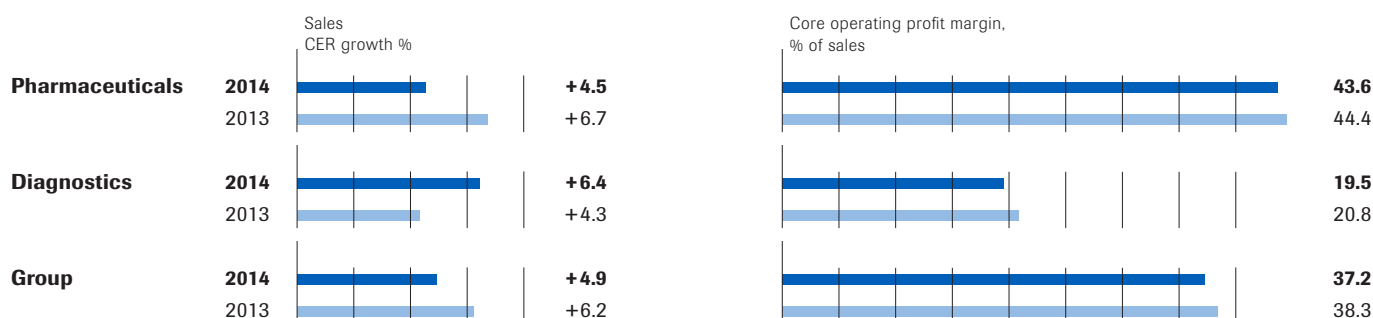


Finance Report

2014

Finance in brief

Key results



	2014 (mCHF)	2013 (mCHF)	(CHF)	% change (CER)	2014	% of sales 2013
IFRS results						
Sales	47,462	46,780	+1	+5		
Operating profit	14,090	16,376	-14	-9	29.7	35.0
Net income	9,535	11,373	-16	-10	20.1	24.3
Net income attributable to Roche shareholders	9,332	11,164	-16	-11	19.7	23.9
Diluted EPS (CHF)	10.81	12.93	-16	-11		
Dividend per share (CHF) ¹⁾	8.00	7.80	+3			
Core results						
Research and development	8,913	8,700	+2	+4	18.8	18.6
Core operating profit	17,636	17,904	-1	+3	37.2	38.3
Core EPS (CHF)	14.29	14.27	0	+5		
Free cash flow						
Operating free cash flow	15,778	16,381	-4	-2	33.2	35.0
Free cash flow	5,322	5,403	-1	+1	11.2	11.5

	2014 (mCHF)	2013 (mCHF)	(CHF)	% change (CER)
Net debt	(14,011)	(6,708)	+109	+77
Capitalisation	47,272	39,884	+19	+14
- Debt	25,714	18,643	+38	+27
- Equity	21,558	21,241	+1	+3

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 2014 and 2013 results at constant exchange rates (the average rates for the year ended 31 December 2013).

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 132-135 and reconciliations between the IFRS and Core results are given there.

Finance – 2014 in brief

Roche in 2014

The **Roche Group** reported solid overall results in 2014. Sales grew by 5% at constant exchange rates (CER) while core earnings per share also increased by 5%. Excluding the impact of a double charge of 202 million Swiss francs related to the US Branded Prescription Drug fee, underlying earnings grew at 7%.

Sales

Group sales increased by 5% (CER) to 47.5 billion Swiss francs (1% growth in Swiss franc terms).

Pharmaceuticals sales growth was 4% (CER). There was continued growth in the HER2 franchise and Avastin in the oncology portfolio as well as for Tamiflu, Actemra/RoActemra and Xolair. Sales of Xeloda and Pegasys decreased.

Diagnostics sales showed growth of 6% (CER) with Professional Diagnostics being the major contributor.

Operating results

Core operating profit increased by 3% (CER) to 17.6 billion Swiss francs (1% decline in Swiss franc terms). Excluding the double charge for the US Branded Prescription Drug fee, underlying operating profit grew at 5%.

Research and development expenditure grew by 4% (CER) to 8.9 billion Swiss francs on a core basis, with focus on the oncology, neuroscience and immunology therapeutic areas. Research and development costs were 18.8% of Group sales.

IFRS operating results include non-core expenses of 3.5 billion Swiss francs. This includes 2.6 billion Swiss francs for the amortisation and impairment of goodwill and intangible assets as well as 0.7 billion Swiss francs from global restructuring plans and business combinations.

Non-operating results

Core net financial expenses decreased by 0.6 billion Swiss francs to 1.1 billion Swiss francs, driven by income from divestments of equity securities and lower interest expenses.

IFRS net financial expenses additionally includes a loss of 0.4 billion Swiss francs from a non-core major debt restructuring.

Net income

IFRS net income decreased by 10% at CER to 9.5 billion Swiss francs (16% decline in Swiss franc terms), due to higher impairments of goodwill and intangible assets and higher global restructuring charges including a base effect of income of 0.5 billion Swiss francs from the reversal of impairment charges in the 2013 results.

Core earnings per share increased by 5% at CER (0% in Swiss francs terms). Excluding the impact of the double charge of the US Branded Prescription Drug fee, underlying earnings grew at 7%.

Cash flows

Operating free cash flow was 15.8 billion Swiss francs, a decrease of 2% at CER. The underlying growth in the operating business was offset by higher capital expenditure.

Free cash flow increased by 1% at CER to 5.3 billion Swiss francs, driven by sales of equity securities and lower interest payments.

Mergers and acquisitions, notably the InterMune acquisition, utilised 9.6 billion Swiss francs of cash. 5.75 billion US dollars of this was financed through new debt issuances.

Repayment of debt is ahead of schedule with 74% of the notes and bonds issued in 2009 to finance the Genentech transaction being repaid by the end of 2014.

Financial position

Net working capital increased by 4% (CER), due to higher levels of inventories from the InterMune inventory fair value adjustment, for launches and growth of key products, higher safety stock levels and increased demand in key markets.

Net debt increased by 7.3 billion Swiss francs to 14.0 billion Swiss francs, mainly due to the InterMune acquisition. 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 3% to 8.00 Swiss francs per share. This will represent the 28th consecutive year of dividend growth and will result in a pay-out ratio of 56.0%, subject to AGM approval.

Total Shareholder Return (TSR) was 12% representing a combined performance of share and non-voting equity security.

Roche Group

Finance in brief

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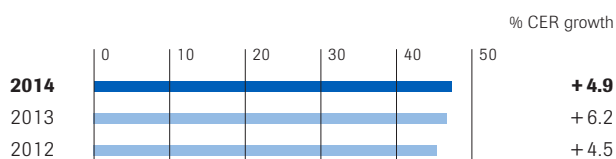
Roche Holding Ltd, Basel

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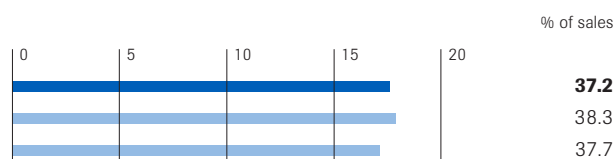
Financial Review

Roche Group results

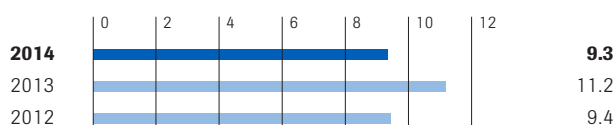
Sales in billions of CHF



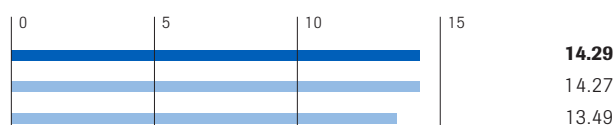
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



The Roche Group's results for 2014 showed growth in its core operating activities, with sales up by 5% and core operating profit up by 3% at constant exchange rates. Sales increased driven by the oncology portfolio, especially the medicines for HER2-positive breast cancer, and by the Professional Diagnostics business. Core operating profit grew below the rate of the sales increase due to a double charge of 202 million Swiss francs related to the US Branded Prescription Drug fee. The solid operating performance, combined with higher income from sales of equity securities and lower financing costs, lead to an increase in Core EPS of 5% at constant exchange rates. Excluding the double charge underlying earnings grew at 7%. Operating free cash flow was 15.8 billion Swiss francs or 33% of sales.

Sales in the Pharmaceuticals Division rose by 4% to 36.7 billion Swiss francs. This was driven by the oncology portfolio, especially by the HER2 franchise which grew by 20%. There was also strong demand for Actemra/RoActemra and Xolair, with sales increasing by 23% and 25%, respectively. Sales of Xeloda were lower as it is now off-patent in the US and Europe. Regional growth was most significant in the US, Europe and Latin America. Diagnostics sales grew at 6%, consolidating the Division's leading market position. The major growth area was Professional Diagnostics, while sales in Diabetes Care increased slightly.

Core operating profit increased by 3%, with the Pharmaceuticals Division growing at 4% and the Diagnostics Division at 2%. Profit in Pharmaceuticals grew due to the good sales growth. Marketing and distribution costs included the launch and rollout of new products, notably for the newly acquired product Esbriet, and investments in emerging markets, as well as increasing patient access to medicines. In research and development there were continued investments in the oncology, neuroscience and immunology therapeutic areas. In July 2014, the US Internal Revenue Service (IRS) issued the final regulations related to the Branded Prescription Drug fee which fundamentally changed a key assumption about the triggering event for liability recognition. As a result there was a one-time double charge with an operating profit impact of 202 million Swiss francs. In Diagnostics core operating profit grew due to the sales growth, offset by the base effect of pension plan changes in 2013. Excluding the double charge, the Group's core operating profit grew at 5%.

Operating free cash flow was 15.8 billion Swiss francs, a decrease of 2%. The strong cash generation of the underlying operations was offset by higher capital investments in manufacturing facilities and other site development projects. The free cash flow increased by 1% at constant exchange rates to 5.3 billion Swiss francs, driven by sales of equity securities and lower interest and tax payments which more than offset the higher annual dividend payments.

During 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division. The total costs of the Group's restructuring activities in 2014 were 0.7 billion Swiss francs. Impairment charges of 1.9 billion Swiss francs were recorded for goodwill and intangible assets, mainly in the Tissue Diagnostics business. A major debt restructuring to refinance some of the Group's long-term debt resulted in a loss of 0.4 billion Swiss francs. These negative factors, combined with a base effect of income of 0.5 billion Swiss francs from the reversal of impairment charges in the 2013 results, in total turned the 6% increase in core net income to a 10% decrease in net income on an IFRS basis.

Comparing average exchange rates in 2014 with average exchange rates during 2013, the Swiss franc was stronger against many major currencies, in particular the Japanese yen, the US dollar, the euro and major Latin American currencies. The overall impact is strongly negative on the results expressed in Swiss francs compared to constant exchange rates, with a 4–5 percentage point impact on sales, core operating profit and Core EPS.

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 dramatically. 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. The amounts reported in this Financial Report do not reflect changes in exchange rates after 31 December 2014. Since the Group uses the Swiss franc as the presentation currency in its consolidated financial statements, then 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 currency translation sensitivity of the Group's results to movements in foreign currency exchange rates is included on pages 29 to 30.

Income statement

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	47,462	46,780	+1	+5
Royalties and other operating income	2,404	1,832	+31	+33
Cost of sales	(13,381)	(11,948)	+12	+15
Marketing and distribution	(8,657)	(8,373)	+3	+7
Research and development	(9,895)	(9,270)	+7	+8
General and administration	(3,843)	(2,645)	+45	+48
Operating profit	14,090	16,376	-14	-9
Financing costs	(1,821)	(1,580)	+15	+18
Other financial income (expense)	246	(119)	-	-
Profit before taxes	12,515	14,677	-15	-9
Income taxes	(2,980)	(3,304)	-10	-6
Net income	9,535	11,373	-16	-10
Attributable to				
- Roche shareholders	9,332	11,164	-16	-11
- Non-controlling interests	203	209	-3	+6
EPS - Basic (CHF)	10.99	13.16	-16	-11
EPS - Diluted (CHF)	10.81	12.93	-16	-11
Core results				
Sales	47,462	46,780	+1	+5
Royalties and other operating income	2,404	1,832	+31	+33
Cost of sales	(12,341)	(11,892)	+4	+6
Marketing and distribution	(8,436)	(8,241)	+2	+6
Research and development	(8,913)	(8,700)	+2	+4
General and administration	(2,540)	(1,875)	+35	+38
Operating profit	17,636	17,904	-1	+3
Financing costs	(1,362)	(1,580)	-14	-12
Other financial income (expense)	246	(119)	-	-
Profit before taxes	16,520	16,205	+2	+7
Income taxes	(3,987)	(3,679)	+8	+12
Net income	12,533	12,526	0	+6
Attributable to				
- Roche shareholders	12,329	12,316	0	+6
- Non-controlling interests	204	210	-3	+6
Core EPS - Basic (CHF)	14.53	14.52	0	+5
Core EPS - Diluted (CHF)	14.29	14.27	0	+5

Sales

In 2014 sales increased by 5% at constant exchange rates (+1% in Swiss francs; +3% in US dollars) to 47.5 billion Swiss francs. Sales in the Pharmaceuticals Division rose 4% to 36.7 billion Swiss francs, driven by strong growth in the HER2 franchise, as well as by Avastin, Tamiflu, Actemra/RoActemra, Xolair and MabThera/Rituxan. Sales grew in all regions, and particularly in the US where the HER2 franchise grew by 27%. Xeloda and Pegasys sales both declined. Xeloda is now off-patent in the US and Europe and subject to generic competition in these markets, while Pegasys is subject to increased competition from new therapies. The Diagnostics Division recorded sales of 10.8 billion Swiss francs, an increase of 6% at constant exchange rates, consolidating its leading market position. The major growth area was Professional Diagnostics, which represents more than half of the Division's sales and grew by 8%, led by the immunodiagnostics business. Diabetes Care sales increased by 1% despite continued US reimbursement cuts and pricing pressure.

Divisional operating results for 2014

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	36,696	10,766	–	47,462
Core operating profit	16,001	2,096	(461)	17,636
– margin, % of sales	43.6	19.5	–	37.2
Operating profit	14,304	245	(459)	14,090
– margin, % of sales	39.0	2.3	–	29.7
Operating free cash flow	14,821	1,417	(460)	15,778
– margin, % of sales	40.4	13.2	–	33.2

Divisional operating results – Development of results compared to 2013

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase at CER	+4	+6	–	+5
Core operating profit				
– % increase at CER	+4	+2	+21	+3
– margin: percentage point increase	–0.2	–0.9	–	–0.5
Operating profit				
– % increase at CER	–4	–72	–8	–9
– margin: percentage point increase	–3.4	–8.7	–	–4.6
Operating free cash flow				
– % increase at CER	0	–24	–17	–2
– margin: percentage point increase	–1.7	–5.3	–	–2.4

Core operating results

Currency translation had a significant impact on the operating results, with a negative effect of 0.6 percentage points on the development of the Group and Pharmaceuticals Division core operating margins, and a negative effect of 0.4 percentage points on the core operating margin of the Diagnostics Division.

Pharmaceuticals Division. The Division increased its core operating profit by 4% at constant exchange rates, driven by sales growth of 4%. There were continued marketing activities for new products and in emerging markets, including patient access programmes. Research and development costs increased by 4%, with the focus being on the oncology, neuroscience and immunology therapeutic areas. General and administration costs increased by 50% due to the US Branded Prescription Drug fee double charge and the base effect of income from changes to the Group's pension plans in the 2013 results. There was additional one-off income from the divestment of the filgrastim franchise rights. Excluding the double charge, the Division's core operating profit grew at 5%.

Diagnostics Division. Core operating profit was up by 2% driven by sales growth of 6%. The operating profit was negatively impacted by the base effect of the pension plan changes in 2013. There was also a negative impact on cost of sales development from the base effect of a VAT refund of 45 million Swiss francs in 2013. Excluding these factors core operating profit grew by 8%, ahead of sales, due to contained marketing and distribution and research and development costs. The Division has continued the implementation of global restructuring plans in the Diabetes Care business and has also continued the implementation of various IT projects.

Mergers and acquisitions

During 2014 the Roche Group completed the acquisition of several companies. The total cost of the acquired assets was 9.9 billion Swiss francs in cash and 0.7 billion Swiss francs from the fair value of contingent consideration arrangements.

On 29 September 2014 the Pharmaceuticals Division acquired a 100% controlling interest in InterMune for 8.8 billion Swiss francs. The acquisition adds a new medicine for idiopathic lung fibrosis, Esbriet, to the Roche portfolio. Esbriet sales of 44 million Swiss francs were recorded in the three months following the InterMune acquisition. There was a net negative impact of 72 million Swiss francs on the 2014 core operating profit due to the post-acquisition operating expenses for InterMune, notably for Esbriet launch costs. The Group issued 5.75 billion US dollars of debt to finance the transaction.

The Pharmaceuticals Division also completed the acquisitions of Seragon Pharmaceuticals and Santaris Pharma. In Diagnostics the Division completed the acquisitions of Genia Technologies and Bina Technologies in the sequencing business and IQuum in the Molecular Diagnostics business. The Ariosa Diagnostics acquisition closed in January 2015 and the Trophos acquisition is expected to close in the first quarter of 2015. The transaction with Foundation Medicine is expected to close in the second quarter of 2015.

Further details are given in Notes 5 and 20 to the Consolidated Financial Statements.

Global restructuring plans

During 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address the long-term profitability in the Diabetes Care businesses in the Diagnostics Division. Total costs in 2014 of 794 million Swiss francs were considerably higher than the 2013 costs, which totalled 163 million Swiss francs. This is due to the 2013 results including an income of 531 million Swiss francs from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California.

Global restructuring plans: costs incurred for 2014 in millions of CHF

	Diagnostics ¹⁾	Site consolidation ²⁾	Other plans ³⁾	Total
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

The split of plans in this table has been reformatted from prior years to reflect the relative development of the various plans.

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.

2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.

3) Includes plans for Pharmaceuticals Division research and development strategic realignment, InterMune integration and Specialty Care field force in Europe.

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 2014 total costs of 118 million Swiss francs were incurred, mainly for employee-related costs and IT and consultancy costs. Spending on other smaller plans within the Division was 128 million Swiss francs, and included costs related to IT projects and the restructuring of the former Applied Science business.

Site consolidation. The operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the Group is currently in the process of divesting the site. Work on remediating the Nutley site is continuing, but no significant additional restructuring expenses were incurred in 2014. Other site consolidation costs include those related to the closure of Toluca, Mexico (Pharmaceuticals) and Graz, Austria (Diagnostics) sites.

Other global restructuring plans. Total costs were 436 million Swiss francs, with one major item being an impairment of the goodwill arising from Marcadia acquisition of 139 million Swiss francs following the exit from cardiovascular and metabolic diseases. Other significant costs included 121 million Swiss francs relating to field force reductions across Europe in the Pharmaceuticals Division's Specialty Care unit. InterMune integration costs were 79 million Swiss francs and costs of 46 million Swiss francs arose from the implementation of the global outsourcing of clinical trial monitoring in the Pharmaceuticals Division. The remaining minor plans totalled 51 million Swiss francs.

Impairment of goodwill and intangible assets

Total impairment charges recorded against goodwill and intangible assets in 2014 were 1,908 million Swiss francs, compared to 650 million Swiss francs in 2013. The major part of this was in the Tissue Diagnostics business with impairment charges of 552 million Swiss francs against goodwill and 643 million Swiss francs against product intangible assets. The impairment of product intangible assets represents the reassessment of a late-stage product development which has been returned to a pre-design phase to demonstrate feasibility and quality improvement. The impairment of goodwill reflects the decrease in the forecasted cash flows following this reassessment, combined with reduced revenue expectations in the US following additional reimbursement cuts and a change in the discount rate used for the impairment testing.

As mentioned above there was goodwill impairment in the Pharmaceuticals Division of 139 million Swiss francs included in global restructuring plans. In addition to this the Pharmaceuticals Division also recorded goodwill impairment charges of 183 million Swiss francs related to certain other previous acquisitions. There were also other impairment charges in both divisions totalling 391 million Swiss francs, resulting mainly from decisions to stop development on various compounds. Further details are given in Notes 8 and 9 to the Consolidated Financial Statements.

Pensions and other post-employment benefits

As disclosed in the financial report in 2013, there was a base effect in operating income of 302 million Swiss francs in 2013 for past service costs from changes to the Group's pension plans in Switzerland, the United Kingdom and Germany. Of this amount, 131 million Swiss francs were recorded in the Pharmaceuticals Division and 67 million Swiss francs in the Diagnostics Division. The remaining 104 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses. Further details are given in Note 25 to the Consolidated Financial Statements.

Legal and environmental settlements

On 5 March 2014 the Italian Antitrust Authority ('AGCM') issued a verdict that alleges that Roche and Novartis colluded to artificially differentiate Avastin and Lucentis in order to foster the sales of Lucentis in Italy. The AGCM fined Roche with 90.5 million euros and Novartis with 92 million euros. On 2 December 2014 the Administrative Tribunal of Lazio upheld the decision by the AGCM. Roche strongly disagrees with the verdict and will appeal. In July 2014 Roche paid the fine under protest to avoid additional penalty fees prior to the appeal hearing and recorded a provision for this amount in the Consolidated Financial Statements and a corresponding expense of 110 million Swiss francs within general and administration. The fine and related interest will be reimbursed if Roche wins the case. Further details are given in Note 19 to the Consolidated Financial Statements.

Major debt restructuring

As a result of low interest rates on capital markets the Group decided in November 2014 to restructure part of its debt. This consisted of the refinancing of 1 billion US dollars of notes with coupons of 5.25%–7.00% originally due in 2035–2039 with the issuance of 1 billion US dollars of notes due in 2024 and 2044 with coupons of 3.35%–4.00%. This major debt restructuring resulted in a loss on repurchase of 429 million Swiss francs. Further details are given in Note 20 to the Consolidated Financial Statements.

Treasury and taxation

Core financing costs were 1.4 billion Swiss francs, a decrease of 12% at constant exchange rates, with interest expenses and amortisation of debt discounts and issue costs being 10% lower as debt was repaid. Other financial income included 330 million Swiss francs of income from equity securities, notably a gain of 239 million Swiss francs from the sale of an equity security position in late 2014. Core tax expenses increased by 12% to 4.0 billion Swiss francs and the Group's effective core tax rate increased to 24.1% compared to 22.7% in 2013. This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group tax rate, notably in the US. In addition the effective tax rate in 2013 was favourably impacted by the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 results included two years of these credits in respect of 2012 and 2013.

Net income and earnings per share

Net income and diluted EPS decreased respectively by 10% and 11% at constant exchange rates driven by the costs of the Group's restructuring activities of 0.7 billion Swiss francs and impairment charges of 1.9 billion Swiss francs, combined with a base effect of income of 0.5 billion Swiss francs from the reversal of impairment charges in the 2013 results.

In contrast core net income and Core EPS increased respectively by 6% and 5%. The core basis excludes non-core items such as global restructuring costs, amortisation and impairment of goodwill and intangible assets and loss on major debt restructuring. Excluding the impact of the double charge of 202 million Swiss francs related to the US Branded Prescription Drug fee, underlying earnings grew at 7%.

Supplementary net income and EPS information is given on pages 132 to 135. This includes calculations of core EPS and reconciles the core results to the Group's published IFRS results.

Financial Position

Financial position

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	5,888	5,451	+8	+7
Long-term net operating assets	25,122	12,952	+94	+81
Diagnostics				
Net working capital	2,742	2,782	-1	-1
Long-term net operating assets	11,417	11,250	+1	-3
Corporate				
Net working capital	(96)	(58)	+66	+66
Long-term net operating assets	(418)	(443)	-6	-10
Net operating assets	44,655	31,934	+40	+33
Net debt	(14,011)	(6,708)	+109	+77
Pensions	(8,303)	(5,426)	+53	+51
Income taxes	(148)	1,838	-	-
Other non-operating assets, net	(635)	(397)	+60	+39
Total net assets	21,558	21,241	+1	+3

Compared to the start of 2014 the Swiss franc strengthened against the Japanese yen, the Russian rouble and the euro resulting overall in a negative translation impact by the end of 2014 on balance sheet positions at a Group level. The weakening of the Swiss franc against the US dollar during the year led to a positive translation impact on the net operating assets, which was offset at Group level by the natural hedge from the Group's US dollar-denominated debt. The exchange rates used are given on pages 29 to 30. The impacts of changes in exchange rates after 31 December 2014 are not reflected in these numbers. See also Note 33 to the Consolidated Financial Statements.

In the Pharmaceuticals Division net working capital increased by 7% at constant exchange rates. Trade receivables decreased despite higher sales with strong collections, forfeiting activities and decreased payment terms. In addition to the inventory fair value adjustment resulting from the InterMune acquisition, underlying inventory levels increased to ensure patient supply given increasing demand for established products in expanding markets in addition to new approvals for recently launched products such as the Actemra/RoActemra subcutaneous formulation and Kadcyla. Trade payables increased as a result of improving payment terms with suppliers. Long-term net operating assets increased significantly due to the goodwill and intangible assets of 11.1 billion Swiss francs from the InterMune and other acquisitions. Property, plant and equipment also increased due to site development projects and manufacturing facilities. In Diagnostics the decrease in net working capital of 1% was driven by an increase in other payables and accrued liabilities, higher trade payables, only partially offset by higher inventories due to higher demand in emerging markets. Trade receivables increased by 3% driven by stronger sales, partially offset by improved collections in the Southern European countries. Long-term net operating assets decreased by 3%, as the impairments in the Tissue Diagnostics business more than offset the increase in goodwill and intangible assets from the Genia, Bina and IQum acquisitions.

The increase in net debt was driven by the cash outflow for the acquisition of InterMune. The net pension liabilities increased by 2.9 billion Swiss francs due to lower interest rates during 2014 increasing the discounted defined benefit obligation at year-end. The net tax position decreased mainly due to the deferred tax effects from the acquisition accounting and increased net pension liabilities.

