Associates	–	–	12
Total other non-current assets	**959**	**982**	**811**

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

15. Other current assets

Other current assets in millions of CHF

	2015	2014	2013
Accrued interest income	52	57	51
Derivative financial instruments [29]	169	194	653
Restricted cash	–	4	–
Other receivables	1,307	1,102	581
Total financial current assets	**1,528**	**1,357**	**1,285**
Prepaid expenses	508	472	420
Other taxes recoverable	529	399	417
Other assets	230	193	175
Total non-financial current assets	**1,267**	**1,064**	**1,012**
Total other current assets	**2,795**	**2,421**	**2,297**

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

16. Accounts payable

Accounts payable in millions of CHF

	2015	2014	2013
Trade payables	2,449	2,147	1,548
Other taxes payable	405	445	380
Dividends payable	2	45	2
Other payables	351	246	232
Total accounts payable	**3,207**	**2,883**	**2,162**

17. Other non-current liabilities

Other non-current liabilities in millions of CHF

	2015	2014	2013
Deferred income	78	96	103
Other long-term liabilities	427	155	199
Total other non-current liabilities	**505**	**251**	**302**

Other long-term liabilities are mainly related to accrued employee benefits and the long-term Genentech property purchase option exercise obligation (see Note 7).

18. Other current liabilities

Other current liabilities in millions of CHF

	2015	2014	2013
Deferred income	171	198	334
Accrued payroll and related items	2,402	2,253	2,019
Interest payable	445	547	542
Derivative financial instruments [29]	639	673	354
Accrued charge-backs and other allowances	1,458	1,367	1,105
Accrued royalties and commissions	1,073	1,066	837
Other accrued liabilities	3,009	2,673	2,234
Total other current liabilities	**9,197**	**8,777**	**7,425**

Other accrued liabilities include the short-term Genentech property purchase option exercise obligation (see Note 7).

19. Provisions and contingent liabilities

Provisions: movements in recognised liabilities in millions of CHF

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended 31 December 2014						
At 1 January 2014	634	624	601	342	1,044	3,245
Additional provisions created	74	14	439	115	599	1,241
Unused amounts reversed	(22)	–	(139)	(13)	(200)	(374)
Utilised	(81)	(59)	(314)	(83)	(336)	(873)
Discount unwind [3]	–	19	–	2	9	30
Business combinations						
– Acquired companies	10	–	–	–	70	80
– Deferred consideration [5]	–	–	–	–	(7)	(7)
– Contingent consideration [29]	–	–	–	–	640	640
Currency translation effects	62	29	19	22	129	261
At 31 December 2014	**677**	**627**	**606**	**385**	**1,948**	**4,243**
Current	668	184	386	108	1,119	2,465
Non-current	9	443	220	277	829	1,778
At 31 December 2014	**677**	**627**	**606**	**385**	**1,948**	**4,243**
Year ended 31 December 2015						
At 1 January 2015	677	627	606	385	1,948	4,243
Additional provisions created	60	130	429	130	571	1,320
Unused amounts reversed	(15)	(1)	(63)	(8)	(255)	(342)
Utilised	(17)	(153)	(319)	(107)	(239)	(835)
Discount unwind [3]	–	12	–	1	40	53
Business combinations						
– Acquired companies	–	–	–	–	–	–
– Deferred consideration [5]	–	–	–	–	(55)	(55)
– Contingent consideration [29]	–	–	–	–	448	448
Other movements [25]	–	–	–	(72)	–	(72)
Currency translation effects	(5)	(30)	(32)	(16)	(41)	(124)
At 31 December 2015	**700**	**585**	**621**	**313**	**2,417**	**4,636**
Current	670	195	284	118	1,165	2,432
Non-current	30	390	337	195	1,252	2,204
At 31 December 2015	**700**	**585**	**621**	**313**	**2,417**	**4,636**
Expected outflow of resources						
Within one year	670	195	284	118	1,165	2,432
Between one and two years	28	87	204	42	401	762
Between two and three years	1	160	54	37	394	646
More than three years	1	143	79	116	457	796
At 31 December 2015	**700**	**585**	**621**	**313**	**2,417**	**4,636**

Legal provisions

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

In 2015 legal expenses totalled CHF 41 million (2014: CHF 203 million) which reflect the recent developments in various legal matters. Details of the major legal cases outstanding are disclosed below.

Environmental provisions

Provisions for environmental matters include various separate environmental issues in a number of countries. By their nature the amounts and timings of any outflows are difficult to predict. Significant provisions are discounted by between 2% and 4% where the time value of money is material. The significant provisions relate to the US site in Nutley, New Jersey, the estimated remediation costs for a landfill site near Grenzach, Germany that was used by manufacturing operations that were closed some years ago and the estimated remediation costs for the manufacturing site at Clarecastle, Ireland (see Note 6).

Restructuring provisions

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

In the Pharmaceuticals Division the significant provisions relate to the strategic realignment of the manufacturing network including exiting from four manufacturing sites (see Note 6), the research and development strategic realignment and field force reduction in the Europe and Asia-Pacific regions.

Employee provisions

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

Other provisions

The timing of cash outflows are by their nature uncertain and other provisions relate to the items shown in the table below.

Other provisions in millions of CHF

	2015	2014	2013
Sales returns	616	706	652
Contingent consideration [29]	1,492	815	122
Other items	309	427	270
Total other provisions	**2,417**	**1,948**	**1,044**

Contingent liabilities

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

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