Free cash flow

Free cash flow

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals	14,821	14,976	-1	0
Diagnostics	1,417	1,962	-28	-24
Corporate	(460)	(557)	-17	-17
Operating free cash flow	15,778	16,381	-4	-2
Treasury activities	(756)	(1,275)	-41	-38
Taxes paid	(2,982)	(3,341)	-11	-9
Dividends paid	(6,718)	(6,362)	+6	+6
Free cash flow	5,322	5,403	-1	+1

The Group's operating free cash flow for 2014 was 15.8 billion Swiss francs, a decrease of 2%. The 3% increase in core operating profit was offset by higher capital expenditure, increased inventories and higher restructuring costs. The free cash flow increased by 1% at constant exchange rates to 5.3 billion Swiss francs, driven by sales of equity securities and lower interest payments and lower tax payments which more than offset the higher annual dividend payments.

Pharmaceuticals Division operating results

Pharmaceuticals Division operating results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	36,696	36,304	+1	+4
Royalties and other operating income	2,273	1,702	+34	+35
Cost of sales	(8,013)	(7,014)	+14	+16
Marketing and distribution	(6,130)	(5,844)	+5	+8
Research and development	(8,380)	(8,189)	+2	+4
General and administration	(2,142)	(1,326)	+62	+66
Operating profit	14,304	15,633	-9	-4
– margin, % of sales	39.0	43.1	-4.1	-3.4
Core results¹⁾				
Sales	36,696	36,304	+1	+4
Royalties and other operating income	2,273	1,702	+34	+35
Cost of sales	(7,551)	(7,353)	+3	+4
Marketing and distribution	(5,974)	(5,795)	+3	+6
Research and development	(7,876)	(7,683)	+3	+4
General and administration	(1,567)	(1,067)	+47	+50
Core operating profit	16,001	16,108	-1	+4
– margin, % of sales	43.6	44.4	-0.8	-0.2
Financial position				
Net working capital	5,888	5,451	+8	+7
Long-term net operating assets	25,122	12,952	+94	+81
Net operating assets	31,010	18,403	+69	+59
Free cash flow				
Operating free cash flow	14,821	14,976	-1	0
– margin, % of sales	40.4	41.3	-0.9	-1.7

1) See pages 132–135 for definition of Core results and Core EPS.

Sales overview

Pharmaceuticals Division – Sales by therapeutic area

Therapeutic area	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Oncology	22,797	22,553	+5	62	62
Immunology	5,087	4,628	+13	14	13
Infectious diseases	3,194	3,180	+4	9	9
Ophthalmology	1,701	1,689	+2	5	5
Neuroscience	726	810	-6	2	2
Other therapeutic areas	3,191	3,444	-3	8	9
Total sales	36,696	36,304	+4	100	100

Pharmaceuticals Division sales increased by 4% at constant exchange rates, with growth driven by the oncology portfolio, especially the HER2 breast cancer franchise. Sales growth was driven mainly by the following key products: Perjeta, Herceptin, Avastin, Kadcyla, Actemra/RoActemra and MabThera/Rituxan. These products represent 61% of the portfolio (2013: 58%) and together contributed 2.1 billion Swiss francs at constant exchange rates to sales growth in 2014. Sales of Xeloda were 46% lower as it is now off-patent in key markets and subject to generic competition while Pegasys sales were 20% lower due to increased competition. Xolair grew at 25% while Tamiflu sales increased 54% mainly due to a severe influenza season in the US. Sales of Valcyte/Cymevene continued to grow as the expected entry of generic competition was delayed.

In oncology the HER2 franchise benefited from continued strong demand for Perjeta in the US and Europe and the increased use in combination with Herceptin was also one of the growth drivers for Herceptin. Uptake of Kadcyła was also very strong in the US and Europe. Avastin showed strong growth across all regions with strong demand for key indications and with several new approvals. MabThera/Rituxan grew strongly in the Europe region. Sales in immunology increased due to strong demand in all regions for Actemra/RoActemra as monotherapy in rheumatoid arthritis. There was growth in ophthalmology as Lucentis sales in the US increased largely due to higher adoption in treating diabetic macular edema (DME).

Product sales

Pharmaceuticals Division – Sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Oncology					
Avastin	6,417	6,254	+6	17	17
Herceptin	6,275	6,079	+7	17	16
MabThera/Rituxan ¹⁾	5,603	5,760	0	15	16
Tarceva	1,292	1,339	-1	4	4
Perjeta	918	326	+189	3	1
Xeloda	776	1,509	-46	2	4
Kadcyla	536	234	+135	1	1
Zelboraf	301	354	-12	1	1
Others	679	698	+3	2	2
Total Oncology	22,797	22,553	+5	62	62
Immunology					
MabThera/Rituxan ¹⁾	1,297	1,191	+12	4	3
Actemra/RoActemra	1,224	1,037	+23	3	3
Xolair	975	790	+25	3	2
CellCept	811	874	-4	2	2
Pulmozyme	597	572	+7	2	2
Others	183	164	+18	0	1
Total Immunology	5,087	4,628	+13	14	13
Infectious diseases					
Pegasys	1,015	1,312	-20	3	3
Tamiflu	959	635	+54	3	2
Valcyte/Cymevene	726	693	+7	2	2
Rocephin	283	268	+10	1	1
Others	211	272	-18	0	1
Total Infectious diseases	3,194	3,180	+4	9	9
Ophthalmology					
Lucentis	1,701	1,689	+2	5	5
Total Ophthalmology	1,701	1,689	+2	5	5
Neuroscience					
Madopar	292	313	-3	1	1
Others	434	497	-8	1	1
Total Neuroscience	726	810	-6	2	2
Other therapeutic areas					
Activase/TNKase	747	683	+11	2	2
NeoRecormon/Epogin	460	520	-8	1	1
Mircera	417	425	+5	1	1
Nutropin	214	274	-21	0	1
Others	1,353	1,542	-7	4	4
Total other therapeutic areas	3,191	3,444	-3	8	9
Total sales	36,696	36,304	+4	100	100

¹⁾ Total MabThera/Rituxan sales of 6,900 million Swiss francs (2013: 6,951 million Swiss francs) split between oncology and immunology franchises.

MabThera/Rituxan. For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL), follicular lymphoma (FL) and rheumatoid arthritis (RA) as well as granulomatosis with polyangiitis (GPA) and microscopic polyangiitis (MPA). Sales growth resulted from increased use in both oncology and rheumatoid arthritis indications. Sales in the oncology franchise were stable due to competitor products while in the RA franchise sales grew by 12% with increased share and shorter dosing intervals. The subcutaneous formulation of MabThera/Rituxan in NHL is now approved in Europe, Australia, Russia and Chile.

MabThera/Rituxan regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	3,334	3,329	+1	48	48
Europe	2,014	1,918	+6	29	28
Japan	226	249	0	3	4
International	1,326	1,455	-1	20	20
Total sales	6,900	6,951	+2	100	100

US sales were stable, with the 2013 results benefiting from the release of sales reserves for the 340B Program. Excluding this base impact of 99 million Swiss francs, US sales rose by 5%. Sales showed strong growth in Europe (+6%), where sales were driven by increased market share in both FL and first-line treatment for CLL. Sales also benefited from a decrease in mandatory rebates in Germany. In International markets sales declined by 1% due to economic conditions in the fourth quarter in Russia.

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer. Overall growth in the HER2 franchise was 20%. Herceptin sales were strong and Perjeta and Kadcyla both grew strongly as their global rollout continues.

Herceptin regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	1,967	1,787	+12	31	29
Europe	2,234	2,191	+3	36	36
Japan	270	294	+1	4	5
International	1,804	1,807	+8	29	30
Total sales	6,275	6,079	+7	100	100

Perjeta regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	540	219	+150	59	67
Europe	238	68	+253	26	21
Japan	79	23	+281	9	7
International	61	16	+326	6	5
Total sales	918	326	+189	100	100

Kadcyla regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	282	222	+29	53	95
Europe	176	9	Over +500	33	4
Japan	35	-	-	7	-
International	43	3	Over +500	7	1
Total sales	536	234	+135	100	100

Herceptin sales grew in the US by 12%, with the 2013 base results benefiting from the release of sales reserves for the 340B Program. Excluding this impact of 41 million Swiss francs, US sales rose by 14%. US growth resulted from increased usage in the treatment of breast cancer in combination with Perjeta. In Europe sales also increased (+3%) with good uptake for the Herceptin subcutaneous formulation which is now available in many markets. Sales in Japan grew by 1% due to increased usage in combination with Perjeta. The International region grew in all sub-regions. Growth in Latin America resulted from higher demand in the public sector. Sales in Asia-Pacific grew as a result of improving patient access. Perjeta sales grew in all regions for treating metastatic breast cancer, most significantly in the US and Europe, where uptake was strongest in Germany and France. US growth also benefited from use in the pre-surgical setting. Kadcyla sales grew in all regions with very strong uptake in the US and Europe and in addition good initial uptake in Japan.

Avastin. For advanced colorectal, breast, lung, kidney, cervical and ovarian cancer, and relapsed glioblastoma (a type of brain tumour). Demand was strong, with sales growing in all regions.

Avastin regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	2,682	2,575	+6	42	41
Europe	1,958	1,919	+3	31	31
Japan	711	717	+9	11	11
International	1,066	1,043	+12	16	17
Total sales	6,417	6,254	+6	100	100

In the US sales increased by 6% driven by growing demand in colorectal, cervical and ovarian cancer treatment. The 2013 base results also benefited from the release of sales reserves for the 340B Program. Excluding this impact of 31 million Swiss francs, US sales rose by 7%. In Europe sales grew by 3% as a result of increasing demand in ovarian cancer and other indications. In Japan sales increased by 9% with strong demand for the treatment of breast cancer, as well as for ovarian cancer and malignant glioma. In the International region growth of 12% was driven by launches for ovarian cancer and uptake in colorectal cancer.

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

Lucentis regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	1,701	1,689	+2	100	100
Total sales	1,701	1,689	+2	100	100

US sales grew by 2% driven largely by increased adoption of Lucentis in treating DME.

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis and polyarticular juvenile idiopathic arthritis. Growth in all regions was driven by strong demand for monotherapy and earlier use in rheumatoid arthritis.

Actemra/RoActemra regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	406	314	+31	33	30
Europe	433	360	+22	35	35
Japan	214	197	+19	17	19
International	171	166	+14	15	16
Total sales	1,224	1,037	+23	100	100

Demand was particularly strong in the US and Europe and sales also grew strongly in Japan where there was significant uptake of the new subcutaneous formulation.

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

Tarceva regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	641	604	+7	50	45
Europe	303	343	-11	23	26
Japan	99	99	+10	8	7
International	249	293	-10	19	22
Total sales	1,292	1,339	-1	100	100

Sales were 1% lower globally, with growth in the US and Japan being offset by declining sales in Europe and the International region due to increasing impact from competitor products.

Pegasys. For hepatitis B and C.

Pegasys regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	194	307	-36	19	23
Europe	236	356	-33	23	27
Japan	60	52	+28	6	4
International	525	597	-8	52	46
Total sales	1,015	1,312	-20	100	100

Sales decreased by 20%, mainly in the US and Europe, due to increased competition from a new generation of hepatitis C therapies. In the International region, there was growth in Latin America (+6%) due to public sector sales, offset by lower sales in the Eastern Europe, Middle East and Africa region. Sales in Japan also increased, due to increased usage in triple combination therapy.

Xeloda. For colorectal, stomach and breast cancer.

Xeloda regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	185	616	-70	24	41
Europe	92	315	-70	12	21
Japan	90	107	-8	12	7
International	409	471	-9	52	31
Total sales	776	1,509	-46	100	100

Sales declined by 46% and across all regions following the entry of generic competitors in key markets.

Anemia franchise (NeoRecormon/Epogin and Mircera). For anemia/renal anemia. In a declining and highly competitive market combined sales of Roche's NeoRecormon and Chugai's Epogin (epoetin beta) declined 8% following previous periods of sustained decline. Increased sales of Mircera partly compensated for this.

NeoRecormon/Epogin regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	-	-	-	-	-
Europe	189	218	-12	41	42
Japan	57	100	-37	12	19
International	214	202	+12	47	39
Total sales	460	520	-8	100	100

Mircera regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	-	-	-	-	-
Europe	101	104	-1	24	24
Japan	195	214	0	47	50
International	121	107	+18	29	26
Total sales	417	425	+5	100	100

Mircera sales growth resulted from a new out-licensing partnership and underlying growth in the International region.

CellCept. For the prevention of solid organ transplant rejection.

CellCept regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	195	204	-3	24	23
Europe	216	238	-8	27	27
Japan	57	68	-9	7	8
International	343	364	-1	42	42
Total sales	811	874	-4	100	100

Sales declined globally due to continuing generic competition.

Tamiflu. For influenza A and B.

Tamiflu regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	686	428	+62	72	67
Europe	74	18	+292	8	3
Japan	113	105	+18	12	17
International	86	84	+7	8	13
Total sales	959	635	+54	100	100

Sales grew mainly due to an epidemic influenza season in the US and increased sales in Europe for pandemic use. In addition, sales increased in Japan due to an earlier onset of the flu season in 2014 than in 2013, resulting in higher demand in the fourth quarter of 2014.

Zelboraf. For BRAF V600E mutation-positive metastatic melanoma.

Zelboraf regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	69	123	-44	23	35
Europe	188	194	-3	62	55
Japan	-	-	-	-	-
International	44	37	+41	15	10
Total sales	301	354	-12	100	100

Sales declined in the US due to significant competition. The increase in the International region was a result of good uptake in markets such as Brazil and Argentina.

Pharmaceuticals Division – Sales by region

Region	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	15,822	15,097	+6	43	42
Europe	9,422	9,254	+3	26	25
Japan	3,301	3,405	+7	9	9
International	8,151	8,548	+2	22	24
– EEMEA ¹⁾	1,668	2,021	–11	5	6
– Latin America	2,460	2,537	+9	6	7
– Asia-Pacific	3,083	3,047	+4	8	8
– Other regions	940	943	+7	3	3
Total sales	36,696	36,304	+4	100	100

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 6% led by the HER2 franchise (+27%) as well as Tamiflu, Xolair, Avastin and Actemra/RoActemra. The 2013 base results also benefited from the release of sales reserves for the 340B Program. Excluding this impact of 182 million Swiss francs, US sales rose by 7%. The leading products were the oncology medicines MabThera/Rituxan, Avastin and Herceptin, with sales of 3.3 billion Swiss francs (+1%), 2.7 billion Swiss francs (+6%) and 2.0 billion Swiss francs (+12%), respectively. In addition Xolair (+25%) and Actemra/RoActemra (+31%) were significant growth drivers and Tamiflu sales increased (+62%). Xolair sales benefited from the 2014 approval to treat a form of chronic hives. Growth was negatively impacted by the decline of Xeloda (–70%), which is now off-patent in the US.

Europe. Sales increased by 3% led by the HER2 breast cancer franchise (+18%) and higher demand for MabThera/Rituxan and Avastin. MabThera/Rituxan sales grew by 6% due to increased market share in follicular lymphoma and chronic lymphocytic leukemia and lower mandatory rebates. Avastin grew by 3% due to demand in ovarian and breast cancer. In addition there was continued sales growth of Actemra/RoActemra (+22%) and higher Tamiflu sales due to some pandemic stocking. Growth was partially offset by lower sales of Xeloda (–70%) due to loss of exclusivity and Pegasys (–33%).

Japan. Sales grew by 7%, with the major growth driver being the HER2 franchise (+33%). There was increased demand for Avastin (+9%) in breast cancer as well as ovarian cancer and malignant glioma, and also for Actemra/RoActemra (+19%) with significant uptake of its new subcutaneous form. There was also strong growth in Edrol and Bonviva sales.

International. Sales increased by 2% driven by volume growth in the Latin America sub-region, in particular in Brazil and Argentina. Growth in Latin America was mainly due to the HER2 franchise (+20%) and the other oncology products, especially Avastin (+15%) and MabThera/Rituxan (+15%). In Asia-Pacific, the main drivers of the 4% growth were also the HER2 franchise together with MabThera/Rituxan and Actemra/RoActemra. Sales in China grew by 4% with higher HER2 franchise and MabThera/Rituxan, which offset the decline in sales of Tarceva and the base effect of strong Tamiflu sales in 2013. For the Eastern Europe, Middle East and Africa sub-region, there were lower sales in Russia as a result of economic conditions in the fourth quarter, and in the Middle East following distribution changes.

Pharmaceuticals Division – Sales for E7 leading emerging markets

Country	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Brazil	912	921	+9	2	3
China	1,542	1,497	+4	4	4
India	93	92	+7	0	0
Mexico	361	401	–5	1	1
Russia	234	444	–38	1	1
South Korea	251	233	+5	1	1
Turkey	301	323	+8	1	1
Total sales	3,694	3,911	0	10	11

Total sales in the E7 key emerging markets were stable with growth in China and Brazil offsetting the impacts of economic conditions in the fourth quarter in Russia and public sector inventory management in Mexico.

Operating results

Pharmaceuticals Division – Royalties and other operating income

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Royalty income	1,609	1,492	+9
Income from out-licensing agreements	100	115	–6
Income from disposal of products and other	564	95	+496
Total – IFRS and Core basis	2,273	1,702	+35

The increase of 35% in royalties and other operating income at constant exchange rates was due to higher income from product disposals. The majority of this income arose from the divestment gain of 428 million Swiss francs from the sale of the filgrastim franchise rights back to Amgen. Royalty income increased by 9% due to higher sales of Eylea, Lucentis and Humira.

Pharmaceuticals Division – Cost of sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,360)	(4,330)	+2
Royalty expenses	(1,321)	(1,337)	+1
Collaboration and profit-sharing agreements	(1,816)	(1,680)	+9
Impairment of property, plant and equipment	(54)	(6)	Over +500
Cost of sales – Core basis	(7,551)	(7,353)	+4
Business combinations – inventory fair value adjustment	(39)	0	–
Global restructuring plans	(82)	461	–
Amortisation of intangible assets	(341)	(122)	+185
Total – IFRS basis	(8,013)	(7,014)	+16

Core cost of sales increased by 4% at constant exchange rates, in line with the growth in sales. Manufacturing cost of goods sold and period costs increased less than sales. Royalty expenses were slightly higher than 2013 as the impact of higher Tamiflu sales offset the base impact of the additional back royalty expenses for the Sanofi arbitration. Expenses from collaboration and profit-sharing agreements increased mainly due to growing sales of Xolair. Non-core costs include the write-off of the inventory fair value adjustment from the InterMune acquisition accounting in as far as it relates to 2014 sales. The remaining 691 million Swiss francs of this adjustment will be expensed as the acquired inventory is sold. The comparative global restructuring costs for site consolidation activities include income of 531 million Swiss francs from the reversal of previously incurred impairment charges from the Vacaville site in California. Amortisation of intangible assets increased due to Esbriet intangible assets acquired as part of the InterMune acquisition.

Pharmaceuticals Division – Marketing and distribution

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Marketing and distribution – Core basis	(5,974)	(5,795)	+6
Global restructuring plans	(155)	(49)	+214
Amortisation of intangible assets	(1)	0	–
Total – IFRS basis	(6,130)	(5,844)	+8

Marketing and distribution core costs increased at constant exchange rates by 6% and as a percentage of sales increased to 16.3% (2013: 16.0%). Marketing efforts supported newly launched products such as Perjeta and Kadcyla, as well as established oncology products in key markets. The InterMune acquisition led to an increase in costs for the launch of Esbriet. Investments were also made to enable continued growth in emerging markets and increased patient access to medicines. Bad debt expenses of 71 million Swiss francs were recorded in 2014 (2013: income of 32 million Swiss francs) as a result of increased credit risk with certain customers in the International sales region. There was a release to income from allowances in Southern Europe in the comparative period.

Pharmaceuticals Division – Research and development

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Research and development – Core basis	(7,876)	(7,683)	+4
Global restructuring plans	(101)	(101)	+2
Amortisation of intangible assets	(66)	(55)	+20
Impairment of intangible assets	(337)	(350)	-3
Total – IFRS basis	(8,380)	(8,189)	+4

Core research and development costs increased by 4% at constant exchange rates and, as a percentage of sales, rose to 21.5% (2013: 21.2%). There were continued investments in the oncology franchise, notably for the PD-L1-targeted therapy and also alectinib, which was recently approved in Japan. The neuroscience therapeutic area remained a key area, with programmes for multiple sclerosis and Alzheimer's disease, as was the immunology therapeutic area. There was lower spending in cardiovascular and metabolism following the previously announced reorganisation of the Pharmaceuticals Division's research and development activities and the termination of aleglitazar in 2013. In addition the Pharmaceuticals Division invested 398 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. Global restructuring costs of 101 million Swiss francs were recorded, consisting mainly of employee-related costs resulting from the implementation of an outsourced model for clinical trial monitoring activities. There were impairment charges of 337 million Swiss francs resulting mainly from decisions to stop development on various compounds.

Pharmaceuticals Division – General and administration

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(1,131)	(1,048)	+11
Pensions – past service costs	1	131	-99
Gains (losses) on disposal of property, plant and equipment	(6)	(5)	+40
Gains (losses) on divestment of subsidiaries	0	2	-100
Business taxes and capital taxes	(499)	(231)	+120
Other general items	68	84	-18
General and administration – Core basis	(1,567)	(1,067)	+50
Global restructuring plans	(53)	(197)	-73
Impairment of goodwill	(322)	0	-
Alliances and business combinations	(21)	(3)	Over +500
Legal and environmental settlements	(179)	(74)	+148
Pensions – settlement gains (losses)	0	15	-100
Total – IFRS basis	(2,142)	(1,326)	+66

General and administration core costs increased by 50% at constant exchange rates and as a percentage of sales increased to 4.3% from 2.9%. This reflects the base effect of income recorded in 2013 for past service costs from changes in the Group's pension plans in Switzerland and the UK of 131 million Swiss francs. The increase in administration costs was mainly a result of the costs of implementing a global efficiency initiative enhancing procurement processes and related systems. There was a significant increase in business taxes, including the costs for the US Branded Prescription Drug fee of 435 million Swiss francs (2013: 175 million Swiss francs). In July 2014, the US Internal Revenue Service (IRS) issued the final regulations related to this fee which fundamentally changed a key assumption about the triggering event for liability recognition. As a result there was a one-time double charge with an operating profit impact of 202 million Swiss francs. Non-core costs 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. Alliance and business combination costs include mainly the transaction fees and related costs for the InterMune and other acquisitions. Legal and environmental settlements costs of 110 million Swiss francs were recorded in respect of a fine paid to the Italian Antitrust Authority regarding allegations about Avastin and Lucentis in Italy. Roche strongly disagrees with the allegations and has appealed. See Note 19 to the Consolidated Financial Statements for more details on this matter.

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional operating results in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
	2014	2013	2014	2013	2014	2013
Sales						
– External customers	33,395	32,899	3,301	3,405	36,696	36,304
– Within Division	1,232	1,184	476	408	1,708	1,592
Core operating profit	15,393	15,542	661	723	16,001	16,108
– margin, % of sales to external customers	46.1	47.2	20.0	21.2	43.6	44.4
Operating profit	13,734	15,111	623	679	14,304	15,633
– margin, % of sales to external customers	41.1	45.9	18.9	19.9	39.0	43.1
Operating free cash flow	14,441	14,388	380	588	14,821	14,976
– margin, % of sales	43.2	43.7	11.5	17.3	40.4	41.3

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of 53 million Swiss francs (2013: 157 million Swiss francs) 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 10% on the Chugai results when expressed in Swiss francs. Sales to external customers by Chugai increased by 7% in Japanese yen with the main drivers being the HER2 franchise and Avastin. Sales of Actemra/RoActemra to Roche Pharmaceuticals were also significantly higher. Chugai's core operating profit increased by only 1% due to the impacts of product mix and the Japanese yen depreciation in cost of sales. The operating free cash flow at Chugai decreased by 29% mainly as a result of an increase in accounts receivable and higher investments in property plant and equipment at manufacturing and research facilities.

Financial position

Pharmaceuticals Division – Net operating assets

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	6,238	6,150	+1	–1	(86)	174
Inventories	5,736	4,069	+41	+35	1,498	169
Trade payables	(1,372)	(928)	+48	+42	(391)	(53)
Net trade working capital	10,602	9,291	+14	+11	1,021	290
Other receivables/(payables)	(4,714)	(3,840)	+23	+16	(634)	(240)
Net working capital	5,888	5,451	+8	+7	387	50
Property, plant and equipment	11,919	10,898	+9	+5	546	475
Goodwill and intangible assets	15,789	3,960	+299	+264	11,104	725
Provisions	(2,982)	(2,151)	+39	+29	(637)	(194)
Other long-term assets, net	396	245	+62	+45	113	38
Long-term net operating assets	25,122	12,952	+94	+81	11,126	1,044
Net operating assets	31,010	18,403	+69	+59	11,513	1,094

The absolute amount of the movement between the 2014 and 2013 consolidated balances reported in Swiss francs is split between actual 2014 transactions (translated at average rates for 2013) and the currency translation adjustment (CTA) that arises on consolidation. The 2014 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 43 of the Consolidated Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 137.

Currency translation effects on balance sheet amounts. Compared to the start of 2014 the Swiss franc weakened against the US dollar leading to a positive translation impact on the net operating assets as at 31 December 2014. There were only minor negative translation effects from the Swiss franc strengthening against the Japanese yen and the euro. The exchange rates used are given on pages 29 to 30. The impacts of changes in exchange rates after 31 December 2014 are not reflected in these numbers. See also Note 33 to the Consolidated Financial Statements.

Net working capital. The increase of 7% at constant exchange rates was due to an increase of inventories which offset an increase in payables and a reduction in trade receivables. Trade receivables decreased, despite higher sales, due to strong collections, forfeiting of receivables in Italy and shorter payment terms. In February 2014 a payment was received in Spain as part of the Montoro Plan. In addition to the inventory fair value adjustment from the InterMune acquisition, underlying inventory levels increased to ensure continuity of supply to patients due to increases in demand for established products, especially in emerging markets. Inventories also increased due to recently launched products such as the Actemra/RoActemra subcutaneous formulation and Kadcyla. Trade payables increased as a result of improving payment terms with suppliers.

Long-term net operating assets. These grew significantly due to the increase of goodwill and intangible assets by 11.1 billion Swiss francs mainly relating to the InterMune and Seragon acquisitions. There were also increases in provisions for contingent consideration, legal and restructuring provisions and also in property, plant and equipment. Significant investments continue to be made in site development projects and manufacturing facilities, in particular in Switzerland, the US and China.

Free cash flow

Pharmaceuticals Division – Operating free cash flow

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Operating profit	14,304	15,633	-4
- Depreciation, amortisation and impairment	2,150	1,063	+106
- Provisions	143	43	+253
- Equity compensation plans	282	295	-4
- Other	204	67	-
Operating profit cash adjustments¹⁾	2,779	1,468	+57
Operating profit, net of operating cash adjustments	17,083	17,101	+1
(Increase) decrease in net working capital	(202)	(455)	-46
Investments in property, plant and equipment	(1,741)	(1,316)	+34
Investments in intangible assets	(319)	(354)	-9
Operating free cash flow	14,821	14,976	0
- as % of sales	40.4	41.3	-1.7

1) A detailed breakdown is provided on page 136.

The Pharmaceuticals Division's operating free cash flow was stable at 14.8 billion Swiss francs. The increased cash generation from the underlying business compensated for the increased investments in property, plant and equipment and increases in net working capital noted above in the comments on the financial position. Operating profit, net of operating cash adjustments, increased by 1% while core operating profit increased by 4%. This difference was mainly due to significant non-cash items, including the income from changes to the Group's pension plans in 2013.

Increasing capital expenditure in 2014 for property, plant and equipment reflects the significant investments being made in site development and manufacturing expansion projects, particularly in Switzerland, the US and China.

Diagnostics Division operating results

Diagnostics Division operating results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	10,766	10,476	+3	+6
Royalties and other operating income	131	130	+1	+2
Cost of sales	(5,368)	(4,934)	+9	+12
Marketing and distribution	(2,527)	(2,529)	0	+3
Research and development	(1,515)	(1,081)	+40	+42
General and administration	(1,242)	(821)	+51	+53
Operating profit	245	1,241	-80	-72
– margin, % of sales	2.3	11.8	-9.5	-8.7
Core results¹⁾				
Sales	10,766	10,476	+3	+6
Royalties and other operating income	131	130	+1	+2
Cost of sales	(4,790)	(4,539)	+6	+9
Marketing and distribution	(2,462)	(2,446)	+1	+4
Research and development	(1,037)	(1,017)	+2	+3
General and administration	(512)	(427)	+20	+21
Core operating profit	2,096	2,177	-4	+2
– margin, % of sales	19.5	20.8	-1.3	-0.9
Financial position				
Net working capital	2,742	2,782	-1	-1
Long-term net operating assets	11,417	11,250	+1	-3
Net operating assets	14,159	14,032	+1	-3
Free cash flow				
Operating free cash flow	1,417	1,962	-28	-24
– margin, % of sales	13.2	18.7	-5.5	-5.3

1) See pages 132–135 for definition of Core results and Core EPS.

Sales

The Diagnostics Division continued to increase sales with a growth of 6% at constant exchange rates to 10.8 billion Swiss francs. Professional Diagnostics, with 8% sales growth, was the main growth contributor led by its immunodiagnostics business. Molecular Diagnostics sales increased by 6%, with 8% growth in the underlying molecular businesses being partly offset by a decline in the genome sequencing business. Diabetes Care sales were up 1% despite the continued challenging market environment, notably in the US. The growth in Tissue Diagnostics was driven by the advanced staining franchise.

Diagnostics Division – Sales by business area

Business area	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Professional Diagnostics	6,045	5,772	+8	56	56
Diabetes Care	2,392	2,459	+1	22	23
Molecular Diagnostics	1,613	1,580	+6	15	15
Tissue Diagnostics	716	665	+10	7	6
Total sales	10,766	10,476	+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 26% of divisional sales. This growth was supported by the clinical chemistry business (+7%) and by coagulation monitoring (+8%). In 2014 the Elecsys Syphilis immunoassay and the Anti-Müllerian Hormone test were launched. A new instrument, the cobas 6500, was launched in 2014 for fully automated urinalysis combining urine strip testing and digital microscopy.

Professional Diagnostics regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	2,585	2,545	+4	43	44
North America	1,236	1,192	+6	20	21
Rest of the World	2,224	2,035	+15	37	35
Total sales	6,045	5,772	+8	100	100

The Professional Diagnostics business is growing in all regions, but especially in Asia-Pacific (+18%) and EMEA (+4%) due to strong sales in China and Germany. In the North America region strong growth was reported for the clinical chemistry and immunodiagnostic businesses (both +8%).

Diabetes Care. Sales were up 1% despite continuing challenging market conditions for the blood glucose monitoring portfolio in major markets like the US. Sales of the premium product Accu-Chek Mobile grew by 19% and Accu-Chek Aviva/Performa sales were up 7%. The Accu-Chek Insight system, an insulin delivery system combining an insulin pump and a blood glucose meter, and the Accu-Chek Connect, a web-based blood glucose meter to support Diabetes Care self-management, have been launched in Europe in 2014.

Diabetes Care regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	1,475	1,484	+2	62	60
North America	442	482	-6	18	20
Rest of the World	475	493	+6	20	20
Total sales	2,392	2,459	+1	100	100

Sales in North America were down by 6% due to the Medicare reimbursement cut in 2013 on strips, lower pump sales in the US and changes in the number of reimbursed strips in Canada. This was offset by increased sales in the EMEA region (+2%) and the Asia-Pacific (+7%) and Latin America (+8%) regions, mainly driven by China and Argentina.

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

Molecular Diagnostics. Sales grew 6%, and in the underlying molecular business by 8%, with the major contributions coming from the Virology portfolio (+7%) and the HPV assay (+48%). This was partly offset by a sales decline in the genome sequencing business.

Molecular Diagnostics regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	628	622	+4	39	39
North America	579	537	+10	36	34
Rest of the World	406	421	+3	25	27
Total sales	1,613	1,580	+6	100	100

Regionally, growth was driven by North America (+10%). In 2014 the cobas 6800/8800 systems, two integrated and fully automated molecular testing systems, were launched with blood screening and virology assays. Also in 2014 authorities in Australia, Canada and the US approved the cobas HPV test for first-line primary screening for cervical cancer. A further three diagnostics tests (MRSA/SA, C-difficile and HSV) were launched in CE-marked countries which expand the menu of the cobas 4800.

In 2014 Roche Molecular Diagnostics acquired Genia Technologies, which is developing a single-molecule, semiconductor-based DNA-sequencing platform using nanopore technology, Bina Technologies, which is developing and commercialising Bina-GMS to support multiple sequencing technologies and IQum, which is focused on developing point-of-care products for the molecular diagnostics market.

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

Tissue Diagnostics. Sales rose 10%, driven by 9% growth in the advanced staining portfolio. The CINtec franchise for cervical cancer diagnosis grew by 18% showing a continued good uptake.

Tissue Diagnostics regional sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	198	174	+ 17	28	26
North America	415	400	+ 6	58	60
Rest of the World	103	91	+ 20	14	14
Total sales	716	665	+ 10	100	100

Regionally, growth was driven by EMEA (+17%) and North America (+6%) despite reimbursement changes in the US. In both regions the growth was driven by the advanced staining portfolio. Sales in Asia-Pacific grew by 24% with China as the main market. Revenues from existing external partnerships showed continued growth.

Impairments of 552 million Swiss francs to goodwill and 643 million Swiss francs to product intangible assets were recorded in Tissue Diagnostics. The factors leading to these impairments were the return of a late-stage product development project to a pre-design phase. This led to a decrease in the forecasted cash flows which, combined with reduced revenue expectations in the US following additional reimbursement cuts and a change in the discount rate, resulted in these impairments.

Diagnostics Division – Sales by region

Region	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	4,886	4,825	+ 4	45	46
North America	2,672	2,611	+ 4	25	25
Asia-Pacific	1,956	1,746	+ 15	19	16
Latin America	804	802	+ 13	7	8
Japan	448	492	0	4	5
Total sales	10,766	10,476	+ 6	100	100

Sales growth of the Diagnostics Division was driven by the Asia-Pacific, EMEA and North America regions, mainly in Professional Diagnostics. The sales increase in Asia-Pacific was driven by a strong performance in China (+23%) due to 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. In the Latin America region sales increased 13% driven mainly by growth in Professional Diagnostics and Diabetes Care. Sales in Japan remained stable.

Diagnostics Division – Sales for E7 leading emerging markets

Country	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Brazil	242	248	+8	2	2
China	1,062	843	+23	10	8
India	108	104	+13	1	1
Mexico	135	130	+10	1	1
Russia	185	209	+7	2	2
South Korea	179	167	+5	2	2
Turkey	123	128	+13	1	1
Total sales	2,034	1,829	+16	19	17

All E7 markets contributed to the sales growth, which was mainly in the Professional Diagnostics business area and due to the growth in China explained above.

Operating results

Diagnostics Division – Royalties and other operating income

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Royalty income	113	114	0
Income from out-licensing agreements	6	3	+99
Income from disposal of products and other	12	13	-5
Total – IFRS and Core basis	131	130	+2

The increase of 2% at constant exchange rates was driven by higher out-licensing income, mainly in Molecular Diagnostics.

Diagnostics Division – Cost of sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,598)	(4,348)	+9
Royalty expenses	(192)	(190)	+2
Impairment of property, plant and equipment	0	(1)	-100
Cost of sales – Core basis	(4,790)	(4,539)	+9
Global restructuring plans	(57)	(75)	-26
Amortisation of intangible assets	(296)	(320)	-6
Impairment of intangible assets	(225)	-	-
Total – IFRS basis	(5,368)	(4,934)	+12

Core cost of sales increased by 9% at constant exchange rates primarily due to an increase in manufacturing cost of goods sold and period costs as a result of volume growth. Additionally period costs in 2013 included a one-time VAT refund of 45 million Swiss francs related to meter placements. The cost of sales ratio was 44.4% compared to 43.3% in 2013. Global restructuring costs were incurred mainly due to the reorganisation of the Diabetes Care business in the course of the Autonomy and Speed Project, reorganisation of the former Applied Science business and the closure of the site in Graz, Austria. Amortisation of product intangibles decreased as some intangible assets became fully amortised. In addition, product intangible asset impairment charges of 225 million Swiss francs were incurred in Tissue Diagnostics and Diabetes Care.

Diagnostics Division – Marketing and distribution

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Marketing and distribution – Core basis	(2,462)	(2,446)	+4
Global restructuring plans	(64)	(78)	-16
Amortisation of intangible assets	(1)	(5)	-69
Total – IFRS basis	(2,527)	(2,529)	+3

Marketing and distribution core costs were up 4% at constant exchange rates, reflecting higher spending in Professional Diagnostics driven by marketing support and sales force expenses, partially offset by lower bad debt expenses. In North America marketing and distribution costs decreased significantly due to lower field force expenses. This decrease was more than offset by higher expenses in the Asia-Pacific and Latin America regions to further penetrate emerging markets. On a core basis, marketing and distribution costs as a percentage of sales were 22.9% compared to 23.3% in 2013. Global restructuring costs were mainly due to initiatives to improve the efficiency of marketing and distribution activities within the reorganisations of the Diabetes Care and former Applied Science businesses.

Diagnostics Division – Research and development

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Research and development – Core basis	(1,037)	(1,017)	+3
Global restructuring plans	(5)	(51)	-90
Amortisation of intangible assets	(1)	(1)	0
Impairment of intangible assets	(472)	(12)	Over +500
Total – IFRS basis	(1,515)	(1,081)	+42

Core research and development costs increased by 3% at constant exchange rates, driven by increased spending in next generation sequencing following the acquisition of Genia, and Professional Diagnostics core platform investments in immunodiagnostics, workflow automation, coagulation, hematology, and point-of-care. As a percentage of sales, research and development core costs decreased to 9.6% from 9.7% in 2013. Global restructuring costs were mainly due to the closure of the site in Graz, Austria and the reorganisation in the Applied Science business. There were impairment charges of 472 million Swiss francs in the Tissue Diagnostics business following the return of a late-stage product development project to a pre-design phase.

Diagnostics Division – General and administration

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(394)	(381)	+6
Pensions – past service costs	(5)	67	-
Gains (losses) on disposal of property, plant and equipment	(2)	(3)	-48
Business taxes and capital taxes	(41)	(42)	0
Other general items	(70)	(68)	0
General and administration – Core basis	(512)	(427)	+21
Global restructuring plans	(138)	(67)	+104
Impairment of goodwill and intangible assets	(552)	(288)	+94
Alliances and business combinations	(2)	(13)	-83
Legal and environmental settlements	(38)	(28)	+36
Pensions – settlement gains (losses)	0	2	-100
Total – IFRS basis	(1,242)	(821)	+53

General and administration core costs increased by 21% at constant exchange rates due to the base effect of one-time income in 2013 of 67 million Swiss francs recorded for past service costs from changes in the Group's pension plans in Switzerland. When excluding this base effect, core costs increased by 5%. Business taxes included costs of 24 million Swiss francs for the Medical Device Excise Tax in the US. As a percentage of sales, core costs increased to 4.8% from 4.1% in 2013. Global restructuring costs were mainly due to IT projects and the reorganisation in Diabetes Care. In addition, goodwill impairment charges of 552 million Swiss francs were incurred in the Tissue Diagnostics business area.

Financial position

Diagnostics Division – Net operating assets

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	2,869	2,746	+4	+3	59	64
Inventories	2,007	1,837	+9	+8	146	24
Trade payables	(767)	(615)	+25	+22	(136)	(16)
Net trade working capital	4,109	3,968	+4	+2	69	72
Other receivables/(payables)	(1,367)	(1,186)	+15	+10	(119)	(62)
Net working capital	2,742	2,782	-1	-1	(50)	10
Property, plant and equipment	5,136	4,721	+9	+7	319	96
Goodwill and intangible assets	7,041	7,129	-1	-7	(546)	458
Provisions	(714)	(522)	+37	+30	(153)	(39)
Other long-term assets, net	(46)	(78)	-41	-35	27	5
Long-term net operating assets	11,417	11,250	+1	-3	(353)	520
Net operating assets	14,159	14,032	+1	-3	(403)	530

The absolute amount of the movement between the 2014 and 2013 consolidated balances reported in Swiss francs is split between actual 2014 transactions (translated at average rates for 2013) and the currency translation adjustment (CTA) that arises on consolidation. The 2014 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 43 of the Consolidated 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 2014 the Swiss franc weakened against the US dollar leading to a positive translation impact on the net operating assets as at 31 December 2014. This was partly offset by a negative translation effect from the Swiss franc strengthening against the euro. The Diagnostics Division does not have a significant net asset position in Japanese yen so the appreciation of the Swiss franc against the Japanese yen had only a minor impact. The exchange rates used are given on pages 29 to 30. The impacts of changes in exchange rates after 31 December 2014 are not reflected in these numbers. See also Note 33 to the Consolidated Financial Statements.

Net working capital. Net trade working capital increased by 2%, driven by an increase in inventories and accounts receivables, only partially offset by an increase in trade payables. Inventories increased by 8% due to higher demand in emerging markets, notably in China, Turkey and Brazil. Trade payables increased by 22% as a result of improving payment terms with suppliers. Trade receivables increased by 3% due to stronger sales that are partially offset by improved collections and factoring initiatives in Southern Europe. In February 2014 payment was received in Spain as part of the Montoro Plan. The net liability for other receivables/payables increased due to an increase in payables offsetting VAT receivables.

Long-term net operating assets. The decrease of 3% at constant exchange rates was due to the increase in goodwill and intangible assets from the Genia, IQum and Bina acquisitions being more than offset by impairments in the Tissue Diagnostics business. Property, plant and equipment increased slightly due to site expansion projects in the US and Germany. Provisions increased by 30% due to the creation of provisions of 274 million Swiss francs for the contingent consideration arrangements in the Genia, IQum and Bina acquisitions.

Free cash flow**Diagnostics Division – Operating free cash flow**

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Operating profit	245	1,241	-72
- Depreciation, amortisation and impairment	2,424	1,487	+66
- Provisions	(81)	(38)	+113
- Equity compensation plans	43	40	+9
- Other	151	140	+9
Operating profit cash adjustments¹⁾	2,537	1,629	+59
Operating profit, net of operating cash adjustments	2,782	2,870	+2
(Increase) decrease in net working capital	(94)	270	-
Investments in property, plant and equipment	(1,222)	(1,129)	+11
Investments in intangible assets	(49)	(49)	+1
Operating free cash flow	1,417	1,962	-24
- as % of sales	13.2	18.7	-5.3

1) A detailed breakdown is provided on page 136.

The operating free cash flow of the Diagnostics Division was 1.4 billion Swiss francs. The cash generation of the business was offset by increases in net working capital, which are noted above in the comments on the financial position and higher investments in property, plant and equipment. Operating profit, net of cash adjustments, increased by 2%, as did core operating profit. Increased capital expenditure for property, plant and equipment came mainly from site expansions in the US and Germany.

Corporate operating results

Corporate operating results summary

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(428)	(401)	+7
Pensions – past service costs	0	104	–100
Business taxes and capital taxes	(14)	(8)	+71
Other general items	(19)	(76)	–74
General and administration costs – Core basis¹⁾	(461)	(381)	+21
Global restructuring plans	0	(9)	–100
Alliances and business combinations	0	(16)	–100
Legal and environmental settlements	2	(94)	–
Pensions – settlement gains (losses)	0	2	–100
Total costs – IFRS basis	(459)	(498)	–8
Financial position			
Net working capital	(96)	(58)	+66
Long-term net operating assets	(418)	(443)	–10
Net operating assets	(514)	(501)	–2
Free cash flow			
Operating free cash flow	(460)	(557)	–17

1) See pages 132–135 for definition of Core results and Core EPS.

General and administration core costs increased by 21% at constant exchange rates due to the 2013 base effect of income of 104 million Swiss francs recorded for past service costs from changes in the Group's pension plans in Switzerland and the UK. Excluding this, costs decreased by 5% due to reduced IT project expenses. Administration expenses increased by 7% due to higher spending on legal and other corporate activities. Total costs on an IFRS basis decreased by 8% as there were no legal and environmental settlement expenses in 2014.

Corporate operating free cash flow showed a lower outflow in 2014 compared to 2013, driven by lower spending on IT.

Foreign exchange impact on operating results

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

Growth (reported at CER and in Swiss francs)

	2014	% change (CER) 2013	2014	% change (CHF) 2013
Pharmaceuticals Division				
Sales	+4	+7	+1	+3
Core operating profit	+4	+7	–1	+4
Diagnostics Division				
Sales	+6	+4	+3	+2
Core operating profit	+2	+4	–4	0
Group				
Sales	+5	+6	+1	+3
Core operating profit	+3	+8	–1	+4

Exchange rates against the Swiss franc

	31 December 2014	Average 2014	31 December 2013	Average 2013
1 USD	0.99	0.91	0.89	0.93
1 EUR	1.20	1.21	1.23	1.23
100 JPY	0.83	0.86	0.84	0.95

Comparing average exchange rates in 2014 with average exchange rates during 2013, the Swiss franc was stronger against most currencies, in particular the US dollar, a number of Latin American currencies and the Japanese yen. The impact is strongly negative on the income statement and free cash flow results expressed in Swiss francs compared to constant exchange rates. For sales, these developments resulted in a negative impact of 4 percentage points, equivalent to 1.6 billion Swiss francs when translated into Swiss francs. The currency translation exposure for the operating profit is mitigated by the Group having the majority of its cost base located outside of Switzerland. The sensitivity of Group sales and core operating profit in absolute terms to a 1% movement in average foreign currency exchange rates against the Swiss franc during 2014 is shown in the table below.

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 dramatically. 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. The impacts of changes in exchange rates after 31 December 2014 are not reflected in these numbers. See also Note 33 to the Consolidated Financial Statements. Since the Group uses the Swiss franc as the presentation currency in its consolidated financial statements, then 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 currency translation sensitivity of the Group's results to movements in foreign currency exchange rates is shown below.

Currency sensitivities

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Core operating profit (mCHF)
US dollar	190	76
Euro	98	48
Japanese yen	37	20
All other currencies	131	70

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

Treasury and taxation results

Treasury and taxation results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	14,090	16,376	-14	-9
Financing costs	(1,821)	(1,580)	+15	+18
Other financial income (expense)	246	(119)	-	-
Profit before taxes	12,515	14,677	-15	-9
Income taxes	(2,980)	(3,304)	-10	-6
Net income	9,535	11,373	-16	-10
Attributable to				
– Roche shareholders	9,332	11,164	-16	-11
– Non-controlling interests	203	209	-3	+6
Core results¹⁾				
Operating profit	17,636	17,904	-1	+3
Financing costs	(1,362)	(1,580)	-14	-12
Other financial income (expense)	246	(119)	-	-
Profit before taxes	16,520	16,205	+2	+7
Income taxes	(3,987)	(3,679)	+8	+12
Net income	12,533	12,526	0	+6
Attributable to				
– Roche shareholders	12,329	12,316	0	+6
– Non-controlling interests	204	210	-3	+6
Financial position – Treasury and taxation				
Net debt	(14,011)	(6,708)	+109	+77
Pensions	(8,303)	(5,426)	+53	+51
Income taxes	(148)	1,838	-	-
Financial non-current assets	392	342	+15	+11
Derivatives, net	(479)	299	-	-
Collateral, net	76	(480)	-	-
Interest payable	(547)	(542)	+1	-7
Other non-operating assets, net	(77)	(16)	+381	-3
Total net assets (liabilities)	(23,097)	(10,693)	+116	+94
Free cash flow – Treasury and taxation				
Treasury activities	(756)	(1,275)	-41	-38
Taxes paid	(2,982)	(3,341)	-11	-9
Dividends paid	(6,718)	(6,362)	+6	+6
Total	(10,456)	(10,978)	-5	-4

1) See pages 132–135 for definition of Core results and Core EPS.

Financing costs

Financing costs on an IFRS basis were 18% higher at constant exchange rates, mainly due to a loss from a major debt restructuring of 429 million Swiss francs. Core financing costs were 12% lower driven by a decrease of 10% in interest expenses which reflects the continued repayment of the debt incurred to finance the Genentech transaction. The new debt issued in late 2014 to finance the InterMune acquisition did not have a major impact on financing costs. The net interest cost of defined benefit pension plans during 2014 decreased by 11% to 201 million Swiss francs due to the improved funding status at the end of 2013. A full analysis of financing costs is given in Note 3 to the Consolidated Financial Statements.

Other financial income (expense)

Other financial income (expense) was a net income of 246 million Swiss francs compared to an expense of 119 million Swiss francs in 2013. The reason for this was income from equity securities, which was 330 million Swiss francs in 2014 as against 42 million Swiss francs in 2013, with the major factor being the sale of an equity security position in late 2014 resulting in income of 239 million Swiss francs. Interest income and income from debt securities were 39 million Swiss francs in an environment of continuing low interest rates. The net foreign exchange result reflects hedging costs and was a loss of 105 million Swiss francs compared to a loss of 174 million Swiss francs in 2013. A full analysis of other financial income (expense) is given in Note 3 to the Consolidated Financial Statements and details of the Group's hedging arrangement are given in Note 29.

Income taxes

The Group's effective core tax rate increased by 1.4 percentage points to 24.1% in 2014 (2013: 22.7%). This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group tax rate, notably in the US. In addition the effective tax rate in 2013 includes the retrospective re-enactment of the US research and development tax credits for 2012, which means that the 2013 results included two years of these tax credits in respect of 2012 as well as 2013.

The IFRS results include non-core expenses coming from tax jurisdictions with relatively higher tax rates than the Group's effective tax rate, therefore decreasing the effective tax rate in the IFRS results compared to the core results. This impact was partially offset by the fact that the IFRS results also include goodwill impairments that are not tax deductible. Full details of the Group's income tax positions are given in Note 4 to the Consolidated Financial Statements.

Analysis of the Group's effective tax rate

	2014			2013		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate – Core basis	16,520	(3,987)	24.1	16,205	(3,679)	22.7
Global restructuring plans	(657)	241	36.7	(166)	2	1.2
Goodwill and intangible assets	(2,614)	565	21.6	(1,153)	299	25.9
Alliances and Business combinations	(71)	39	54.9	(32)	4	12.5
Legal and Environmental	(234)	44	18.8	(196)	55	28.1
Major debt restructuring	(429)	150	35.0	–	–	–
Equity compensation plans	–	(32)	–	–	22	–
Other	–	–	–	19	(7)	36.8
Group's effective tax rate – IFRS basis	12,515	(2,980)	23.8	14,677	(3,304)	22.5

Financial position

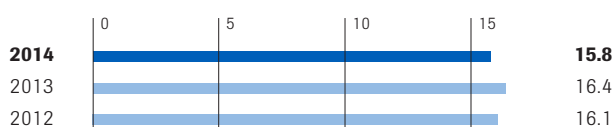
The increase in net debt was mainly due to outflows on business combinations of 9.6 billion Swiss francs partially offset by the free cash flow of 5.3 billion Swiss francs. The increase in net pension liabilities reflects lower interest rates leading to the discounted defined benefit obligation being higher. The net tax position decreased mainly due to the deferred tax effects from the acquisition accounting and increased net pension liabilities. At 31 December 2014 the Group held financial long-term assets with a market value of 0.4 billion Swiss francs, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations. The weakening of the Swiss franc against the US dollar during the year led to a translation impact from the Group's US dollar-denominated debt that increased net debt in Swiss franc terms. The impacts of changes in exchange rates after 31 December 2014 are not reflected in these numbers. See also Note 33 to the Consolidated Financial Statements.

Free cash flow

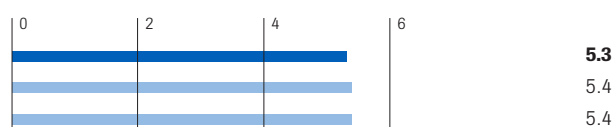
Sales of equity securities and lower interest payments led to a decrease in the cash outflow from treasury activities, which was 0.8 billion Swiss francs. Taxes paid were 3.0 billion Swiss francs, a decrease of 9% at constant exchange rates mainly due to prepayments of tax in 2013. Dividends payments were 6.7 billion Swiss francs, an increase of 0.4 billion Swiss francs compared to 2013, reflecting the 6% increase of the Roche Group dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
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
2013				
Operating profit – IFRS basis	15,633	1,241	(498)	16,376
Operating profit cash adjustments	1,468	1,629	(29)	3,068
Operating profit, net of operating cash adjustments	17,101	2,870	(527)	19,444
(Increase) decrease in net working capital	(455)	270	(24)	(209)
Investments in property, plant and equipment	(1,316)	(1,129)	(6)	(2,451)
Investments in intangible assets	(354)	(49)	0	(403)
Operating free cash flow	14,976	1,962	(557)	16,381
Treasury activities				(1,275)
Taxes paid				(3,341)
Dividends paid				(6,362)
Free cash flow				5,403

Operating free cash flow was 15.8 billion Swiss francs. The strong underlying cash generation of the business was in part used for capital expenditure projects and restructuring initiatives, resulting in a decrease of 2% at constant exchange rates. Net working capital increased, notably for inventories.

The cash outflow from treasury activities was lower at 0.8 billion Swiss francs mostly due to sales of equity securities and reduced interest payments. Total taxes paid were 3.0 billion Swiss francs, a decrease due to prepayments of tax in 2013. Total dividends paid were higher due to the 6% increase of the annual Roche Group dividend.

Free cash flow of 5.3 billion Swiss francs was 1% higher at constant exchange rates, as sales of equity securities and lower interest and tax payments more than offset the increase in the dividend.

Net debt in millions of CHF

At 31 December 2013	
Cash and cash equivalents	4,000
Marketable securities	7,935
Long-term debt	(16,423)
Short-term debt	(2,220)
Net debt at beginning of period	(6,708)
Change in net debt during 2014	
Free cash flow for 2014	5,322
Transactions in own equity instruments	(812)
Business combinations, net of divestments of subsidiaries	(9,633)
Hedging and collateral arrangements	(669)
Currency translation, fair value and other movements	(1,511)
Change in net debt during period	(7,303)
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 end of period	(14,011)

Net debt – currency profile in millions of CHF

	Cash and marketable securities		2014	Debt 2013
	2014	2013		
US dollar ¹⁾	2,241	2,152	(20,983)	(14,075)
Euro	3,316	3,657	(1,208)	(1,232)
Swiss franc	3,129	3,070	(2,594)	(2,587)
Japanese yen	1,704	1,825	–	(1)
Pound sterling	633	753	(305)	(290)
Other	680	478	(624)	(458)
Total	11,703	11,935	(25,714)	(18,643)

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

The net debt position of the Group at 31 December 2014 was 14.0 billion Swiss francs, an increase of 7.3 billion Swiss francs from 31 December 2013. The increase in net debt was mainly due to 9.6 billion Swiss francs outflow on business combinations, partially offset by the free cash flow of 5.3 billion Swiss francs which includes the annual dividend payment of 6.7 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes totalled 0.8 billion Swiss francs.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. During 2014, the cash collateral balance decreased by 0.6 billion Swiss francs. 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 45 million US dollars if all of these foreign exchange rates move by 1% simultaneously.

The redemption and repurchase of bonds and notes during 2014 (see Note 20 to the Consolidated 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 2014 expenses for the Group's defined contribution plans were 364 million Swiss francs (2013: 343 million Swiss francs). All other plans are classified as 'defined benefit plans', even if the Group's potential obligation is minor or has a relatively remote possibility of arising. Plans are usually established as trusts independent of the Group and are funded by payments from the Group and by employees, but in some cases the plan is unfunded and the Group pays pensions to retired employees directly from its own financial resources.

Defined benefit plans

Expenses for the Group's defined benefit plans were 586 million Swiss francs (2013: 329 million Swiss francs). The increase was mainly due to the base effect of past service income of 302 million Swiss francs in 2013. This was partly offset by a decrease in the current service cost of 42 million Swiss francs driven by higher discount rates at the beginning of 2014 compared to the beginning of 2013. Based on the revised actuarial assumptions at the end of 2014, expenses for the Group's defined benefit plans in 2015 are expected to be approximately 704 million Swiss francs driven by lower discount rates at the beginning of 2015. These estimates for 2015 pension expenses do not include any settlement or past service/curtailment effects that might arise during the year.

During 2013 operating income of 302 million Swiss francs was recorded for past service costs from changes to the Group's pension plans in Switzerland, the UK and Germany. This represents the one-time impact of the adjustment of the pension liability for the plan changes. Of this amount, 131 million Swiss francs were recorded in the Pharmaceuticals Division and 67 million Swiss francs in the Diagnostics Division. The remaining 104 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses.

Funding status and balance sheet position

	2014 (mCHF)	2013 (mCHF)
Funded plans		
– Fair value of plan assets	12,452	11,144
– Defined benefit obligation	(15,601)	(12,625)
Over (under) funding	(3,149)	(1,481)
Unfunded plans		
– Defined benefit obligation	(5,314)	(4,059)
Total funding status	(8,463)	(5,540)
Limit on asset recognition	0	(6)
Reimbursement rights	160	120
Net recognised asset (liability)	(8,303)	(5,426)

Overall the funding status on an IFRS basis of the Group's defined benefit plans decreased to 80% compared to 88% at the start of the year. This change came mainly from an increase in the defined benefit obligation arising from a fall in discount rates in Germany, Switzerland and the US since the end of 2013. The use of updated mortality tables in the US increased the defined benefit obligation by 332 million Swiss francs. Plan assets increased, mainly due to increases in the market values of investments during 2014. 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.

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

Roche shares

Share price and market capitalisation (at 31 December)

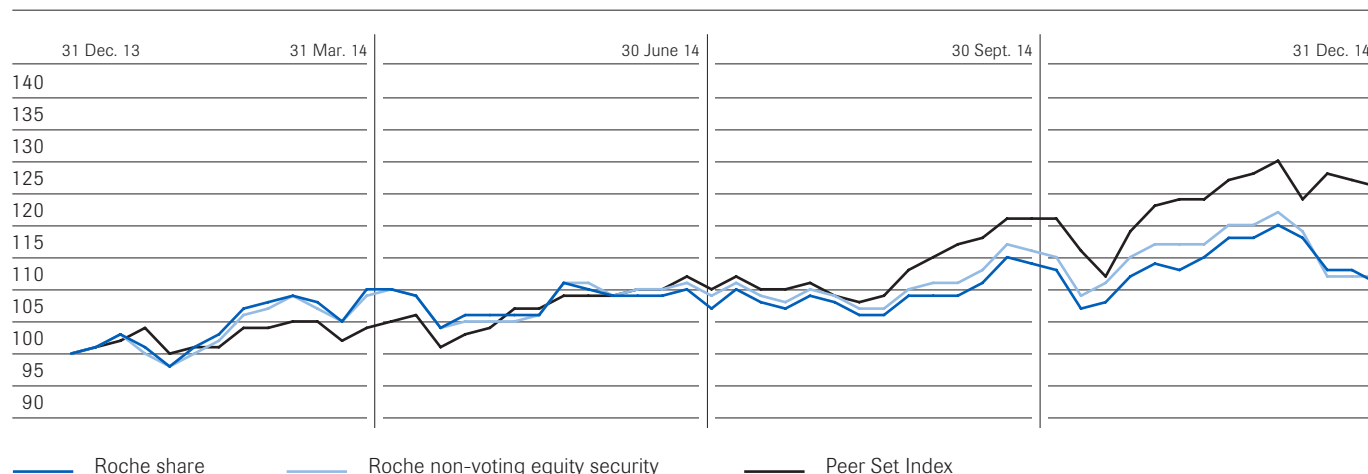
	2014	2013	% change (CHF)
Share price (CHF)	267.75	247.40	+8
Non-voting equity security (<i>Genussschein</i>) price (CHF)	269.90	249.20	+8
Market capitalisation (billions of CHF)	229	211	+8

In 2014 Roche ranked number 12 among a peer group consisting of Roche and 15 other healthcare companies¹⁾ for Total Shareholder Return (TSR), defined as share price growth plus dividends, measured in Swiss francs at actual exchange rates. At constant exchange rates Roche ranked number 12, with the year-end return being 11% for Roche shares and 12% for Roche non-voting equity securities. The combined performance of share and non-voting equity security was 12% compared to a weighted average return for the peer group of 26% in Swiss franc terms and 19% at constant exchange rates.

The healthcare sector outperformed major segments of the general market in 2014 despite continued pricing pressure and government budget constraints in many parts of the world. Roche shares performed strongly throughout the year until the announcement of the MARIANNE trial results in late December which affected the closing value.

1) Peer group for 2014: Abbott, AbbVie, Amgen, Astellas, AstraZeneca, Bayer, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novartis, Pfizer, Roche, Sanofi and Takeda.

Total Shareholder Return development



Source: Datastream. Data for Roche and the peer index has been re-based to 100 at 1 January 2014. The Peer Index was converted into CHF at daily actual exchange rates. Currency fluctuations have an influence on the representation of the relative performance of Roche versus the peer index.

Proposed dividend

The Board of Directors is proposing an increase of 3% in the dividend for 2014 to 8.00 Swiss francs per share and non-voting equity security (2013: 7.80 Swiss francs) for approval at the Annual General Meeting. This is the 28th consecutive increase in the dividend. If the dividend proposal is approved by shareholders, dividend payments on the total shares and non-voting equity securities will amount to 6.9 billion Swiss francs (2013: 6.7 billion Swiss francs), resulting in a pay-out ratio (based on core net income) of 56.0% (2013: 54.7%). Based on the prices at year-end 2014, the dividend yield on the Roche share was 3.0% (2013: 3.2%) and the yield on the non-voting equity security was 3.0% (2013: 3.1%). Further information on the Roche securities is given on pages 138 to 139.

Information per share and non-voting equity security

	2014 (CHF)	2013 (CHF)	% change (CHF)
EPS – Basic	10.99	13.16	–16
EPS – Diluted	10.81	12.93	–16
Core EPS – Basic	14.53	14.52	0
Core EPS – Diluted	14.29	14.27	0
Equity attributable to Roche shareholders per share	23.05	22.73	+1
Dividend per share	8.00	7.80	+3

For further details please refer to Notes 21 and 27 of the Consolidated Financial Statements and page 135. The pay-out ratio is calculated as dividend per share divided by core earnings per share.

Debt

To finance the Genentech transaction in 2009, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs. Of the debt raised in early 2009, 74% had been repaid by 31 December 2014. During 2014 1.0 billion US dollar-denominated notes were redeemed following the exercise of an early-call option in December 2013 and a further 0.4 billion pounds sterling and 0.5 billion US dollars of notes were repurchased/redeemed later in the year. On 19 December 2014 the Group resolved to exercise its option to call for early redemption of 0.6 billion US dollars of notes that were due 1 March 2019. These notes will be repaid on 26 March 2015.

The Group financed the InterMune acquisition primarily by raising net proceeds of 5.75 billion US dollars through a debt offering as described in Note 20 to the Consolidated Financial Statements. The remaining financing was achieved from the Group's own funds and from issuing commercial paper.

As a result of low interest rates on capital markets the Group decided in November 2014 to restructure part of its debt. This includes early partial redemptions of 1 billion US dollar-denominated notes originally due 1 March 2039 and 15 July 2035. These were refinanced by issuing 1 billion US dollar-denominated notes due on 30 September 2024 and 28 November 2044. This major debt restructuring resulted in a loss on repurchase of 429 million Swiss francs.

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

The maturity schedule of the Group's bonds and notes outstanding at 31 December 2014 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts at 31 December 2014 by contractual maturity

	US dollar (mUSD)	Euro (mEUR)	Pound sterling (mGBP)	Swiss franc (mCHF)	Total ¹⁾ (mUSD)	Total ¹⁾ (mCHF)
2015	1,600	–	481 ³⁾	–	2,348	2,322
2016	–	2,100 ²⁾	–	–	2,553	2,525
2017	1,150	–	–	1,500	2,667	2,637
2018	–	1,000	–	600	1,822	1,802
2019	4,000	–	–	–	4,000	3,956
2020–2024	2,950	1,750 ²⁾	200	500	5,894	5,829
2025 and beyond	2,606	–	–	–	2,606	2,577
Total	12,306	4,850	681	2,600	21,890	21,648

1) Total translated at 31 December 2014 exchange rates.

2) Of the proceeds from these bonds and notes, 3.3 billion euros have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

3) Of the proceeds from these bonds and notes, 300 million pounds sterling have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In 2014 the free cash flow was 5.3 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends.

For short-term financing requirements, the Group has a commercial paper programme in the US under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 3.9 billion euros available as back-stop lines. Commercial paper notes totalling 3.4 billion US dollars were outstanding as of 31 December 2014 (31 December 2013: 0.8 billion US dollars). 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.

Credit ratings for the Roche Group at 31 December 2014

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

Financial risks

At 31 December 2014 the Group has a net debt position of 14.0 billion Swiss francs (2013: 6.7 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

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

Cash and marketable securities

	(mCHF)	2014 (% of total)	(mCHF)	2013 (% of total)
Cash and cash equivalents	3,742	32	4,000	34
Money market instruments	6,139	52	6,706	55
Debt securities	1,269	11	793	7
Equity securities	553	5	436	4
Total cash and marketable securities	11,703	100	11,935	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 10.7 billion Swiss francs of cash and fixed income marketable securities remained strong with 96% being invested in the A-AAA range. As noted previously the Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 9.7 billion Swiss francs. Since the beginning of 2010 there have been increasing 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 2014 has trade receivables of 0.7 billion euros (0.9 billion Swiss francs) with public customers in these countries. This is a decrease of 0.4 billion euros from 31 December 2013, which is mainly due to forfeiting in Italy and collections in Spain as part of the Montoro Plan. The Group uses different measures to improve collections in these countries, including intense communication with customers, forfeiting, negotiations of payment plans, charging of interest for late payments, and legal actions. The Group is applying new commercial policies with some selected hospitals in Greece, Portugal and Italy. Since 2011 the Group's trade receivables balance in Southern Europe has decreased by 52%.

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 5.0 billion Swiss francs of which 4.7 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 31 December 2014 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 largely stable during 2014.

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 Consolidated Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2014 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 2015 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 2015, notably IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers'.

Roche Group

Consolidated Financial Statements

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

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales²	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 profit²	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 security²⁷				
Basic (CHF)				10.99
Diluted (CHF)				10.81

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

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

Roche Group consolidated statement of comprehensive income in millions of CHF

	Year ended 31 December	
	2014	2013
Net income recognised in income statement	9,535	11,373
Other comprehensive income		
Remeasurements of defined benefit plans ²¹	(2,012)	674
Items that will never be reclassified to the income statement	(2,012)	674
Available-for-sale investments ²¹	37	26
Cash flow hedges ²¹	(41)	77
Currency translation of foreign operations ²¹	(255)	(1,331)
Items that are or may be reclassified to the income statement	(259)	(1,228)
Other comprehensive income, net of tax	(2,271)	(554)
Total comprehensive income	7,264	10,819
Attributable to		
– Roche shareholders ²¹	7,108	11,012
– Non-controlling interests ²³	156	(193)
Total	7,264	10,819

Roche Group consolidated balance sheet in millions of CHF

	31 December 2014	31 December 2013	31 December 2012
Non-current assets			
Property, plant and equipment ⁷	17,195	15,760	15,402
Goodwill ⁸	9,949	7,145	7,480
Intangible assets ⁹	12,881	3,944	4,214
Deferred tax assets ⁴	2,829	4,707	4,849
Defined benefit plan assets ²⁵	691	636	678
Other non-current assets ¹⁴	982	811	814
Total non-current assets	44,527	33,003	33,437
Current assets			
Inventories ¹⁰	7,743	5,906	5,542
Accounts receivable ¹¹	9,003	8,808	9,465
Current income tax assets ⁴	244	218	339
Other current assets ¹⁵	2,421	2,297	2,034
Marketable securities ¹²	7,961	7,935	9,461
Cash and cash equivalents ¹³	3,742	4,000	4,530
Total current assets	31,114	29,164	31,371
Total assets	75,641	62,167	64,808
Non-current liabilities			
Long-term debt ²⁰	(19,347)	(16,423)	(17,860)
Deferred tax liabilities ⁴	(605)	(1,282)	(1,397)
Defined benefit plan liabilities ²⁵	(8,994)	(6,062)	(7,231)
Provisions ¹⁹	(1,778)	(1,097)	(1,042)
Other non-current liabilities ¹⁷	(251)	(302)	(319)
Total non-current liabilities	(30,975)	(25,166)	(27,849)
Current liabilities			
Short-term debt ²⁰	(6,367)	(2,220)	(6,730)
Current income tax liabilities ⁴	(2,616)	(1,805)	(2,210)
Provisions ¹⁹	(2,465)	(2,148)	(2,158)
Accounts payable ¹⁶	(2,883)	(2,162)	(1,945)
Other current liabilities ¹⁸	(8,777)	(7,425)	(7,166)
Total current liabilities	(23,108)	(15,760)	(20,209)
Total liabilities	(54,083)	(40,926)	(48,058)
Total net assets	21,558	21,241	16,750
Equity			
Capital and reserves attributable to Roche shareholders ²¹	19,586	19,294	14,514
Equity attributable to non-controlling interests ²³	1,972	1,947	2,236
Total equity	21,558	21,241	16,750

Roche Group consolidated statement of cash flows in millions of CHF

	Year ended 31 December	
	2014	2013
Cash flows from operating activities		
Cash generated from operations ²⁸	20,305	20,796
(Increase) decrease in net working capital	(258)	(209)
Payments made for defined benefit plans ²⁵	(520)	(483)
Utilisation of provisions ¹⁹	(873)	(1,000)
Disposal of products	255	6
Other operating cash flows	3	3
Cash flows from operating activities, before income taxes paid	18,912	19,113
Income taxes paid	(2,982)	(3,341)
Total cash flows from operating activities	15,930	15,772
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,966)	(2,451)
Purchase of intangible assets	(368)	(403)
Disposal of property, plant and equipment	64	65
Disposal of intangible assets	-	-
Business combinations ⁵	(9,633)	(233)
Divestment of subsidiaries	-	2
Interest and dividends received ²⁸	35	51
Sales of marketable securities	68,426	47,954
Purchases of marketable securities	(67,887)	(46,310)
Other investing cash flows	325	23
Total cash flows from investing activities	(12,004)	(1,302)
Cash flows from financing activities		
Proceeds from issue of bonds and notes ²⁰	6,407	-
Redemption and repurchase of bonds and notes ²⁰	(3,662)	(6,633)
Increase (decrease) in commercial paper ²⁰	2,342	404
Increase (decrease) in other debt ²⁰	124	151
Hedging and collateral arrangements	(669)	247
Equity contribution by non-controlling interests	-	20
Interest paid	(976)	(1,299)
Dividends paid ²⁸	(6,718)	(6,362)
Equity-settled equity compensation plans, net of transactions in own equity ²⁶	(812)	(1,190)
Other financing cash flows	-	(7)
Total cash flows from financing activities	(3,964)	(14,669)
Net effect of currency translation on cash and cash equivalents	(220)	(331)
Increase (decrease) in cash and cash equivalents	(258)	(530)
Cash and cash equivalents at 1 January	4,000	4,530
Cash and cash equivalents at 31 December ¹³	3,742	4,000

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 2013								
At 1 January 2013	160	20,041	113	40	(5,840)	14,514	2,236	16,750
Net income recognised in income statement	-	11,164	-	-	-	11,164	209	11,373
Available-for-sale investments	-	-	19	-	-	19	7	26
Cash flow hedges	-	-	-	62	-	62	15	77
Currency translation of foreign operations	-	-	(9)	(7)	(887)	(903)	(428)	(1,331)
Remeasurements of defined benefit plans	-	670	-	-	-	670	4	674
Total comprehensive income	-	11,834	10	55	(887)	11,012	(193)	10,819
Dividends	-	(6,238)	-	-	-	(6,238)	(123)	(6,361)
Equity compensation plans, net of transactions in own equity	-	6	-	-	-	6	4	10
Changes in non-controlling interests ²³	-	-	-	-	-	-	3	3
Equity contribution by non-controlling interests	-	-	-	-	-	-	20	20
At 31 December 2013	160	25,643	123	95	(6,727)	19,294	1,947	21,241
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	-
Equity contribution by non-controlling interests	-	-	-	-	-	-	-	-
At 31 December 2014	160	26,152	166	76	(6,968)	19,586	1,972	21,558

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 2015 and are subject to approval by the Annual General Meeting of shareholders on 3 March 2015.

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 2014 the Group has 2,309 million Swiss francs in provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the US and similar rebates in other countries. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience. At 31 December 2014 the Group has 625 million Swiss francs of provisions for doubtful receivables (see Note 11). Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and the Group's experience, taking also into account current economic conditions.

Business combinations. The Group initially recognises the fair value of identifiable assets acquired, the liabilities assumed, any non-controlling interest and the consideration transferred in a business combination. Management judgement is particularly involved in the recognition and fair value measurement of intellectual property, 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 2014 the Group had 17,195 million Swiss francs in property, plant and equipment (see Note 7), 9,949 million Swiss francs in goodwill (see Note 8) and 12,881 million Swiss francs in intangible assets (see Note 9). Goodwill and intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates. 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 2014 the present value of the Group's defined benefit obligation is 20,915 million Swiss francs (see Note 25). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the 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 2014 the Group had 677 million Swiss francs in legal provisions. The status of significant legal cases is disclosed in Note 19. These estimates consider the specific circumstances of each legal case, relevant legal advice and are inherently judgemental due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material.

Environmental provisions. The Group provides for anticipated environmental remediation costs when there is a probable outflow of resources that can be reasonably estimated. At 31 December 2014 the Group had 627 million Swiss francs in environmental provisions (see Note 19). Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgemental due to uncertainties related to the detection of previously unknown 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 2014 the Group had 815 million Swiss francs in contingent consideration provisions (see Note 19) and the total payments under contingent consideration arrangements could be up to 2,203 million Swiss francs (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 2014 the Group had a current income tax net liability of 2,372 million Swiss francs and a deferred tax net asset of 2,224 million Swiss francs (see Note 4). Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Factors that may impact on current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

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

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

2. Operating segment information

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

Divisional information in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group	
	2014	2013	2014	2013	2014	2013	2014	2013
Revenues from external customers								
Sales	36,696	36,304	10,766	10,476	–	–	47,462	46,780
Royalties and other operating income	2,273	1,702	131	130	–	–	2,404	1,832
Total	38,969	38,006	10,897	10,606	–	–	49,866	48,612
Revenues from other operating segments								
Sales	–	–	9	10	–	–	9	10
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue	–	–	–	–	–	–	(9)	(10)
Total	–	–	9	10	–	–	–	–
Segment results								
Operating profit	14,304	15,633	245	1,241	(459)	(498)	14,090	16,376
Capital expenditure								
Business combinations	11,755	–	954	363	–	–	12,709	363
Additions to property, plant and equipment	1,674	1,294	1,228	1,158	3	6	2,905	2,458
Additions to intangible assets	398	366	49	49	–	–	447	415
Total capital expenditure	13,827	1,660	2,231	1,570	3	6	16,061	3,236
Research and development								
Research and development costs	8,380	8,189	1,515	1,081	–	–	9,895	9,270
Other segment information								
Depreciation of property, plant and equipment	1,037	1,024	872	847	8	7	1,917	1,878
Amortisation of intangible assets	408	177	298	326	–	–	706	503
Impairment (reversal) of property, plant and equipment	46	(488)	5	14	–	–	51	(474)
Impairment of goodwill	322	–	552	288	–	–	874	288
Impairment of intangible assets	337	350	697	12	–	–	1,034	362
Equity compensation plan expenses	280	296	45	40	25	24	350	360

Net operating assets in millions of CHF

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

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Information by geographical area in millions of CHF

	Revenues from external customers Sales	Royalties and other operating income	Property, plant and equipment	Non-current assets Goodwill and intangible assets
2014				
Switzerland	526	604	4,187	2,271
Germany	2,900	19	3,235	1,343
Rest of Europe	11,119	8	1,117	701
Europe	14,545	631	8,539	4,315
United States	18,041	1,675	5,450	18,338
Rest of North America	962	1	109	-
North America	19,003	1,676	5,559	18,338
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	22,830
2013				
Switzerland	526	145	3,817	2,072
Germany	2,729	20	3,122	1,479
Rest of Europe	11,341	1	1,114	41
Europe	14,596	166	8,053	3,592
United States	17,169	1,557	4,720	7,214
Rest of North America	1,042	2	114	79
North America	18,211	1,559	4,834	7,293
Latin America	3,363	-	348	12
Japan	3,936	101	1,281	190
Rest of Asia	5,129	6	1,158	-
Asia	9,065	107	2,439	190
Africa, Australia and Oceania	1,545	-	86	2
Total	46,780	1,832	15,760	11,089

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 approximately a quarter of the Group's revenues in 2014. The three US national wholesale distributors are AmerisourceBergen Corp. with 5 billion Swiss francs (2013: 5 billion Swiss francs); McKesson Corp. with 5 billion Swiss francs (2013: 5 billion Swiss francs) and Cardinal Health, Inc. with 3 billion Swiss francs (2013: 3 billion Swiss francs). Approximately 96% of these revenues were in the Pharmaceuticals operating segment, with the residual in the Diagnostics segment.

3. Net financial expense

Financing costs in millions of CHF

	2014	2013
Interest expense	(926)	(1,062)
Amortisation of debt discount ²⁰	(20)	(23)
Net gains (losses) on redemption and repurchase of bonds and notes ²⁰	(215)	(248)
Loss on major debt restructuring ²⁰	(429)	–
Discount unwind ¹⁹	(30)	(20)
Net interest cost of defined benefit plans ²⁵	(201)	(227)
Total financing costs	(1,821)	(1,580)

Other financial income (expense) in millions of CHF

	2014	2013
Net gains (losses) on sale of equity securities	336	47
Net gains (losses) on equity security derivatives	–	2
Dividend income	3	2
Write-downs and impairments of equity securities	(9)	(9)
Net income from equity securities	330	42
Interest income	34	27
Net gains (losses) on sale of debt securities	5	–
Net interest income and income from debt securities	39	27
Net foreign exchange gains (losses)	105	(223)
Net gains (losses) on foreign currency derivatives	(210)	49
Foreign exchange gains (losses)	(105)	(174)
Net other financial income (expense)	(18)	(8)
Associates	–	(6)
Total other financial income (expense)	246	(119)

Net financial expense in millions of CHF

	2014	2013
Financing costs	(1,821)	(1,580)
Other financial income (expense)	246	(119)
Net financial expense	(1,575)	(1,699)
Financial result from Treasury management	(1,374)	(1,466)
Financial result from Pension management	(201)	(227)
Associates	–	(6)
Net financial expense	(1,575)	(1,699)

4. Income taxes

Income tax expenses in millions of CHF

	2014	2013
Current income taxes	(3,954)	(3,391)
Deferred taxes	974	87
Total income tax (expense)	(2,980)	(3,304)

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 decreased to 20.5% in 2014 (2013: 22.6%). The main driver for the decrease was due to the lower proportion of the Group's profits from the US, which has a relatively higher local tax rate than the average Group rate. The lower proportion of US profits was driven by goodwill impairments in 2014. There were no significant local tax rate changes in the main operating areas of the Group compared to 2013.

The Group's effective tax rate increased to 23.8% in 2014 (2013: 22.5%). This was mainly due to the goodwill impairments mentioned above, that are not tax deductible, and the utilisation of previously unrecognised tax losses in 2013. In addition, the effective tax rate in 2013 includes the retrospective re-enactment of the US research and development tax credits for 2012, which means that the 2013 results included two years of these tax credits in respect of 2012 as well as 2013.

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

Reconciliation of the Group's effective tax rate

	2014	2013
Average expected tax rate	20.5%	22.6%
Tax effect of		
- Non-taxable income/non-deductible expenses	+4.0%	+2.0%
- Equity compensation plans	+0.2%	-0.2%
- Research, development and other manufacturing tax credits	-2.5%	-2.4%
- US state tax impacts	+0.5%	+0.4%
- Tax on unremitted earnings	+1.2%	+0.9%
- Utilisation of previously unrecognised tax losses	-	-0.7%
- Other differences	-0.1%	-0.1%
Group's effective tax rate	23.8%	22.5%

The income tax benefit recorded in respect of equity compensation plans, which varies according to the price of the underlying equity, was 64 million Swiss francs (2013: 122 million Swiss francs). Had the income tax benefits been recorded solely on the basis of the IFRS 2 expense multiplied by the applicable tax rate, then a benefit of approximately 96 million Swiss francs (2013: 100 million Swiss francs) would have been recorded.

Tax effects of other comprehensive income in millions of CHF

	Pre-tax amount	Tax	2014 After-tax amount	Pre-tax amount	Tax	2013 After-tax amount
Remeasurements of defined benefit plans	(2,714)	702	(2,012)	1,000	(326)	674
Available-for-sale investments	40	(3)	37	42	(16)	26
Cash flow hedges	(66)	25	(41)	118	(41)	77
Currency translation of foreign operations	(255)	-	(255)	(1,331)	-	(1,331)
Other comprehensive income	(2,995)	724	(2,271)	(171)	(383)	(554)

Income tax assets (liabilities) in millions of CHF

	2014	2013	2012
Current income taxes			
– Assets	244	218	339
– Liabilities	(2,616)	(1,805)	(2,210)
Net current income tax assets (liabilities)	(2,372)	(1,587)	(1,871)
Deferred taxes			
– Assets	2,829	4,707	4,849
– Liabilities	(605)	(1,282)	(1,397)
Net deferred tax assets (liabilities)	2,224	3,425	3,452

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

	2014	2013
Net current income tax asset (liability) at 1 January	(1,587)	(1,871)
Income taxes paid	2,982	3,341
Business combinations	(9)	–
(Charged) credited to the income statement	(3,954)	(3,391)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	311	278
Currency translation effects and other	(115)	56
Net current income tax asset (liability) at 31 December	(2,372)	(1,587)

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 2013					
At 1 January 2013	(812)	(1,079)	1,463	3,880	3,452
Business combinations ⁵	–	(102)	–	4	(98)
(Charged) credited to the income statement	(98)	512	(60)	(267)	87
(Charged) credited to other comprehensive income ²¹	–	–	(326)	(57)	(383)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	–	–	555	555
Currency translation effects and other	59	9	(10)	(246)	(188)
At 31 December 2013	(851)	(660)	1,067	3,869	3,425
Year ended 31 December 2014					
At 1 January 2014	(851)	(660)	1,067	3,869	3,425
Business combinations ⁵	–	(3,402)	–	337	(3,065)
(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	(19)	(145)	44	316	196
At 31 December 2014	(824)	(3,631)	1,797	4,882	2,224

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

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

Unrecognised tax losses: expiry

	Amount (mCHF)	2014 Applicable tax rate	Amount (mCHF)	2013 Applicable tax rate
Within one year	-	-	-	-
Between one and five years	588	14%	406	14%
More than five years	6,349	5%	4,078	5%
Total unrecognised tax losses	6,937	6%	4,484	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 29.3 billion Swiss francs at 31 December 2014 (2013: 29.7 billion Swiss francs).

5. Business combinations

Acquisitions – 2014

Acquisitions – 2014: net assets acquired in millions of CHF

	Pharmaceuticals	Diagnostics	Total
Intangible assets			
– Product intangibles: in use ⁹	1,810	324	2,134
– Product intangibles: not available for use ⁹	7,124	225	7,349
– Technology intangibles: in use ⁹	155	–	155
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	(3,345)	(207)	(3,552)
Other net assets (liabilities)	(455)	(2)	(457)
Net identifiable assets	7,228	353	7,581
Goodwill ⁸	2,666	404	3,070
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

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. With the acquisition, the Group has obtained rights to Seragon's entire portfolio of selective estrogen receptor degraders (SERDs) for the potential treatment of hormone receptor-positive cancers. Seragon's lead product candidate, ARN-810, is a next-generation SERD that is currently in phase I clinical trials for patients who have

hormone receptor-positive breast cancer and have failed current hormonal agents. Seragon is reported in the Pharmaceuticals Division. The total consideration was 988 million US dollars, of which 668 million US dollars was paid in cash, 65 million US dollars was deferred cash consideration which is being paid over the period from the date of control to the end of February 2015 and 255 million US dollars 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 1 billion US dollars.

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 has pioneered its proprietary Locked Nucleic Acid (LNA) platform that has contributed to an emerging era of RNA-targeting therapeutics. This new class of medicines has the potential to address difficult to treat diseases in a range of therapeutic areas. Santaris is reported in the Pharmaceuticals Division. The total consideration was 319 million US dollars, of which 254 million US dollars was paid in cash, 59 million US dollars arose from a contingent consideration arrangement and 6 million US dollars 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 200 million US dollars.

InterMune, Inc. On 24 August 2014 the Group announced that it had entered into a merger agreement with InterMune, Inc. ('InterMune') to fully acquire InterMune at a price of 74 US dollars per share in an all-cash transaction. On 29 September 2014 the Group acquired a 100% controlling interest in InterMune, a publicly owned US company based in Brisbane, California that had been listed on Nasdaq. The acquisition has added a new medicine for idiopathic lung fibrosis, Esbriet, to the Group's portfolio. Esbriet was approved by the FDA in October 2014. Idiopathic lung fibrosis is a progressive disease, which causes scarring of the lungs and has a survival rate of two to three years from diagnosis. Esbriet has the potential to make a considerable difference to the treatment of patients with this debilitating disease. InterMune is reported in the Pharmaceuticals Division. The total consideration was 8.8 billion US dollars which was paid in cash. On 29 September 2014 the Group issued 5.75 billion US dollars aggregate principal amount of senior notes to part finance the transaction (see Note 20).

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 specialises in the discovery and development of fully human, bi-specific antibodies based on their proprietary DutaMab™ technology. The bi-specific antibodies developed with this platform are designed to provide novel, best-in-class molecules for several therapeutic areas. Dutalys is reported in the Pharmaceuticals Division. The total consideration was 294 million US dollars, of which 134 million US dollars was paid in cash and 160 million US dollars 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 355 million US dollars.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for Seragon, Santaris, InterMune and Dutalys are provisional based on preliminary information and valuations of the assets and liabilities and are subject to adjustment during 2015.

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	219	7,124
– Technology intangibles: in use	–	155	–	–	155
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)	(2,953)	(47)	(3,345)
Other net assets (liabilities)	(12)	(14)	(429)	–	(455)
Net identifiable assets	547	160	6,349	172	7,228
Goodwill	357	139	2,056	114	2,666
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

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 and 9.0% to 9.5% for InterMune. The valuations were performed by independent valuers. The intangible asset allocation for Dutalys is based on historical experience of similar acquisitions and the valuation will be completed by an independent valuer in the first half of 2015.

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 comprise of gross contractual amounts due of 35 million Swiss francs 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. 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 15 million Swiss francs are reported in the Pharmaceuticals operating segment within general and administration expenses and mainly relate to the InterMune acquisition.

In the three months to 31 December 2014 InterMune contributed revenue of 44 million Swiss francs and a net loss of 292 million Swiss francs to the results reported for the Pharmaceuticals Division and the Group. If the acquisition had occurred on 1 January 2014 management estimates that InterMune would have contributed revenue of 144 million Swiss francs and a net loss of 790 million Swiss francs. This information is provided for illustrative purposes only and is not necessarily indicative of the results of the combined Group that would have occurred had InterMune actually been acquired at the beginning of the year, or indicative of the future results of the combined 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 developing a single-molecule, semiconductor-based DNA sequencing platform using nanopore technology. Genia is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was 257 million US dollars, of which 125 million US dollars was paid in cash and 132 million US dollars arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until June 2024 and the range of undiscounted outcomes is between zero and 225 million US dollars.

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 has developed the Laboratory-in-a-tube (Liat™) system, which enables healthcare workers to perform rapid molecular diagnostic testing in a point-of-care setting, closer to patients and with minimal training. IQuum is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The total consideration was 432 million US dollars, of which 282 million US dollars was paid in cash and 150 million US dollars arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until the first half of 2017 and the range of undiscounted outcomes is between zero and 175 million US dollars. In addition, the Group acquired 100% controlling interest in the related intellectual property holding company for a cash consideration of 35 million US dollars.

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 provides a big data platform for centralised management and processing of next generation sequencing data. Bina's proprietary on-market Genomic Management Solution, Bina-GMS, empowers basic, translational and academic researchers to perform fast and scalable analyses to maximise the value of genomic data. The acquisition of Bina will accelerate product development and global commercialisation of the Bina-GMS as an enterprise software system supporting multiple sequencing technologies while developing a solution for Roche sequencing systems. Bina is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was 114 million US dollars, of which 78 million US dollars was paid in cash, 13 million US dollars was deferred cash consideration which will be paid over the period from the date of control to the end of 2017 and 23 million US dollars 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 30 million US dollars.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for Bina are provisional based on preliminary information and valuations of the assets and liabilities and are subject to adjustment during 2015.

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

	Genia	IQuum	Bina	Total
Intangible assets				
– Product intangibles: in use	–	212	112	324
– 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)	(45)	(207)
Other net assets (liabilities)	–	(1)	(1)	(2)
Net identifiable assets	140	146	67	353
Goodwill	89	271	44	404
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

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 valuations were performed by independent valuers. The intangible asset allocation for Bina is based on historical experience of similar acquisitions and the valuation will be completed by an independent valuer in the first half of 2015.

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 4 million Swiss francs are 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.

Future acquisitions

Ariosa Diagnostics, Inc. On 2 December 2014 the Group announced an agreement to acquire a 100% controlling interest in Ariosa Diagnostics, Inc. ('Ariosa'), a US private company based in San Jose, California. On 12 January 2015 the transaction closed. 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 10 weeks into pregnancy. By evaluating fetal cfDNA found in maternal blood, the test is designed to assess the risk of Down syndrome and other genetic abnormalities. Specifically, the test assesses the risk of trisomies 13, 18, and 21, which are indicative of an extra chromosome in the fetus that can lead to severe genetic conditions. The Harmony™ Prenatal Test has been validated to CLIA requirements by a robust clinical data set and supported by clinical studies. Ariosa will be reported in the Diagnostics operating segment as part of the Sequencing business. The purchase consideration is 400 million US dollars in cash and up to 225 million US dollars from a contingent consideration arrangement.

Foundation Medicine, Inc. On 12 January 2015 the Group announced an agreement to enter into a broad strategic collaboration with Foundation Medicine, Inc. ('FMI') and to acquire a majority interest in FMI of up to 56.3% on a fully diluted basis. FMI is a publicly owned US company based in Cambridge, Massachusetts that is listed on Nasdaq under the stock code 'FMI'. The Group will tender for approximately 15.6 million FMI shares at 50 US dollars per share with an aggregate tender value of approximately 780 million US dollars and will invest 250 million US dollars in acquiring 5 million newly issued FMI shares at 50 US dollars per share. The closing of the transaction is expected in the second quarter of 2015. The transaction will further advance 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 partnership includes both a broad R&D collaboration with the potential for more than 150 million US dollars funding by the Group to accelerate FMI's new product development initiatives, optimise treatments for oncology patients, and better design and understand the results of clinical trials based on molecular information, as well as commercial collaboration agreements aimed at expanding the global sales efforts for FMI's current and future products. It is planned that FMI will be reported in the Pharmaceuticals Division.

Trophos. On 16 January 2015 the Group announced an agreement to acquire a 100% controlling interest in Trophos, a privately owned company based in Marseille, France. The closing of the transaction is expected in the first quarter of 2015. 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. Results from a pivotal phase II clinical trial with olesoxime in SMA showed a beneficial effect on the maintenance of neuromuscular function in individuals with Type II and non-ambulatory Type III SMA, as well as a reduction in medical complications associated with the disease. Trophos will be reported in the Pharmaceuticals Division. The purchase consideration is 120 million euros in cash and up to 350 million euros from a contingent consideration arrangement.

Acquisitions – 2013

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

Acquisitions – 2013: net assets acquired in millions of CHF

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

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	Pharmaceuticals	Diagnostics	2014 Total	Pharmaceuticals	Diagnostics	2013 Total
Cash consideration paid	(9,382)	(471)	(9,853)	–	(205)	(205)
Deferred consideration paid ¹⁹	(7)	–	(7)	–	–	–
Contingent consideration paid ²⁹	(39)	(60)	(99)	–	(29)	(29)
Cash in acquired company	340	5	345	–	1	1
Transaction costs	(15)	(4)	(19)	–	–	–
Total net cash outflow	(9,103)	(530)	(9,633)	–	(233)	(233)

6. Global restructuring plans

During 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division. In 2014 total costs of 794 million Swiss francs were higher mainly due to the 2013 results including an income of 531 million Swiss francs from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics ¹⁾	Site consolidation ²⁾	Other plans ³⁾	Total
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
Year ended 31 December 2013				
Global restructuring costs				
– Employee-related costs	89	44	132	265
– Site closure costs	48	38	(491)	(405)
– Other reorganisation expenses	83	157	66	306
Total global restructuring costs	220	239	(293)	166
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	(53)	–	(50)
Total costs	270	186	(293)	163

The split of plans in this table has been reformatted from prior periods to reflect the relative development of the various plans.

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.

2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.

3) Includes plans for Pharmaceuticals Division research and development strategic realignment, InterMune integration and Specialty Care field force in Europe.

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 2014 total costs of 118 million Swiss francs were incurred, mainly for employee-related costs and IT and consultancy costs. Spending on other smaller plans within the Division was 128 million Swiss francs, and included costs related to IT projects and the restructuring of the former Applied Science business.

Site consolidation

The operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the Group is currently in the process of divesting the site. Work on remediating the Nutley site is continuing, but no significant additional restructuring expenses were incurred in 2014. Other site consolidation costs include those related to the closure of Toluca, Mexico (Pharmaceuticals) and Graz, Austria (Diagnostics) sites.

Other global restructuring plans

In 2014 total costs were 436 million Swiss francs, with one major item being a goodwill impairment of 139 million Swiss francs related to the Marcadia acquisition in 2010 following the exit from cardiovascular and metabolic diseases. Other significant costs included 121 million Swiss francs relating to field force reductions across Europe in the Pharmaceuticals Division's Specialty Care unit. InterMune integration costs were 79 million Swiss francs and costs of 46 million Swiss francs arose from the implementation of the global outsourcing of clinical trial monitoring in the Pharmaceuticals Division. The remaining minor plans totalled 51 million Swiss francs.

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

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

	2014	2013
Employee-related costs		
- Termination costs	279	220
- Defined benefit plans	(1)	(1)
- Other employee-related costs	37	46
Total employee-related costs	315	265
Site closure costs		
- Impairment (reversal) of property, plant and equipment	5	(498)
- Accelerated depreciation of property, plant and equipment	41	4
- (Gains) losses on disposal of property, plant and equipment	1	(1)
- Other site closure costs	50	90
Total site closure costs	97	(405)
Other reorganisation expenses	243	306
Total global restructuring costs	655	166
Additional costs		
- Impairment of goodwill	139	35
- Impairment of intangible assets	-	12
- Legal and environmental costs	-	(50)
Total costs	794	163

Global restructuring plans: classification of costs in millions of CHF

	2014			2013		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
– Pharmaceuticals	42	40	82	(544)	83	(461)
– Diagnostics	7	50	57	2	73	75
Marketing and distribution						
– Pharmaceuticals	–	155	155	–	49	49
– Diagnostics	–	64	64	–	78	78
Research and development						
– Pharmaceuticals	–	101	101	5	96	101
– Diagnostics	(3)	8	5	20	43	63
General and administration						
– Pharmaceuticals	139	53	192	35	162	197
– Diagnostics	–	138	138	35	70	105
– Corporate	–	–	–	–	(44)	(44)
Total	185	609	794	(447)	610	163
Total by operating segment						
– Roche Pharmaceuticals	181	348	529	(504)	388	(116)
– Chugai	–	1	1	–	2	2
– Diagnostics	4	260	264	57	264	321
– Corporate	–	–	–	–	(44)	(44)
Total	185	609	794	(447)	610	163

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 2013					
Cost	880	12,138	16,827	1,406	31,251
Accumulated depreciation and impairment	-	(5,190)	(10,571)	(88)	(15,849)
Net book value	880	6,948	6,256	1,318	15,402
Year ended 31 December 2013					
At 1 January 2013	880	6,948	6,256	1,318	15,402
Additions	-	75	875	1,508	2,458
Disposals	(5)	(16)	(108)	(4)	(133)
Transfers	1	269	690	(960)	-
Depreciation charge	-	(464)	(1,414)	-	(1,878)
Impairment reversal (charge)	-	337	122	15	474
Other	-	(2)	(25)	-	(27)
Currency translation effects	(53)	(211)	(262)	(10)	(536)
At 31 December 2013	823	6,936	6,134	1,867	15,760
Cost	823	11,934	16,745	1,947	31,449
Accumulated depreciation and impairment	-	(4,998)	(10,611)	(80)	(15,689)
Net book value	823	6,936	6,134	1,867	15,760
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 reversal (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

Impairment reversal (charge) – 2013

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

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

	2014	2013
Cost of sales	(62)	536
Marketing and distribution	(1)	(3)
Research and development	4	(24)
General and administration	8	(35)
Total impairment reversal (charge)	(51)	474

In 2014 no reimbursements were received from insurance companies in respect of impairments to property, plant and equipment (2013: none). In 2014 no borrowing costs were capitalised as property, plant and equipment (2013: none).

Leasing arrangements where the Group is the lessee

Finance leases. At 31 December 2014 the capitalised cost of property, plant and equipment under finance leases was 290 million Swiss francs (2013: 294 million Swiss francs) and the net book value of these assets was 131 million Swiss francs (2013: 124 million Swiss francs). The carrying value of the leasing obligation was 177 million Swiss francs (2013: 178 million Swiss francs), which is reported as part of Debt (see Note 20).

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

	Future minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Within one year	36	31	25	20
Between one and five years	155	134	132	105
More than five years	17	52	20	53
Total	208	217	177	178
Future finance charges	–	–	31	39
Total future minimum lease payments (undiscounted)	208	217	208	217

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 440 million Swiss francs (2013: 408 million Swiss francs).

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

	2014	2013
Within one year	244	253
Between one and five years	549	564
More than five years	180	181
Total minimum payments	973	998

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	
	2014	2013	2014	2013
Within one year	47	48	41	44
Between one and five years	93	82	82	75
More than five years	3	1	3	1
Total	143	131	126	120
Unearned finance income	(16)	(9)	n/a	n/a
Unguaranteed residual value	n/a	n/a	1	2
Net investment in lease	127	122	127	122

The accumulated allowance for uncollectible minimum lease payments was 3 million Swiss francs (2013: 3 million Swiss francs). There were no contingent rents recognised in income.

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

At 31 December 2014 machinery and equipment with an original cost of 4,089 million Swiss francs (2013: 3,639 million Swiss francs) and a net book value of 1,504 million Swiss francs (2013: 1,407 million Swiss francs) was being leased to third parties. There were no contingent rents recognised in income.

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

	2014	2013
Within one year	64	65
Between one and five years	85	82
More than five years	1	1
Total minimum receipts	150	148

Capital commitments

The Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totalling 1.5 billion Swiss francs (2013: 1.1 billion Swiss francs).

8. Goodwill

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

	2014	2013
At 1 January		
Cost	7,601	7,662
Accumulated impairment	(456)	(182)
Net book value	7,145	7,480
Year ended 31 December		
At 1 January	7,145	7,480
Business combinations ⁵	3,070	101
Impairment charge	(874)	(288)
Currency translation effects	608	(148)
At 31 December	9,949	7,145
Cost	11,380	7,601
Accumulated impairment	(1,431)	(456)
Net book value	9,949	7,145
Allocated to the following cash-generating units		
Roche Pharmaceuticals	4,628	1,989
Chugai	91	93
Total Pharmaceuticals Division	4,719	2,082
Diabetes Care	834	835
Professional Diagnostics	1,753	1,599
Molecular Diagnostics	301	–
Tissue Diagnostics	–	536
Sequencing	143	–
Strategic goodwill (held at Divisional level and not allocated to business areas)	2,199	2,093
Total Diagnostics Division	5,230	5,063

Impairment charge

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

- A goodwill impairment charge of 552 million Swiss francs was recorded for the full write-off of the goodwill in the Tissue Diagnostics business area within the Diagnostics Division. This impairment is based on the latest business plans prepared during the second half of 2014. 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 has been 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 to 9.5% in 2014 compared to 8.8% in 2013. In addition impairments of 643 million Swiss francs were recorded for product intangibles in the Tissue Diagnostics business (see Note 9).
- A goodwill impairment charge of 322 million Swiss francs was recorded in the Pharmaceuticals Division for the full write-off of goodwill from the Marcadia 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.

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

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

Impairment testing

Pharmaceuticals Division. The Division's operating segments are the cash-generating units used for the testing of goodwill.

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

The business plans are projected over five years. These valuations include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 7.7% (2013: 7.3%), which is derived from a capital asset pricing model using data from capital markets, including government twenty-year bonds. A weighted average tax rate of 25.6% (2013: 25.5%) is used in the calculations and the corresponding pre-tax discount rate is 10.4% (2013: 9.8%).

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. 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 7.7% (2013: 7.3%), 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 18.4% (2013: 17.6%) is used in the calculations and the corresponding pre-tax discount rate is 9.5% (2013: 8.8%).

Sensitivity analysis

Management has performed sensitivity analyses for both Roche Pharmaceuticals and the Diagnostics Division, which increased the discount rate by 1% combined with decreasing the forecast cash flows by 5%, and for Chugai, which decreased the publicly quoted share prices by 5%. 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 2014.

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 2013					
Cost	12,968	2,375	35	621	15,999
Accumulated amortisation and impairment	(10,587)	(600)	(27)	(571)	(11,785)
Net book value	2,381	1,775	8	50	4,214
Year ended 31 December 2013					
At 1 January 2013	2,381	1,775	8	50	4,214
Business combinations ⁵	–	262	–	–	262
Additions	117	270	1	27	415
Transfers	138	(138)	–	–	–
Amortisation charge	(489)	–	(5)	(9)	(503)
Impairment charge	(25)	(337)	–	–	(362)
Currency translation effects	(46)	(33)	(1)	(2)	(82)
At 31 December 2013	2,076	1,799	3	66	3,944
Cost	12,888	2,668	35	632	16,223
Accumulated amortisation and impairment	(10,812)	(869)	(32)	(566)	(12,279)
Net book value	2,076	1,799	3	66	3,944
Allocation by operating segment					
Roche Pharmaceuticals	672	1,049	–	60	1,781
Chugai	87	8	1	1	97
Diagnostics	1,317	742	2	5	2,066
Total Group	2,076	1,799	3	66	3,944
Year ended 31 December 2014					
At 1 January 2014	2,076	1,799	3	66	3,944
Business combinations ⁵	2,134	7,349	–	155	9,638
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	638	(49)	–	3	592
At 31 December 2014	9,839	2,839	5	198	12,881
Cost	22,098	4,416	39	849	27,402
Accumulated amortisation and impairment	(12,259)	(1,577)	(34)	(651)	(14,521)
Net book value	9,839	2,839	5	198	12,881
Allocation by operating segment					
Roche Pharmaceuticals	8,596	2,208	–	193	10,997
Chugai	50	17	5	1	73
Diagnostics	1,193	614	–	4	1,811
Total Group	9,839	2,839	5	198	12,881

Significant intangible assets at 31 December 2014 in millions of CHF

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
InterMune acquisition	Roche Pharmaceuticals	7,904	7 years
Tanox acquisition	Roche Pharmaceuticals	197	5 years
Corange/Boehringer Mannheim acquisition	Diagnostics	364	3 years
IQuum acquisition	Diagnostics	228	19 years
Product intangibles not available for use			
Seragon acquisition	Roche Pharmaceuticals	887	n/a
Dutalys acquisition	Roche Pharmaceuticals	219	n/a
CMI acquisition	Diagnostics	280	n/a
Genia acquisition	Diagnostics	250	n/a
Technology intangibles in use			
Santaris acquisition	Roche Pharmaceuticals	139	3 years

Classification of amortisation and impairment expenses in millions of CHF

	2014	Amortisation 2013	2014	Impairment 2013
Cost of sales				
- Pharmaceuticals	(341)	(122)	-	-
- Diagnostics	(296)	(320)	(225)	-
Marketing and distribution				
- Pharmaceuticals	(1)	-	-	-
- Diagnostics	(1)	(5)	-	-
Research and development				
- Pharmaceuticals	(66)	(55)	(337)	(350)
- Diagnostics	(1)	(1)	(472)	(12)
Total	(706)	(503)	(1,034)	(362)

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 2014 approximately 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 – 2014

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

- A clinical data assessment of one development project (102 million Swiss francs). 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 (88 million Swiss francs). 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 (78 million Swiss francs). 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 (37 million Swiss francs) 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 (24 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop one collaboration project with an alliance partner (8 million Swiss francs). The assets concerned, which was not yet being amortised, was fully written down.

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

- Tissue Diagnostics product intangibles not available for use (472 million Swiss francs). The factors leading to this impairment were a reassessment of a late stage future product development which has been 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 (171 million Swiss francs): 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 to 12.5% in 2014 compared to 11.7% in 2013. The assets concerned, which were being amortised, were written down to their estimated recoverable value of 122 million Swiss francs.
- Diabetes Care technology intangibles in use (54 million Swiss francs). 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 to 9.5% in 2014 compared to 8.8% in 2013. The assets concerned, which were being amortised, were written down to their estimated recoverable value of 39 million Swiss francs.

Impairment charges – 2013

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

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

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

Potential commitments from alliance collaborations

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

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

Potential future third-party collaboration payments at 31 December 2014 in millions of CHF

	Pharmaceuticals	Diagnostics	Group
Within one year	286	51	337
Between one and two years	252	15	267
Between two and three years	615	16	631
Total	1,153	82	1,235

10. Inventories

Inventories in millions of CHF

	2014	2013	2012
Raw materials and supplies	1,066	921	827
Work in process	180	125	158
Intermediates	5,396	4,111	3,718
Finished goods	1,520	1,177	1,231
Provision for slow-moving and obsolete inventory	(419)	(428)	(392)
Total inventories	7,743	5,906	5,542

Inventories expensed through cost of sales totalled 9.1 billion Swiss francs (2013: 8.8 billion Swiss francs). Inventory write-downs during the year resulted in an expense of 370 million Swiss francs (2013: 303 million Swiss francs).

11. Accounts receivable

Accounts receivable in millions of CHF

	2014	2013	2012
Trade receivables	9,729	9,296	10,091
Notes receivable	94	141	141
Other receivables	41	44	38
Allowances for doubtful accounts	(625)	(425)	(474)
Charge-backs and other allowances	(236)	(248)	(331)
Total accounts receivable	9,003	8,808	9,465

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

	2014	2013
At 1 January	(425)	(474)
Additional allowances created	(502)	(186)
Unused amounts reversed	266	188
Utilised during the year	39	28
Currency translation effects	(3)	19
At 31 December	(625)	(425)

Bad debt expense to marketing and distribution totalled 76 million Swiss francs (2013: credit of 12 million Swiss francs).

12. Marketable securities

Marketable securities in millions of CHF

	2014	2013	2012
Available-for-sale financial assets			
Equity securities	553	436	272
Debt securities	1,269	793	1,558
Money market instruments and time accounts over three months	6,139	6,706	7,631
Other investments	–	–	–
Total marketable securities	7,961	7,935	9,461

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 2014.

Debt securities – contracted maturity in millions of CHF

	2014	2013	2012
Within one year	214	267	1,273
Between one and five years	918	477	269
More than five years	137	49	16
Total debt securities	1,269	793	1,558

13. Cash and cash equivalents

Cash and cash equivalents in millions of CHF

	2014	2013	2012
Cash – cash in hand and in current or call accounts	3,262	3,329	3,725
Cash equivalents – time accounts with a maturity of three months or less	480	671	805
Total cash and cash equivalents	3,742	4,000	4,530

14. Other non-current assets

Other non-current assets in millions of CHF

	2014	2013	2012
Available-for-sale investments – held at fair value ²⁹	177	169	125
Available-for-sale investments – held at cost	69	40	57
Loans receivable	11	12	12
Long-term trade receivables	18	12	21
Restricted cash	31	32	35
Other receivables	86	77	89
Total financial non-current assets	392	342	339
Long-term employee benefits	264	243	254
Other assets	326	214	197
Total non-financial non-current assets	590	457	451
Associates	–	12	24
Total other non-current assets	982	811	814

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

	2014	2013	2012
Accrued interest income	57	51	34
Derivative financial instruments ²⁹	194	653	454
Restricted cash	4	–	–
Other receivables	1,102	581	617
Total financial current assets	1,357	1,285	1,105
Prepaid expenses	472	420	421
Other taxes recoverable	399	417	338
Other assets	193	175	170
Total non-financial current assets	1,064	1,012	929
Total other current assets	2,421	2,297	2,034

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

16. Accounts payable

Accounts payable in millions of CHF

	2014	2013	2012
Trade payables	2,147	1,548	1,132
Other taxes payable	445	380	334
Dividends payable	45	2	2
Other payables	246	232	477
Total accounts payable	2,883	2,162	1,945

17. Other non-current liabilities

Other non-current liabilities in millions of CHF

	2014	2013	2012
Deferred income	96	103	99
Other long-term liabilities	155	199	220
Total other non-current liabilities	251	302	319

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

18. Other current liabilities

Other current liabilities in millions of CHF

	2014	2013	2012
Deferred income	198	334	156
Accrued payroll and related items	2,253	2,019	1,998
Interest payable	547	542	749
Derivative financial instruments ²⁹	673	354	165
Accrued charge-backs and other allowances	1,367	1,105	1,022
Accrued royalties and commissions	1,066	837	939
Other accrued liabilities	2,673	2,234	2,137
Total other current liabilities	8,777	7,425	7,166

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 2013						
At 1 January 2013	728	566	698	313	895	3,200
Additional provisions created	119	155	400	131	529	1,334
Unused amounts reversed	(31)	(56)	(97)	(7)	(93)	(284)
Utilised	(163)	(46)	(396)	(100)	(295)	(1,000)
Discount unwind ³	-	15	-	2	3	20
Business combinations						
- Acquired companies	-	-	-	-	-	-
- Contingent consideration ²⁹	-	-	-	-	32	32
Currency translation effects	(19)	(10)	(4)	3	(27)	(57)
At 31 December 2013	634	624	601	342	1,044	3,245
Current	618	183	404	93	850	2,148
Non-current	16	441	197	249	194	1,097
At 31 December 2013	634	624	601	342	1,044	3,245
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
Expected outflow of resources						
Within one year	668	184	386	108	1,119	2,465
Between one and two years	3	141	129	39	239	551
Between two and three years	5	90	29	35	120	279
More than three years	1	212	62	203	470	948
At 31 December 2014	677	627	606	385	1,948	4,243

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 2014 legal expenses totalled 203 million Swiss francs (2013: 97 million Swiss francs) which reflect the recent developments in various legal matters. Details of the major legal cases outstanding are disclosed below.

Environmental provisions

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

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 specialty care field force restructuring across Europe, the closure of the US site in Nutley, New Jersey, the global outsourcing of clinical trial monitoring and the InterMune integration. In the Diagnostics Division the significant provisions relate to the restructuring of the Diabetes Care and Applied Science businesses.

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

	2014	2013	2012
Sales returns	706	652	503
Contingent consideration ²⁹	815	122	81
Other items	427	270	311
Total other provisions	1,948	1,044	895

Contingent liabilities

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

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

Pharmaceuticals legal cases

Accutane. Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the US and elsewhere relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. Since 1 January 2014 there have been approximately 900 cases dismissed in the US and at 31 December 2014 HLR was defending approximately 6,650 actions involving approximately 6,700 plaintiffs brought in various federal and state courts throughout the US for personal injuries allegedly resulting from their use of Accutane. Most of the actions allege IBD as a result of Accutane use. In 2009 HLR announced that, following a re-evaluation of its portfolio of medicines that are now available from generic manufacturers, rapidly declining brand sales in the US and high costs from personal-injury lawsuits that it continues to defend vigorously, it had decided to immediately discontinue the manufacture and distribution of the product in the US.

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

All of the actions pending in state court in New Jersey alleging IBD were consolidated for pre-trial proceedings in the Superior Court of New Jersey, Law Division, Atlantic County. At 31 December 2014 juries in the Superior Court have ruled in favour of the plaintiff in eight cases, assessing compensatory damages totalling 59 million US dollars. For the eight cases that were ruled in favour of the plaintiff by the Superior Court, HLR is in the process of appealing four cases (45 million US dollars) and four cases have had their verdicts reversed in favour of HLR (14 million US dollars).

Additional trials may be scheduled for 2015. Individual trial results depend on a variety of factors, including many that are unique to the particular case and therefore the trial results to date may not be predictive of future trial results. The Group continues to defend vigorously the remaining personal injury cases and claims.

Avastin/Lucentis investigations. On 14 February 2013 the Italian Antitrust Authority ('AGCM') announced an investigation to determine whether Roche, Genentech and Novartis had entered into an agreement to restrict competition in the Italian market for drugs, with reference in particular to Avastin (marketed by Roche) and Lucentis (marketed by Novartis). Avastin and Lucentis are two different drugs that were developed and approved for different therapeutic purposes and contain different active pharmaceutical ingredients. On 5 March 2014 the AGCM issued a verdict that alleges that Roche and Novartis colluded to artificially differentiate Avastin and Lucentis in order to foster the sales of Lucentis in Italy. The AGCM fined Roche 90.5 million euros and Novartis 92 million euros. Roche appealed the AGCM verdict to the Tribunale Amministrativo Regionale del Lazio ('TAR'). On 2 December 2014 the TAR upheld the decision by the AGCM. Roche strongly disagrees with the verdict of the TAR and will appeal. On 30 May 2014 the Italian Ministry of Health notified Roche S.p.A. of its intention to seek damages related to this matter. In July 2014 Roche paid the 90.5 million euros fine under protest to avoid additional penalty fees and recorded an expense within general and administration. The fine and related interest will be reimbursed if Roche wins the case. The outcome of these matters cannot be determined at this time.

Tarceva subpoena. On 2 November 2011 Genentech received a subpoena from the US Department of Justice ('DOJ'), requesting documents and information related to the promotion of Tarceva, a prescription product initially approved for the treatment of locally advanced or metastatic non-small cell lung cancer after failure of at least one prior chemotherapy regimen, and later approved for additional indications. Genentech is cooperating with the associated investigation which is both civil and criminal in nature. On 6 May 2014 government representatives presented for the first time the government's civil liability theory, specifically that Genentech allegedly participated in the off-label promotion of Tarceva causing the submission of false claims for reimbursement under the Civil False Claims Act. Subsequently, Genentech has had, and expects to continue to have, meetings and other communications with government representatives to discuss the company's and the government's respective views of legal and factual issues, and to discuss whether a negotiated mutually-agreeable settlement is possible. In Q4 2014, at the request of the government, Genentech made a presentation regarding the various reasons why the company believes the government should decline to make any criminal claim against the company. A number of current and/or former Genentech employees received subpoenas for grand jury testimony beginning in January 2015. The outcome of these matters cannot be determined at this time.

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

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

Hoechst initiated proceedings in the US, France and Germany seeking to enforce the arbitral awards. In October 2013 Genentech paid the awarded royalties and interest to Hoechst under protest. Genentech is seeking annulment of the arbitral awards through proceedings it initiated in the Court of Appeal of Paris. There was a hearing in those proceedings in June 2014. In September 2014 the Paris Court of Appeal stayed the annulment proceedings to seek guidance from the EU Court of Justice on a specific legal question that had been raised by Genentech relating to the arbitral award's non-compliance under EU competition laws. In November 2014 Hoechst filed notices of appeal to the French Supreme Court seeking to review the Paris Court of Appeal's decision to seek guidance from the EU Court of Justice. The outcome of this matter cannot be determined at this time.

Average Wholesale Prices litigation. HLR and Roche Laboratories Inc. ('RLI'), along with approximately 50 other brand and generic pharmaceutical companies, have been named as defendants in several legal actions in the US relating to the pricing of pharmaceutical drugs and State Medicaid reimbursement. The primary allegation in these litigations is that the pharmaceutical companies misrepresented or otherwise reported inaccurate Average Wholesale Prices ('AWP') and/or Wholesale Acquisition Costs ('WAC') for their drugs, which prices were allegedly relied upon by the States in calculating Medicaid reimbursements to entities such as retail pharmacies. The States, through their respective Attorney General, are seeking repayment of the amounts they claim were over-reimbursed. The time period associated with these cases is 1991 through 2005. At 31 December 2014 HLR and RLI are defending one AWP action filed in the state of New Jersey. HLR and RLI are vigorously defending themselves in this matter. Limited fact discovery remains outstanding and briefing on Class Certification has been postponed until the second half of 2015. No trial date has been set in this matter. The outcome of this matter cannot be determined at this time.

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

In addition to the litigation, PDL conducted a royalty audit related to sales of Avastin, Herceptin, Lucentis, Xolair and Raptiva for the years 2007 through 2009. The final audit report indicated that, under PDL's interpretation of certain contract terms, Genentech owed PDL additional royalties for the audit period. Under the same interpretation, Genentech may have owed additional royalties for years subsequent to the audit period. The Group disputed PDL's interpretation of the relevant contract terms. In June 2013 PDL filed a demand for arbitration related to its audit claims with the American Arbitration Association.

On 31 January 2014 the parties agreed to a settlement that resolved all of the disputes between them. Under the settlement agreement, PDL agreed to dismiss all of its claims against Genentech and Roche. In return Genentech agreed to pay PDL a single fixed royalty rate until the end of 2015. All of these matters are now concluded.

GSK litigation. In September 2010 GlaxoSmithKline LLC ('GSK') and Genentech each filed patent lawsuits against one another in Delaware and California, respectively. The lawsuits concerned GSK's US Patent Nos. RE40,070 and RE41,555. GSK asserted claims against Genentech alleging infringement of the patents by Herceptin and Lucentis, and was seeking compensatory damages. In its lawsuit Genentech was seeking a judicial declaration of non-infringement and invalidity of the patents. In June 2012 the parties agreed to dismiss the California action without prejudice and the consolidated case proceeded in Delaware. On 22 August 2013 the Delaware Court issued a claim construction order construing two terms of the '555 patent. On 16 July 2014 the parties signed a settlement agreement that resolved all of the disputes between them. All of these matters are now concluded.

Boniva litigation. HLR, Genentech and various other Roche affiliates (collectively 'Roche') have been named as defendants in numerous legal actions in the US and Canada relating to the post-menopausal osteoporosis medication Boniva. In these litigations, the plaintiffs allege that Boniva caused either osteonecrosis of the jaw or atypical femoral fractures. At 31 December 2014 Roche is defending approximately 291 actions involving approximately 336 plaintiffs brought in federal and state courts throughout the US and one action brought in the Court of the Queen's Bench, Province of Saskatchewan, Canada, for personal injuries allegedly resulting from the use of Boniva. All of these cases are in the early discovery stages of litigation. Individual trial results depend on a variety of factors, including many that are unique to the particular case. Roche is vigorously defending itself in these matters. The outcome of these matters cannot be determined at this time.

EMA investigation. On 23 October 2012 the European Medicines Agency ('EMA') announced that it would start an infringement procedure to investigate allegations regarding an alleged breach of medicines safety reporting obligations in relation to 19 centrally authorised medicines. On 19 November 2013 the EMA announced the results of the Pharmacovigilance Risk Assessment Committee assessment of Roche's medicines. The EMA found no impact regarding the benefit-risk balance of any of Roche's medicines and confirmed the benefit-risk profiles based on available safety information. The EMA and other health authorities have confirmed all medicines remain authorised without changes to the treatment advice for patients and healthcare professionals. All corrective and preventative actions resulting from the inspections are being implemented. A re-inspection by authorities in November 2013 led to certain findings which Roche is now addressing. On 14 April 2014 the EMA issued its report to the European Commission that summarises the EMA's findings in relation to the investigation. The European Commission will now decide whether the matter should be pursued and financial penalties should be imposed. The decision of the European Commission on this matter is still pending. The outcome of this matter cannot be determined at this time.

20. Debt

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

	2014	2013
At 1 January	18,643	24,590
Proceeds from issue of bonds and notes	6,407	–
Redemption and repurchase of bonds and notes	(3,662)	(6,633)
Increase (decrease) in commercial paper	2,342	404
Increase (decrease) in other debt	124	151
Net (gains) losses on redemption and repurchase of bonds and notes ³	215	248
Loss on major debt restructuring ³	429	–
Amortisation of debt discount ³	20	23
Business combinations ⁵	–	–
Net foreign currency transaction (gains) losses	(592)	170
Currency translation effects and other	1,788	(310)
At 31 December	25,714	18,643
Bonds and notes	21,589	17,293
Commercial paper	3,314	702
Amounts due to banks and other financial institutions	626	459
Finance lease obligations ⁷	177	178
Other borrowings	8	11
Total debt	25,714	18,643
Long-term debt	19,347	16,423
Short-term debt	6,367	2,220
Total debt	25,714	18,643

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

Bonds and notes

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

	Effective interest rate Underlying instrument	Including hedging	2014	2013	2012
US dollar-denominated notes – fixed rate					
5.0% notes due 1 March 2014, principal 2.75 billion US dollars (ISIN: USU75000AL00 and US771196AQ59)	5.31%	4.85%	–	–	1,667
1.35% notes due 29 September 2017, principal 0.85 billion US dollars (ISIN: US771196BC54)	1.41%	0.40%	841	–	–
6.0% notes due 1 March 2019, principal 4.5 billion US dollars, outstanding 2.6 billion US dollars (ISIN: USU75000AM82 and US771196AS16)	6.37%	5.89%	2,606	3,702	4,053
2.25% notes due 29 September 2019, principal 1.5 billion US dollars (ISIN: US771196BA98)	2.34%	0.65%	1,493	–	–
2.875% notes due 29 September 2021, principal 1.3 billion US dollars (ISIN: US771196BB71)	2.98%	n/a	1,279	–	–
3.35% notes due 30 September 2024, principal 1.65 billion US dollars (ISIN: US771196BE11)	3.40%	n/a	1,629	–	–
7.0% notes due 1 March 2039, principal 2.5 billion US dollars, outstanding 1.6 billion US dollars (ISIN: USU75000AN65 and US771196AU61)	7.43%	n/a	1,536	2,145	2,205
4.0% notes due 28 November 2044, principal 0.65 billion US dollars (ISIN: US771196BH42)	4.16%	n/a	630	–	–
US dollar-denominated notes – floating rate					
Notes due 29 September 2017, principal 0.3 billion US dollars (ISIN: US771196BD38)	0.40%	n/a	296	–	–
Notes due 30 September 2019, principal 0.5 billion US dollars (ISIN: US771196AZ58)	0.64%	n/a	494	–	–
European Medium Term Note programme – fixed rate					
4.625% notes due 4 March 2013, principal 5.25 billion euros (ISIN: XS0415624393)	4.82%	5.53%	–	–	3,997
5.5% notes due 4 March 2015, principal 1.25 billion pounds sterling, outstanding 481 million pounds sterling (ISIN: XS0415625283)	5.70%	5.78%	739	1,316	1,325
5.625% notes due 4 March 2016, principal 2.75 billion euros, outstanding 2.10 billion euros (ISIN: XS0415624120)	5.70%	6.36%	2,523	2,571	2,531
2.0% notes due 25 June 2018, principal 1.0 billion euros (ISIN: XS0760139773)	2.07%	n/a	1,200	1,222	1,203
6.5% notes due 4 March 2021, principal 1.75 billion euros (ISIN: XS0415624716)	6.66%	7.00%	2,090	2,128	2,093
5.375% notes due 29 August 2023, principal 250 million pounds sterling, outstanding 200 million pounds sterling (ISIN: XS0175478873)	5.46%	n/a	305	290	292
Swiss franc bonds – floating rate					
Notes due 23 September 2013, principal 0.4 billion Swiss francs (ISIN: CH0180513035)	0.32%	n/a	–	–	400
Swiss franc bonds – fixed rate					
4.5% bonds due 23 March 2017, principal 1.5 billion Swiss francs (ISIN: CH0039139263)	4.77%	n/a	1,492	1,489	1,487
1.0% bonds due 21 September 2018, principal 0.6 billion Swiss francs (ISIN: CH0180513068)	1.04%	0.93%	602	599	599
1.625% bonds due 23 September 2022, principal 0.5 billion Swiss francs (ISIN: CH0180513183)	1.64%	n/a	499	499	499
Genentech Senior Notes					
4.75% Senior Notes due 15 July 2015, principal 1.0 billion US dollars (ISIN: US368710AG46)	4.87%	n/a	989	888	913
5.25% Senior Notes due 15 July 2035, principal 500 million US dollars, outstanding 350 million US dollars (ISIN: US368710AC32)	5.39%	n/a	346	444	456
Total bonds and notes			21,589	17,293	23,720

Bonds and notes maturity in millions of CHF

	2014	2013	2012
Within one year	2,409	1,040	6,064
Between one and two years	2,523	2,204	–
Between two and three years	2,629	2,571	2,238
Between three and four years	1,802	1,489	2,531
Between four and five years	3,912	1,821	1,487
More than five years	8,314	8,168	11,400
Total bonds and notes	21,589	17,293	23,720

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

	2014	2013	2012
US dollar notes	103	109	139
Euro notes	19	24	30
Swiss franc bonds	10	13	16
Pound sterling notes	3	5	8
Total unamortised discount	135	151	193

Issuance of bonds and notes – 2014

InterMune acquisition. In September 2014 the Group financed the InterMune acquisition (see Note 5) by a combination of the Group's own funds, debt securities and commercial paper. The Group raised net proceeds of approximately 5.5 billion Swiss francs through a debt offering as described below. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

On 29 September 2014 the Group completed an offering of US dollar-denominated notes. The Group received approximately 5.5 billion Swiss francs aggregate net proceeds from the issuance and sale of these fixed and floating notes. The terms and proceeds of the notes were as follows:

Issuance of US dollar-denominated notes

	Principal amount USD millions	Net proceeds CHF millions
Floating rate notes due 2017	300	285
Floating rate notes due 2019	500	475
Fixed rate 1.35% notes due 2017	850	808
Fixed rate 2.25% notes due 2019	1,500	1,422
Fixed rate 2.875% notes due 2021	1,300	1,231
Fixed rate 3.35% notes due 2024	1,300	1,230
Total	5,750	5,451

Major debt restructuring. In November 2014 the Group had a major debt restructuring related to the debt that was incurred in connection with the Genentech transaction in 2009 (see Note 21). The Group raised net proceeds of approximately 1.0 billion Swiss francs through a debt offering as described below. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd. This debt was used to repurchase 150 million US dollars 5.25% fixed rate Genentech Senior Notes due 15 July 2035 and 894 million US dollars of 7.0% fixed rate notes due 1 March 2039. This major debt restructuring resulted in a loss on repurchase of 429 million Swiss francs.

On 28 November 2014 the Group completed an offering of US dollar-denominated notes. The Group received approximately 1.0 billion Swiss francs aggregate net proceeds from the issuance and sale of these fixed notes. The terms and proceeds of the notes were as follows:

Issuance of US dollar-denominated notes

	Principal amount USD millions	Net proceeds CHF millions
Fixed rate 3.35% notes due 2024	350	342
Fixed rate 4.0% notes due 2044	650	614
Total	1,000	956

Issuance of bonds and notes – 2013

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

Redemption and repurchase of bonds and notes – 2014

Partial repurchase of pound sterling-denominated notes. On 28 February 2014 the Group completed a tender offer to repurchase 419 million pounds sterling 5.5% fixed rate notes due 4 March 2015. The cash outflow was 653 million Swiss francs, plus accrued interest and there was a loss on repurchase of 33 million Swiss francs. The effective interest rate of these notes was 5.70%.

Partial redemption of US dollar-denominated notes. On 26 December 2013 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. On 3 March 2014 the Group redeemed an outstanding principal of 1,000 million US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 1,047 million Swiss francs, plus accrued interest and there was an additional 15 million Swiss francs loss recorded on redemption in 2014. The effective interest rate of these notes was 6.37%.

On 30 June 2014 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. On 29 August 2014 the Group redeemed an outstanding principal of 500 million US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 533 million Swiss francs, plus accrued interest and there was a loss on redemption of 79 million Swiss francs. The effective interest rate of these notes was 6.37%.

On 28 November 2014 the Group completed a tender offer to repurchase 894 million US dollars 7.0% fixed rate notes due 1 March 2039. The cash outflow was 1,256 million Swiss francs, plus accrued interest and there was a loss on repurchase of 402 million Swiss francs. The effective interest rate of these notes was 7.43%.

Partial repurchase of Genentech Senior Notes. On 28 November 2014 the Group completed a tender offer to repurchase 150 million US dollars 5.25% fixed rate Senior Notes due 15 July 2035. The cash outflow was 173 million Swiss francs, plus accrued interest and there was a loss on repurchase of 27 million Swiss francs. The effective interest rate of these notes was 5.39%.

Early redemption of US dollar-denominated notes in 2015. On 19 December 2014 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. The Group will redeem an outstanding principal of 600 million US dollars on 26 March 2015 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. A cash outflow of approximately 689 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The revised carrying value of these notes at 31 December 2014 is 688 million US dollars (681 million Swiss francs). The increase in carrying value of 95 million US dollars (88 million Swiss francs) is recorded within financing costs (see Note 3) as a loss on redemption. The effective interest rate of these notes is 6.37%.

Redemption and repurchase of bonds and notes – 2013

During 2013 the Group redeemed 3.3 billion euros of notes and 0.4 billion Swiss francs of bonds on their due dates and completed the early redemption of 2.2 billion US dollars of notes.

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

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

	2014	2013
US dollar-denominated bonds	6,407	–
Total cash inflows from issuance of bonds and notes	6,407	–

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

	2014	2013
European Medium Term Note programme euro-denominated notes	–	(4,068)
European Medium Term Note programme pound sterling-denominated notes	(653)	–
US dollar-denominated notes	(3,009)	(2,165)
Swiss franc-denominated bonds	–	(400)
Total cash outflows from redemption and repurchase of bonds and notes	(3,662)	(6,633)

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. As at 31 December 2014 unsecured commercial paper notes with a principal amount of 3.4 billion US dollars and an average interest rate of 0.12% were outstanding.

Movements in commercial paper obligations in millions of CHF

	2014	2013
At 1 January	702	324
Net cash proceeds (payments)	2,342	404
Currency translation effects	270	(26)
At 31 December	3,314	702

Amounts due to banks and other financial institutions

These amounts are denominated in various currencies, notably in Chinese renminbi and Argentine pesos, and the average interest rate was 7.42% (2013: 7.12%). The amounts outstanding of 626 million Swiss francs at 31 December 2014 (2013: 459 million Swiss francs) are due within one year.

21. Equity attributable to Roche shareholders

Changes in equity attributable to Roche shareholders in millions of CHF

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

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

Changes in equity attributable to Roche shareholders in millions of CHF

	Share capital	Retained earnings	Fair value	Hedging	Reserves Translation	Total
Year ended 31 December 2014						
At 1 January 2014	160	25,643	123	95	(6,727)	19,294
Net income recognised in income statement	–	9,332	–	–	–	9,332
Available-for-sale investments						
– Fair value gains (losses) taken to equity	–	–	314	–	–	314
– Transferred to income statement	–	–	(274)	–	–	(274)
– Income taxes ⁴	–	–	(3)	–	–	(3)
– Non-controlling interests	–	–	(3)	–	–	(3)
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	(587)	–	(587)
– Transferred to income statement ^{a)}	–	–	–	521	–	521
– Income taxes ⁴	–	–	–	25	–	25
– Non-controlling interests	–	–	–	13	–	13
Currency translation of foreign operations						
– Exchange differences	–	–	9	9	(273)	(255)
– Non-controlling interests	–	–	–	–	32	32
Defined benefit plans						
– Remeasurement gains (losses) ²⁵	–	(2,720)	–	–	–	(2,720)
– Limit on asset recognition ²⁵	–	6	–	–	–	6
– Income taxes ⁴	–	702	–	–	–	702
– Non-controlling interests	–	5	–	–	–	5
Other comprehensive income, net of tax	–	(2,007)	43	(19)	(241)	(2,224)
Total comprehensive income	–	7,325	43	(19)	(241)	7,108
Dividends	–	(6,617)	–	–	–	(6,617)
Equity compensation plans, net of transactions in own equity	–	(195)	–	–	–	(195)
Changes in non-controlling interests ⁵	–	(4)	–	–	–	(4)
At 31 December 2014	160	26,152	166	76	(6,968)	19,586

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

Genentech transaction

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

Share capital

At 31 December 2014 the authorised and issued share capital of Roche Holding Ltd, which is the Group's parent company, consisted of 160 million shares with a nominal value of 1.00 Swiss franc each, as in the preceding year. The shares are bearer shares and the Group does not maintain a register of shareholders. Based on information supplied to the Group, a shareholder group with pooled voting rights owns 45.01% (2013: 45.01%) of the issued shares. On 24 March 2011 the shareholder group announced that it would continue the shareholder pooling agreement existing since 1948 with a modified shareholder composition. The shareholder group with pooled voting rights now holds 72,018,000 shares, corresponding to 45.01% of the shares issued. This figure does not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool. This is further described in Note 30. Based on information supplied to the Group, Novartis Ltd, Basel, and its affiliates own 33.333% (participation below 33⅓%) of the issued shares (2013: 33.333%).

Non-voting equity securities (*Genussscheine*)

At 31 December 2014, 702,562,700 non-voting equity securities have been authorised and were in issue as in the preceding year. Under Swiss company law these non-voting equity securities have no nominal value, are not part of the share capital and cannot be issued against a contribution which would be shown as an asset in the balance sheet of Roche Holding Ltd. Each non-voting equity security confers the same rights as any of the shares to participate in the net profit and any remaining proceeds from liquidation following repayment of the nominal value of the shares and, if any, participation certificates. In accordance with the law and the Articles of Incorporation of Roche Holding Ltd, the Company is entitled at all times to exchange all or some of the non-voting equity securities into shares or participation certificates.

Dividends

On 4 March 2014 the shareholders approved the distribution of a dividend of 7.80 Swiss francs per share and non-voting equity security (2013: 7.35 Swiss francs) in respect of the 2013 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 6,617 million Swiss francs (2013: 6,238 million Swiss francs) and has been recorded against retained earnings in 2014. The Board of Directors has proposed dividends for the 2014 business year of 8.00 Swiss francs per share and non-voting equity security which, if approved, would result in a total distribution to shareholders of 6,901 million Swiss francs. This is subject to approval at the Annual General Meeting on 3 March 2015.

Own equity instruments

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

	2014 (millions)	2013 (millions)
Shares	0.4	0.9
Non-voting equity securities	12.4	12.6
Derivative instruments	–	5.5
Total	12.8	19.0

Own equity instruments are recorded within equity at original purchase cost. At 31 December 2014 the fair value of shares was 0.1 billion Swiss francs and non-voting equity securities was 3.4 billion Swiss francs. Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (see Note 26).

Reserves

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

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

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

22. Chugai

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

Consolidated subsidiary

Chugai is a fully consolidated subsidiary of the Group. This is based on the Group's interest in Chugai at 31 December 2014 of 61.46% (2013: 61.54%) and the Roche relationship with Chugai that is founded on the Basic Alliance, Licensing and Research Collaboration Agreements.

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

Financial information

Chugai summarised financial information in millions of CHF

	2014	2013
Income statement		
Sales ²	3,777	3,813
Royalties and other operating income ²	213	212
Total revenues	3,990	4,025
Operating profit ²	623	679
Balance sheet		
Non-current assets	1,781	1,786
Current assets	4,467	4,280
Non-current liabilities	(229)	(251)
Current liabilities	(944)	(824)
Total net assets	5,075	4,991
Cash flows		
Cash flows from operating activities	320	509
Cash flows from investing activities	(124)	(126)
Cash flows from financing activities	(211)	(220)

Dividends

The dividends distributed to third parties holding Chugai shares during 2014 totalled 81 million Swiss francs (2013: 84 million Swiss francs) and have been recorded against non-controlling interests (see Note 23). Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Roche's relationship with Chugai

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

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

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

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

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

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea and Taiwan.

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

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

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

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

23. Non-controlling interests

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

	2014	2013
At 1 January	1,947	2,236
Net income recognised in income statement		
– Chugai	179	188
– Other non-controlling interests	24	21
Total net income recognised in income statement	203	209
Available-for-sale investments	3	7
Cash flow hedges	(13)	15
Currency translation of foreign operations	(32)	(428)
Remeasurements of defined benefit plans	(5)	4
Other comprehensive income, net of tax	(47)	(402)
Total comprehensive income	156	(193)
Dividends to non-controlling shareholders		
– Chugai ²²	(81)	(84)
– Other non-controlling interests	(59)	(39)
Equity compensation plans, net of transactions in own equity	5	4
Changes in non-controlling interests	4	3
Equity contribution by non-controlling interests	–	20
At 31 December	1,972	1,947
Chugai	1,900	1,854
Other non-controlling interests	72	93
Total non-controlling interests	1,972	1,947

24. Employee benefits

Employee remuneration in millions of CHF

	2014	2013
Wages and salaries	8,948	8,512
Social security costs	971	957
Defined contribution plans ²⁵	364	343
Operating expenses for defined benefit plans ²⁵	385	102
Equity compensation plans ²⁶	350	360
Termination costs ⁶	279	220
Other employee benefits	620	588
Employee remuneration included in operating results	11,917	11,082
Net interest cost of defined benefit plans ²⁵	201	227
Total employee remuneration	12,118	11,309

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

25. Pensions and other post-employment benefits

The Group's objective is to provide attractive and competitive post-employment benefits to employees, while at the same time ensuring that the various plans are appropriately financed and managing any potential impacts on the Group's long-term financial position. Most employees are covered by pension plans sponsored by Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and market practice in the countries in which the employees are employed. Post-employment benefit plans are classified for IFRS as 'defined contribution plans' if the Group pays fixed contributions into a separate fund or to a third-party financial institution and will have no further legal or constructive obligation to pay further contributions. All other plans are classified as 'defined benefit plans'.

Defined contribution plans

Defined contribution plans are funded through payments by employees and by the Group to funds administered by third parties. The Group's expenses for these plans were 364 million Swiss francs (2013: 343 million Swiss francs). No assets or liabilities are recognised in the Group's balance sheet in respect of such plans, apart from regular prepayments and accruals of the contributions withheld from employees' wages and salaries and of the Group's contributions. The Group's major defined contribution plans are in the US, notably the US Roche 401(k) Savings Plan.

Defined benefit plans

Plans are usually established as trusts independent of the Group and are funded by payments from Group companies and by employees. In some cases, notably for the major defined benefit plans in Germany, the plans are unfunded and the Group pays pensions to retired employees directly from its own financial resources. Plans are usually governed by a senior governing body, such as a Board of Trustees, which is typically composed of both employee and employer representatives. Funding of these plans is determined by local regulations using independent actuarial valuations. Separate independent actuarial valuations, together with a semi-annual update, are prepared in accordance with the requirements of IAS 19 for use in the Group's financial statements. The Group's major pension plans are located in Switzerland, the US and Germany, which in total account for 82% of the Group's defined benefit obligation (2013: 81%).

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

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

Pension plans in the US. The Group's major defined benefit plans in the US have been closed to new members since 2007. New employees in the US now join the defined contribution plan. The largest of the remaining defined benefit plans are funded pension plans, including separate plans originating from the Nutley, Palo Alto and Indianapolis sites, together with smaller unfunded supplementary retirement plans. The benefits are based on the highest average annual rate of earnings during a specified period and length of employment. The plans are non-contributory for employees, with the Group making periodic payments to the plans. In 2014 payments made by the Group were 130 million US dollars (2013: 130 million US dollars). Where there is an under-funding this would normally be remedied by additional company contributions.

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

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

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

Pension plans in the Rest of the World. These represent approximately 12% of the Group's defined benefit obligation (2013: 13%) and consist of a number of smaller plans in various countries. Of these the largest are the pension plans at Chugai, which are independently managed by Chugai, and the main pension plan in the United Kingdom. The Chugai plans are fully described in Chugai's own IFRS financial statements. The UK pension plan is funded by regular employee and company contributions, with benefits based on final salary and length of employment. This plan has been closed to new members since 2003 and has been replaced with a defined contribution plan.

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

Other post-employment benefit ('OPEB') plans. These represent approximately 6% of the Group's defined benefit obligation (2013: 6%) and consist mostly of post-retirement healthcare and life insurance schemes, mainly in the US. These plans are mainly unfunded and are contributory for employees, with the Group reimbursing retired employees directly from its own financial resources. The Group's major defined benefit OPEB plans in the US have been closed to new members since 2011. Part of the costs of these plans is reimbursable under the Medicare Prescription Drug Improvement and Modernization Act of 2003. There is no statutory funding requirement for these plans. The Group is funding these plans to the extent that it is tax efficient. In 2014 there were no payments made by the Group to these plans (2013: none). At 31 December 2014 the IFRS funding status was 50% (2013: 57%), including reimbursement rights, for the funded OPEB plans in the US.

Defined benefit plans: income statement in millions of CHF

	2014			2013		
	Pension plans	Other post-employment benefit plans	Total expense	Pension plans	Other post-employment benefit plans	Total expense
Current service cost	370	11	381	407	16	423
Past service (income) cost	4	–	4	(301)	(1)	(302)
Settlement (gain) loss	–	–	–	(19)	–	(19)
Total operating expenses	374	11	385	87	15	102
Net interest cost of defined benefit plans	176	25	201	201	26	227
Total expense recognised in income statement	550	36	586	288	41	329

Funding status

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

During 2014 the fair value of plan assets increased due to favourable market conditions. Lower discount rates compared to 2013 resulted in an increase in the overall defined benefit obligation. As a result the IFRS funded status of the funded defined benefit plans decreased to 80% (2013: 88%).

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

Defined benefit plans: funding status in millions of CHF

	2014			2013		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
Funded plans						
– Fair value of plan assets	12,110	342	12,452	10,833	311	11,144
– Defined benefit obligation	(14,587)	(1,014)	(15,601)	(11,863)	(762)	(12,625)
Over (under) funding	(2,477)	(672)	(3,149)	(1,030)	(451)	(1,481)
Unfunded plans						
– Defined benefit obligation	(5,056)	(258)	(5,314)	(3,847)	(212)	(4,059)
Total funding status	(7,533)	(930)	(8,463)	(4,877)	(663)	(5,540)
Limit on asset recognition	–	–	–	(6)	–	(6)
Reimbursement rights	–	160	160	–	120	120
Net recognised asset (liability)	(7,533)	(770)	(8,303)	(4,883)	(543)	(5,426)
Reported in balance sheet						
– Defined benefit plan assets	531	160	691	516	120	636
– Defined benefit plan liabilities	(8,064)	(930)	(8,994)	(5,399)	(663)	(6,062)

Plan assets

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

Plan assets are managed using internal and external asset managers. The actual performance is continually monitored by the pension fund governance bodies as well as being closely monitored at a corporate level. In these financial statements the difference between the interest income and actual return on plan assets is a remeasurement that is recorded directly to other comprehensive income. During 2014 the actual return on plan assets was a gain of 1,020 million Swiss francs (2013: gain of 462 million Swiss francs).

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

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

	2014			2013		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At 1 January	10,833	431	11,264	10,893	463	11,356
Interest income on plan assets	335	20	355	283	17	300
Remeasurements on plan assets	652	43	695	141	5	146
Currency translation effects	330	51	381	(244)	(11)	(255)
Employer contributions	370	(6)	364	352	(4)	348
Employee contributions	100	–	100	88	–	88
Benefits paid – funded plans	(495)	(35)	(530)	(451)	(38)	(489)
Benefits paid – settlements	(11)	–	(11)	(226)	–	(226)
Administration costs	(4)	(2)	(6)	(3)	(1)	(4)
At 31 December	12,110	502	12,612	10,833	431	11,264

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

	2014	2013
Equity securities	4,592	4,027
Debt securities	4,580	3,942
Property	1,292	1,173
Cash and money market instruments	447	637
Other investments	1,541	1,365
At 31 December	12,452	11,144

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

- Equity and debt securities which mainly have quoted market prices (Level 1 fair value hierarchy).
- Property which is mainly in private and commercial property funds which mainly have other observable inputs (Level 2 fair value hierarchy).
- Cash and money market instruments which are mainly invested with financial institutions with a credit rating no lower than A.
- Other investments which mainly consist of alternatives, mortgages, commodities and insurance contracts. These are used for risk management purposes and mainly have other observable inputs (Level 2 fair value hierarchy) and unobservable inputs (Level 3 fair value hierarchy).

Included within the fair value of plan assets are the Group's shares and non-voting securities with a fair value of 153 million Swiss francs (2013: 165 million Swiss francs) and debt instruments issued by the Group with a fair value of 19 million Swiss francs (2013: 17 million Swiss francs).

Defined benefit obligation

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

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

Defined benefit plans: defined benefit obligation in millions of CHF

	2014			2013		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At 1 January	15,710	974	16,684	16,765	1,137	17,902
Current service cost	370	11	381	407	16	423
Interest cost	511	45	556	484	43	527
Remeasurements:						
– demographic assumptions	117	109	226	28	12	40
– financial assumptions	3,102	67	3,169	(792)	(138)	(930)
– experience adjustments	25	(5)	20	59	(22)	37
Currency translation effects	350	122	472	(214)	(18)	(232)
Employee contributions	100	–	100	88	–	88
Benefits paid – funded plans	(495)	(35)	(530)	(451)	(38)	(489)
Benefits paid – unfunded plans	(140)	(16)	(156)	(118)	(17)	(135)
Benefits paid – settlements	(11)	–	(11)	(226)	–	(226)
Past service (income) cost	4	–	4	(301)	(1)	(302)
Settlement (gain) loss	–	–	–	(19)	–	(19)
At 31 December	19,643	1,272	20,915	15,710	974	16,684
Composition of plan						
Active members	9,561	332	9,893	7,328	294	7,622
Deferred vested members	1,754	86	1,840	1,352	14	1,366
Retired members	8,328	854	9,182	7,030	666	7,696
At 31 December	19,643	1,272	20,915	15,710	974	16,684
Plans by geography						
Switzerland	8,440	–	8,440	6,879	–	6,879
United States	4,044	1,231	5,275	3,104	936	4,040
Germany	4,667	–	4,667	3,507	–	3,507
Rest of the World	2,492	41	2,533	2,220	38	2,258
At 31 December	19,643	1,272	20,915	15,710	974	16,684
Duration in years	15.5	13.5	15.4	14.3	12.3	14.2

Actuarial assumptions

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

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

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

Country	Mortality table	2014	Male 2013	2014	Female 2013
Switzerland	BVG 2010 generational tables	21.4	21.3	23.9	23.8
United States	RP-2014 projected with MP-2014	22.2	19.8	23.7	21.6
Germany	Heubeck tables 2005G	18.9	18.7	22.9	22.8

During 2014 the US mortality tables were updated which increased the overall US defined benefit obligation by 332 million Swiss francs.

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

Defined benefit plans: financial actuarial assumptions

	Weighted average	2014 Range	Weighted average	2013 Range
Discount rates	2.21%	0.94%–6.50%	3.38%	1.53%–7.20%
Expected rates of salary increases	2.87%	2.00%–5.00%	2.98%	2.00%–5.20%
Expected rates of pension increases	0.91%	0.25%–2.20%	1.03%	0.25%–2.40%
Expected inflation rates	2.34%	2.00%–4.00%	2.60%	2.00%–4.00%
Immediate medical cost trend rate	7.18%	6.30%–7.20%	7.38%	6.80%–7.40%
Ultimate medical cost trend rate (in 2029)	4.50%	4.50%	4.50%	4.50%

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

Sensitivity analysis. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate, inflation rate, expected mortality and medical cost trend rate assumptions. The following table summarises the impact of a change in those assumptions on the present value of the defined benefit obligation.

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

	2014	2013
1 year increase in life expectancy	560	497
Discount rates		
0.25% increase	(797)	(570)
0.25% decrease	799	600
Expected inflation rates		
0.25% increase	303	235
0.25% decrease	(323)	(221)
Immediate medical cost trend rate		
1.00% increase	161	112
1.00% decrease	(132)	(94)

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

Cash flows

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

Defined benefit plans: cash flows in millions of CHF

	2014	2013
Employer contributions, net of reimbursements – funded plans	(364)	(348)
Benefits paid – unfunded plans	(156)	(135)
Total cash inflow (outflow)	(520)	(483)

Based on the most recent actuarial valuations, the Group expects that employer contributions for funded plans in 2015 will be approximately 361 million Swiss francs, which includes an estimated 149 million Swiss francs of additional contributions, mostly related to the US defined benefit plans. Benefits paid for unfunded plans are estimated to be approximately 146 million Swiss francs, which mostly relate to the German defined benefit plans.

26. Equity compensation plans

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

Expenses for equity compensation plans in millions of CHF

	2014	2013
Cost of sales	61	61
Marketing and distribution	61	71
Research and development	101	99
General and administration	127	129
Total operating expenses	350	360
Equity compensation plans		
Roche Stock-settled Stock Appreciation Rights	192	228
Roche Restricted Stock Unit Plan	112	87
Roche Performance Share Plan	17	18
Roche Connect	14	11
Roche Option Plan	4	6
Bonus Stock Awards	8	7
Chugai Stock Acquisition Rights	3	3
Total operating expenses	350	360
of which		
– Equity-settled	350	360
– Cash-settled	–	–

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

	2014	2013
Roche Option Plan exercises	83	126
Chugai Stock Acquisition Rights exercises	14	9
Roche Connect costs	(14)	(11)
Transactions in own equity	(895)	(1,314)
Total cash inflow (outflow) from equity-settled equity compensation plans, net of transactions in own equity	(812)	(1,190)

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

Equity compensation plans

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

Roche S-SARs – movement in number of rights outstanding

	Number of rights (thousands)	2014 Weighted average exercise price (CHF)	Number of rights (thousands)	2013 Weighted average exercise price (CHF)
Outstanding at 1 January	41,691	167.32	55,590	159.42
Granted	7,103	263.41	9,025	214.65
Forfeited	(1,012)	203.59	(1,345)	165.28
Exercised	(12,837)	161.98	(21,533)	166.82
Expired	(36)	229.60	(46)	195.00
Outstanding at 31 December	34,909	187.72	41,691	167.32
– of which exercisable	17,066	158.85	16,798	156.97

Roche S-SARs – terms of rights outstanding at 31 December 2014

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Rights outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Rights exercisable Weighted average exercise price (CHF)
2008	169	0.11	193.93	169	193.93
2009	1,744	1.56	159.33	1,744	159.33
2010	3,317	2.66	151.43	3,242	151.61
2011	4,586	3.19	140.22	4,586	140.22
2012	10,970	4.26	157.94	5,429	157.95
2013	7,323	5.26	214.77	1,881	214.92
2014	6,800	6.26	263.48	15	263.20
Total	34,909	4.41	187.72	17,066	158.85

Roche Restricted Stock Unit Plan. The Group issues Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Group. The RSUs, which are non-tradable, represent the right to receive non-voting equity securities which vest only after a three-year period, subject to performance conditions, if any. There are currently no performance conditions on outstanding RSUs at 31 December 2014. Under the Roche RSU Plan 20 million non-voting equity securities will be available for issuance over a ten-year period. The Roche RSU Plan also includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted.

Roche RSUs – movement in number of awards outstanding

	2014 Number of awards (thousands)	2013 Number of awards (thousands)
Outstanding at 1 January	834	1,137
Granted	724	921
Forfeited	(83)	(108)
Transferred to participants	(83)	(1,116)
Outstanding at 31 December	1,392	834
– of which vested and transferable	–	2

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

Roche Performance Share Plan – terms of outstanding awards at 31 December 2014

	2012–2014	2013–2015	2014–2016
Number of awards outstanding (thousands)	118	99	77
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2015	Feb. 2016	Feb. 2017
Fair value per unit at grant (CHF)	153.67	192.60	228.42
Total fair value at grant (CHF millions)	22	21	18

Roche Connect. This programme enables all employees worldwide, except for those in the US and certain other countries, to make regular deductions from their salaries to purchase non-voting equity securities. It is administered by independent third parties. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%). The administrator purchases the necessary non-voting equity securities directly from the market. At 31 December 2014 the administrator held 2.2 million non-voting equity securities (2013: 2.2 million). In 2014 the cost of the plan was 14 million Swiss francs (2013: 11 million Swiss francs).

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

Roche Option Plan – movement in number of options outstanding

	2014 Number of options (thousands)	2014 Weighted average exercise price (CHF)	2013 Number of options (thousands)	2013 Weighted average exercise price (CHF)
Outstanding at 1 January	1,267	168.78	1,810	167.15
Granted	154	263.20	226	214.00
Forfeited	(30)	190.40	(54)	171.98
Exercised	(493)	167.88	(700)	178.38
Expired	(3)	229.60	(15)	195.00
Outstanding at 31 December	895	184.62	1,267	168.78
– of which exercisable	489	159.78	640	164.69

Roche Option Plan – terms of options outstanding at 31 December 2014

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Options outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Options exercisable Weighted average exercise price (CHF)
2008	25	0.24	189.85	25	189.85
2009	34	1.19	152.33	34	152.33
2010	78	2.29	169.76	78	169.76
2011	181	3.17	140.10	181	140.10
2012	249	4.25	157.61	125	157.58
2013	181	5.25	214.00	46	214.00
2014	147	6.26	263.20	–	263.20
Total	895	4.16	184.62	489	159.78

The weighted average share price of Roche non-voting equity securities during the year was 266.91 Swiss francs (2013: 230.83 Swiss francs).

Bonus Stock Awards. The Chairman of the Board of Directors, Dr. Humer and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2014. These will be issued by the end of April 2015. The number of awards and fair value per award will be calculated at the grant date.

Chugai Stock Acquisition Rights. Chugai has Stock Acquisition Right programmes and the total fair value of the rights issued in 2014 was equivalent to 3 million Swiss francs (2013: 3 million Swiss francs). In 2014, 3,100 rights (2013: 3,270) were issued to employees and directors of Chugai. The rights are non-tradable equity-settled awards that have a ten-year duration and vest after two years. Each right entitles the holder to purchase 100 Chugai shares at a specified exercise price. In addition, 461 rights (2013: 522) were issued to the directors of Chugai that have a thirty-year duration and vest upon the holder's retirement as a director of Chugai. Each right entitles the holder to purchase 100 Chugai shares at an exercise price of 100 Japanese yen.

Fair value measurement

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

Fair value measurement in 2014

	Roche Stock-settled Stock Appreciation Rights	Roche Restricted Stock Unit Plan	Roche Performance Share Plan	Roche Option Plan
Vesting period	Progressively over 3 years	Cliff vesting after 3 years	Cliff vesting after 3 years	Progressively over 3 years
Contractual life	7 years	n/a	n/a	7 years
Number granted during year (thousands)	7,103	724	81	154
Weighted average fair value (CHF)	26	263	228	26
Model used	Binomial	Market price ^{a)}	Monte Carlo ^{b)}	Binomial
Inputs to option pricing model				
– Share price at grant date (CHF)	263	263	249	263
– Exercise price (CHF)	263	–	–	263
– Expected volatility ^{c)}	24.9%	n/a	n/a	24.9%
– Expected dividend yield	6.7%	n/a	n/a	6.7%
– Early exercise factor ^{d)}	1.35	n/a	n/a	1.35
– Expected exit rate	8.3%	n/a	n/a	8.3%

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

b) The input parameters were the covariance matrix between Roche and the other individual companies of the peer group based on a three-year history and a risk-free rate of minus 0.05%. The valuation takes into account the defined rank and performance structure which determines the pay-out of the plan.

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

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

27. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	2014	2013
Net income attributable to Roche shareholders (CHF millions)	9,332	11,164
Number of shares (millions) ²¹	160	160
Number of non-voting equity securities (millions) ²¹	703	703
Weighted average number of own shares and non-voting equity securities held (millions)	(14)	(15)
Weighted average number of shares and non-voting equity securities in issue (millions)	849	848
Basic earnings per share and non-voting equity security (CHF)	10.99	13.16

Diluted earnings per share and non-voting equity security

	2014	2013
Net income attributable to Roche shareholders (CHF millions)	9,332	11,164
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
Net income used to calculate diluted earnings per share (CHF millions)	9,331	11,163
Weighted average number of shares and non-voting equity securities in issue (millions)	849	848
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	14	15
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	863	863
Diluted earnings per share and non-voting equity security (CHF)	10.81	12.93

28. Statement of cash flows

Cash flows from operating activities

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

Cash generated from operations in millions of CHF

	2014	2013
Net income	9,535	11,373
Add back non-operating (income) expense		
– Financing costs ³	1,821	1,580
– Other financial income (expense) ³	(246)	119
– Income taxes ⁴	2,980	3,304
Operating profit	14,090	16,376
Depreciation of property, plant and equipment ⁷	1,917	1,878
Amortisation of intangible assets ⁹	706	503
Impairment of goodwill ⁸	874	288
Impairment of intangible assets ⁹	1,034	362
Impairment (reversal) of property, plant and equipment ⁷	51	(474)
Operating (income) expense for defined benefit plans ²⁵	385	102
Operating expense for equity-settled equity compensation plans ²⁶	350	360
Net (income) expense for provisions ¹⁹	867	1,050
Bad debt (reversal) expense	76	(12)
Inventory write-downs	370	303
Net (gain) loss on disposal of products	(466)	(6)
Other adjustments	51	66
Cash generated from operations	20,305	20,796

Cash flows from investing activities

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

Interest and dividends received in millions of CHF

	2014	2013
Interest received	32	49
Dividends received	3	2
Total	35	51

Cash flows from financing activities

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

Dividends paid in millions of CHF

	2014	2013
Dividends to Roche Group shareholders	(6,617)	(6,238)
Dividends to non-controlling shareholders – Chugai	(81)	(84)
Dividends to non-controlling shareholders – Other	(59)	(39)
Increase (decrease) in dividends payable	40	-
Dividend withholding tax	(1)	(1)
Total	(6,718)	(6,362)

Significant non-cash transactions

There were no significant non-cash transactions in 2014 (2013: none), except for contingent consideration arrangements arising from business combinations (see Notes 5 and 29).

29. Risk management

Group risk management

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

Financial risk management

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

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

Credit risk

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

Accounts receivable. At 31 December 2014 the Group has trade receivables of 9.7 billion Swiss francs (2013: 9.3 billion Swiss francs). These are subject to a policy of active credit risk management which focuses on the assessment of country risk, credit availability, ongoing credit evaluation and account monitoring procedures. The objective of trade receivables management is to maximise the collection of unpaid amounts.

At 31 December 2014 the Group's combined trade receivables balance with three US national wholesale distributors, AmerisourceBergen Corp., McKesson Corp. and Cardinal Health, Inc., was equivalent to 1.9 billion Swiss francs representing 19% of the Group's consolidated trade receivables (2013: 1.4 billion Swiss francs representing 15%). There is no other significant concentration of counterparty credit risk due to the Group's large number of customers and their wide geographical spread. Risk limits and exposures are continuously monitored by country and by the nature of counterparties. The Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. At 31 December 2014 no collateral was held for trade receivables (2013: none).

Since 2010 there have been financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and has trade receivables of 0.9 billion Swiss francs (2013: 1.3 billion Swiss francs) with the public customers in these countries. At 31 December 2014 trade receivables in Italy, Spain, Greece and Portugal decreased due to improved collections compared to 2013. The Group uses different measures to improve collections in these countries, including intense communication with customers, factoring, negotiations of payments plans, charging of interest for late payments, and legal action.

The nature and geographic location of counterparties to accounts receivable that are not overdue or impaired are shown in the table below. These include the balances with US national wholesalers and Southern Europe public customers described above.

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

Regions	2014				2013			
	Total	Public	Whole-salers/ distributors	Private	Total	Public	Whole-salers/ distributors	Private
Switzerland	39	15	11	13	37	15	9	13
Europe	1,802	710	410	682	2,008	661	582	765
North America	2,666	65	1,885	716	1,925	56	1,409	460
Latin America	617	106	177	334	620	108	163	349
Japan	1,136	–	1,133	3	951	7	942	2
Asia, Australia and Oceania	1,016	47	526	443	777	40	425	312
Rest of the World	705	57	242	406	799	44	212	543
Total	7,981	1,000	4,384	2,597	7,117	931	3,742	2,444

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

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

	2014	2013
Neither overdue nor impaired	7,981	7,117
Overdue under 1 month	281	401
Overdue 1–3 months	254	426
Overdue 4–6 months	279	435
Overdue 7–12 months	208	274
Overdue more than 1 year	–	155
Total accounts receivable	9,003	8,808

Cash and marketable securities. At 31 December 2014 the Group has cash and marketable securities of 11.7 billion Swiss francs (2013: 11.9 billion Swiss francs). These are subject to a policy of restricting exposures to high-quality counterparties and setting defined limits for individual counterparties. These limits and counterparty credit ratings are reviewed regularly. Investments in marketable securities are entered into on the basis of guidelines with regard to liquidity, quality and maximum amount. As a general rule, the Group invests only in high-quality securities with adequate liquidity. Cash and short-term time deposits are subject to rules which limit the Group's exposure to individual financial institutions.

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

	(mCHF)	2014 (% of total)	(mCHF)	2013 (% of total)
AAA-range	1,851	17	3,172	28
AA-range	3,227	29	5,215	45
A-range	5,604	50	2,822	25
BBB-range	129	1	146	1
Below BBB-range	4	0	26	0
Unrated	335	3	118	1
Total	11,150	100	11,499	100

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

Contract terms. At 31 December 2014 there are no significant financial assets whose terms have been renegotiated (2013: none).

Impairment losses. During 2014 total impairment losses for available-for-sale financial assets amounted to 9 million Swiss francs (2013: 9 million Swiss francs).

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Roche and Chugai enjoy strong credit quality and are rated by at least one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements. At 31 December 2014 the Group has unused committed credit lines with various financial institutions totalling 5.0 billion Swiss francs (2013: 5.1 billion Swiss francs), of which 4.7 billion Swiss francs serve as a back-stop line for the commercial paper programme.

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

Contractual maturities of financial liabilities in millions of CHF

	Carrying value	Total	Less than 1 year	1-2 years	2-5 years	Over 5 years
Year ended 31 December 2014						
Debt ²⁰						
- Bonds and notes	21,589	29,042	3,318	3,338	10,166	12,220
- Other debt	4,125	4,125	3,945	38	122	20
Contingent consideration ¹⁹	815	967	67	238	292	370
Accounts payable ¹⁶	2,883	2,883	2,883	-	-	-
Derivative financial instruments ¹⁸	673	673	494	145	34	-
Total financial liabilities	30,085	37,690	10,707	3,759	10,614	12,610
Year ended 31 December 2013						
Debt ²⁰						
- Bonds and notes	17,293	25,337	1,923	3,072	7,793	12,549
- Other debt	1,350	1,350	1,154	33	106	57
Contingent consideration ¹⁹	122	122	35	2	85	-
Accounts payable ¹⁶	2,162	2,162	2,162	-	-	-
Derivative financial instruments ¹⁸	354	354	295	-	-	59
Total financial liabilities	21,281	29,325	5,569	3,107	7,984	12,665

Market risk

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

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

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

Market risk of financial instruments in millions of CHF

	2014	2013
VaR – Interest rate component	266	292
VaR – Foreign exchange component	32	36
VaR – Other price component	36	30
Diversification	(56)	(61)
VaR – Total market risk	278	297

The interest rate component decreased mainly due to the ageing and restructuring of debt in an environment of largely stable rates in major economies. The foreign exchange component decreased due to a favourable exposure mix. The other price component arises mainly from movements in equity security prices and increased as the Group held more equity securities.

Foreign exchange risk

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

Interest rate risk

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

Interest rate hedging. During 2014 the Group entered into the following interest rate hedging contracts:

- Interest rate swap contracts for a combined notional principal of 850 million US dollars. These swapped the fixed interest rate of 1.35% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 0.088%. The maturity of the swaps is 29 September 2017.
- Interest rate swap contracts for a combined notional principal of 1.5 billion Swiss francs. These swapped the fixed interest rate of 2.25% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 0.31%. The maturity of the swaps is 30 September 2019.

Other price risk

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

Capital management

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

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

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

Capital in millions of CHF

	2014	2013	2012
Capital and reserves attributable to Roche shareholders ²¹	19,586	19,294	14,514
Equity attributable to non-controlling interests ²³	1,972	1,947	2,236
Total equity	21,558	21,241	16,750
Total debt²⁰	25,714	18,643	24,590
Capitalisation	47,272	39,884	41,340

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

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

Financial instrument accounting classifications and fair values

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

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

	Available- for-sale	Fair value – hedging instruments	Fair value – designated	Loans and receivables	Other financial liabilities	Total carrying value	Fair value
Year ended 31 December 2014							
Other non-current assets ¹⁴							
– Available-for-sale investments	246	–	–	–	–	246	246
– Other financial non-current assets	–	–	–	146	–	146	146
Accounts receivable ¹¹	–	–	–	9,003	–	9,003	9,003
Marketable securities ¹²	7,961	–	–	–	–	7,961	7,961
Cash and cash equivalents ¹³	–	–	–	3,742	–	3,742	3,742
Other current assets ¹⁵							
– Derivative financial instruments	–	194	–	–	–	194	194
– Other financial current assets	–	–	–	1,163	–	1,163	1,163
Total financial assets	8,207	194	–	14,054	–	22,455	22,455
Debt ²⁰							
– Bonds and notes	–	–	–	–	(21,589)	(21,589)	(24,256)
– Other debt	–	–	–	–	(4,125)	(4,125)	(4,125)
Contingent consideration ¹⁹	–	–	(815)	–	–	(815)	(815)
Accounts payable ¹⁶	–	–	–	–	(2,883)	(2,883)	(2,883)
Derivative financial instruments ¹⁸	–	(673)	–	–	–	(673)	(673)
Total financial liabilities	–	(673)	(815)	–	(28,597)	(30,085)	(32,752)
Year ended 31 December 2013							
Other non-current assets ¹⁴							
– Available-for-sale investments	209	–	–	–	–	209	209
– Other financial non-current assets	–	–	–	133	–	133	133
Accounts receivable ¹¹	–	–	–	8,808	–	8,808	8,808
Marketable securities ¹²	7,935	–	–	–	–	7,935	7,935
Cash and cash equivalents ¹³	–	–	–	4,000	–	4,000	4,000
Other current assets ¹⁵							
– Derivative financial instruments	–	653	–	–	–	653	653
– Other financial current assets	–	–	–	632	–	632	632
Total financial assets	8,144	653	–	13,573	–	22,370	22,370
Debt ²⁰							
– Bonds and notes	–	–	–	–	(17,293)	(17,293)	(19,991)
– Other debt	–	–	–	–	(1,350)	(1,350)	(1,350)
Contingent consideration ¹⁹	–	–	(122)	–	–	(122)	(122)
Accounts payable ¹⁶	–	–	–	–	(2,162)	(2,162)	(2,162)
Derivative financial instruments ¹⁸	–	(354)	–	–	–	(354)	(354)
Total financial liabilities	–	(354)	(122)	–	(20,805)	(21,281)	(23,979)

The fair value of bonds and notes is Level 1 and is calculated based on the observable market prices of the debt instruments or the present value of the future cash flows on the instrument, discounted at a market rate of interest for instruments with similar credit status, cash flows and maturity periods.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments in millions of CHF

	Level 1	Level 2	Level 3	Total
Year ended 31 December 2014				
Marketable securities				
– Equity securities	553	–	–	553
– Debt securities	1,267	2	–	1,269
– Money market instruments and time accounts over three months	1,863	4,276	–	6,139
Derivative financial instruments	–	194	–	194
Available-for-sale investments – held at fair value ¹⁴	43	134	–	177
Financial assets recognised at fair value	3,726	4,606	–	8,332
Derivative financial instruments	–	(673)	–	(673)
Contingent consideration	–	–	(815)	(815)
Financial liabilities recognised at fair value	–	(673)	(815)	(1,488)
Year ended 31 December 2013				
Marketable securities				
– Equity securities	436	–	–	436
– Debt securities	791	2	–	793
– Money market instruments and time accounts over three months	1,726	4,980	–	6,706
Derivative financial instruments	–	653	–	653
Available-for-sale investments – held at fair value ¹⁴	24	145	–	169
Financial assets recognised at fair value	2,977	5,780	–	8,757
Derivative financial instruments	–	(354)	–	(354)
Contingent consideration	–	–	(122)	(122)
Financial liabilities recognised at fair value	–	(354)	(122)	(476)

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

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

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 and vice versa during the year (2013: none).

Level 3 fair values

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

Contingent consideration arrangements in millions of CHF

	2014	2013
At 1 January	(122)	(81)
Arising from business combinations ⁵	(721)	(61)
Acquired with business combinations	(18)	–
Total unrealised gains and losses included in the income statement		
– Unused amounts reversed	2	–
– Additional amount created	–	(9)
– Discount unwind	(9)	(1)
Total gains and losses included in other comprehensive income		
– Currency translation effects	(46)	1
Transfers out of Level 3		
– Utilised ⁵	99	29
At 31 December	(815)	(122)

Contingent consideration arrangements

The Group is party to certain contingent consideration arrangements arising from business combinations. The fair values are determined considering the expected payments, discounted to present value using risk-adjusted average discount rate of 4.1% (2013: 4.6%). The expected payments are determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales, other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At 31 December 2014 the total payments under contingent consideration arrangements could be up to 2,203 million Swiss francs (2013: 303 million Swiss francs). The most significant contingent consideration arrangements relate to the Seragon (2014), Santaris (2014), Dutalys (2014), IQuum (2014), Genia (2014) and CMI (2013) acquisitions.

Derivative financial instruments

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

Derivative financial instruments in millions of CHF

	2014	2013	Assets 2012	2014	2013	Liabilities 2012
Foreign currency derivatives						
– Forward exchange contracts	99	138	31	(110)	(25)	(59)
– Cross-currency swaps	76	513	418	(145)	–	–
– Other	–	–	–	–	–	–
Interest rate derivatives						
– Swaps	19	2	5	(34)	(59)	–
– Other	–	–	–	–	–	–
Other derivatives	–	–	–	(384)	(270)	(106)
Carrying value of derivative financial instruments^{15, 18}	194	653	454	(673)	(354)	(165)
Derivatives subject to master netting agreements	(72)	(55)	(39)	72	55	39
Collateral arrangements	(99)	(486)	(361)	175	6	5
Net amount	23	112	54	(426)	(293)	(121)

Collateral arrangements

The fair value of the currency swaps decreased during 2014, mainly due to a weaker euro compared to the US dollar, and as a result cash was delivered by the Group to the counterparties.

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

	2014	2013
At 1 January	(480)	(356)
Net cash delivered by (to) the Group	556	(124)
At 31 December	76	(480)

Hedge accounting

At 31 December 2014 the Group has the following cash flow hedges and fair value hedges which are designated in a qualifying hedge relationship.

Cash flow hedges. The Group has entered into cross-currency swaps to hedge foreign exchange and interest rate risk on some of the bonds and notes issued by the Group which are denominated in euros and sterling. At 31 December 2014 such instruments are recorded as fair value assets of 76 million Swiss francs and liabilities of 145 million Swiss francs (2013: assets of 513 million Swiss francs). There was no ineffective portion.

Chugai has entered into foreign exchange forward contracts to hedge a part of its foreign translation exposure to Swiss francs and US dollars. At 31 December 2014 such instruments are recorded as fair value assets of 14 million Swiss francs (2013: assets of 57 million Swiss francs). There was no ineffective portion.

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

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

	Total	Less than 1 year	2014 More than 1 year	Total	Less than 1 year	2013 More than 1 year
Cash inflows	5,396	723	4,673	7,021	955	6,066
Cash outflows	(5,708)	(725)	(4,983)	(6,558)	(913)	(5,645)
Total cash inflow (outflow)	(312)	(2)	(310)	463	42	421

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

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

	Total	Less than 1 year	2014 More than 1 year	Total	Less than 1 year	2013 More than 1 year
Cash inflows	966	261	705	1,296	289	1,007
Cash outflows	(1,108)	(301)	(807)	(1,310)	(293)	(1,017)
Total cash inflow (outflow)	(142)	(40)	(102)	(14)	(4)	(10)

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

Fair value hedges. The Group has entered into some interest rate swaps to hedge some of its fixed-term debt instruments. At 31 December 2014 such instruments are recorded as fair value liabilities of 34 million Swiss francs (2013: 59 million Swiss francs) and fair value assets of 19 million Swiss francs (2013: 2 million Swiss francs). During 2014 a gain of 42 million Swiss francs was recorded on these interest rate swaps (2013: loss of 62 million Swiss francs). As the fair value hedge had been highly effective since inception, the result of the interest rate swaps was largely offset by changes in the fair value of the hedged debt instruments.

The Group has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure the Group has entered into forward contracts, which have been designated and qualify as fair value hedges. At 31 December 2014 such instruments are recorded as fair value liabilities of 384 million Swiss francs (2013: liabilities of 270 million Swiss francs). During 2014 a loss of 114 million Swiss francs was recorded on these forward contracts (2013: loss of 164 million Swiss francs). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments held within marketable securities (see Note 12).

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

30. Related parties

Controlling shareholders

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

At 31 December 2014 and 2013, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

Mr André Hoffmann and Dr Andreas Oeri are members of the Board of Directors of Roche Holding Ltd. Mr Hoffmann received remuneration totalling 418,298 Swiss francs (2013: 400,000 Swiss francs) and Dr Oeri received remuneration totalling 360,000 Swiss francs (2013: 360,000 Swiss francs).

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

Subsidiaries and associates

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

Key management personnel

Total remuneration of key management personnel was 56 million Swiss francs (2013: 52 million Swiss francs).

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

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

	2014	2013
Salaries, including cash-settled bonus	26	24
Bonus Stock Awards	8	7
Social security costs	5	3
Pensions and other post-employment benefits	2	4
Equity compensation plans	11	9
Board fees	3	4
Other employee benefits	1	1
Total	56	52

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

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the Remuneration Report included in the Annual Report on pages 152 to 167. In those disclosures the values for equity compensation plans, including the Bonus Stock Awards, represent the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions. These fair values are shown in the table below, which reconciles those disclosures required by Swiss law to the above related party disclosures for key management personnel.

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

	2014	2013
Total remuneration of the members of the Board of Directors and Corporate Executive Committee (IFRS basis – see table above)	56	52
Deduct		
– Bonus Stock Awards (IFRS basis)	(8)	(7)
– Equity compensation plans (IFRS basis)	(11)	(9)
Add back		
– Bonus Stock Awards (Swiss legal basis)	4	4
– Equity compensation plans (Swiss legal basis)	18	18
Total remuneration of the members of the Board of Directors and Corporate Executive Committee (Swiss legal basis)	59	58
Of which (including social security costs)		
Board of Directors (page 158 of the Annual Report)	13	13
Corporate Executive Committee (page 163 of the Annual Report)	46	45

Bonus Stock Awards. The Chairman of the Board of Directors, Dr Humer and the Chief Executive Officer will be granted Bonus Stock Awards in lieu of their cash-settled bonus for the financial year 2014. These will be issued by the end of April 2015. The number of awards and fair value per award will be calculated at the grant date.

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

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

	2014	2013
Roche Stock-settled Stock Appreciation Rights	156,567	201,921
Roche Restricted Stock Unit Plan	15,957	19,838
Roche Performance Share Plan	15,291	20,660

Contributions paid for Dr Humer and members of the Corporate Executive Committee in millions of CHF

	2014	2013
Roche Connect	0.3	0.3

Transactions with former members of the Board of Directors and Corporate Executive Committee. Pensions totalling 2 million Swiss francs were paid by the Group to former Corporate Executive Committee members (2013: 2 million Swiss francs). Subsequent to his retirement as a member of the Board of Directors, Dr Humer received 3 million Swiss francs in his advisory capacity to the Chairman of the Board.

Defined benefit plans

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

31. Subsidiaries and associates

Listed companies

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Switzerland	Roche Holding Ltd Stock Exchange: SIX Swiss Exchange Zurich Valor Share: 1203211 Valor <i>Genussschein</i> : 1203204 ISIN Share: CH0012032113 ISIN <i>Genussschein</i> : CH0012032048 Market Capitalisation: CHF 229,002.6 m	Basel	CHF 160.0	
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo ISIN: JP3519400000 Market Capitalisation: JPY 1,616,647 m	Tokyo	JPY 335.2	61.5

Non-listed companies

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Algeria	Roche Algérie S.p.A	Bab Ezzouar	DZD 1.0	48
Argentina	Productos Roche S.A. Química e Industrial Vanguardia en productos farmacéuticos (VANPROFARMA) S.A.	Buenos Aires Buenos Aires	ARS 313.5 ARS 5.3	100 100
Australia	Roche Diabetes Care Australia Pty Limited Roche Diagnostics Australia Pty. Limited Roche Products Pty. Limited	Bella Vista Castle Hill Dee Why	AUD (-) AUD 5.0 AUD 65.0	100 100 100
Austria	Dutalys GmbH InterMune Austria GmbH Roche Austria GmbH Roche Diabetes Care Austria GmbH Roche Diagnostics GmbH Roche Diagnostics Graz GmbH Visiomab GmbH	Vienna Vienna Vienna Vienna Vienna Graz Vienna	EUR (-) EUR (-) EUR 14.5 EUR (-) EUR 1.1 EUR 0.4 EUR (-)	100 100 100 100 100 100 100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Azerbaijan	Roche Azerbaijan LLC	Baku	AZN	0.5	100
Bangladesh	Roche Bangladesh Limited	Dhaka	BDT	27.2	100
Belarus	FLLC 'Roche Products Limited'	Minsk	BYR	1.5	100
Belgium	N.V. Roche S.A.	Brussels	EUR	32.0	100
	Roche Diagnostics Belgium NV	Brussels	EUR	3.8	100
Bermuda	Chemical Manufacturing and Trading Company Limited	Hamilton	USD	(-)	100
	Roche Capital Services Ltd.	Hamilton	RUB	(-)	100
	Roche Catalyst Investments Ltd.	Hamilton	USD	(-)	100
	Roche Financial Investments Ltd.	Hamilton	USD	(-)	100
	Roche Financial Management Ltd.	Hamilton	USD	(-)	100
	Roche Financial Services Ltd.	Hamilton	USD	(-)	100
	Roche International Ltd.	Hamilton	USD	(-)	100
	Roche Intertrade Limited	Hamilton	USD	10.0	100
	Roche Operations Ltd.	Hamilton	USD	(-)	100
	Roche Services Holdings Ltd.	Hamilton	USD	(-)	100
	Syntex Pharmaceuticals International Ltd.	Hamilton	USD	(-)	100
Bosnia-Herzegovina	Roche Ltd. Pharmaceutical Company	Sarajevo	BAM	13.1	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL	41.7	100
	Roche Diagnostica Brasil Ltda.	São Paulo	BRL	459.3	100
Bulgaria	Roche Bulgaria EOOD	Sofia	BGN	5.1	100
Cameroon	Roche Cameroun SARL	Douala	XAF	60.0	100
Canada	Chempharm Limited	Toronto	CAD	(-)	100
	Hoffmann-La Roche Limited	Toronto	CAD	40.3	100
	InterMune Canada Inc.	Burlington	CAD	7.2	100
	Sapac Corporation Ltd.	St. John	CAD	7.9	100
Chile	Roche Chile Limitada	Santiago de Chile	CLP	70.9	100
China	Roche (China) Holding Ltd.	Shanghai	USD	37.3	100
	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD	10.0	100
	Roche Diagnostics (Shanghai) Limited	Shanghai	USD	31.0	100
	Roche Hong Kong Limited	Hong Kong	HKD	10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD	6.3	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD	278.7	70
Colombia	Productos Roche S.A.	Bogotá	COP	26,923.7	100
Costa Rica	Roche Servicios S.A.	Heredia	USD	8.1	100
Croatia	Roche d.o.o.	Zagreb	HRK	4.8	100
Czech Republic	Roche s.r.o.	Prague	CZK	200.0	100
Denmark	Roche a/s	Hvidovre	DKK	4.0	100
	Roche Diagnostics a/s	Hvidovre	DKK	1.3	100
	Roche Innovation Center Copenhagen A/S	Hoersholm	DKK	100.1	100
Dominican Republic	Productos Roche Dominicana S.A.	Santo Domingo	DOP	0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD	28.1	100
El Salvador	Productos Roche (El Salvador) S.A.	San Salvador	SVC	0.2	100
Egypt	RoDiagnostics Egypt for Trading S.A.E	Giza	EGP	0.3	100
	Roche Egypt LLC	Cairo	EGP	0.1	95
Estonia	Roche Eesti OÜ	Tallinn	EUR	0.1	100
Finland	Roche Diagnostics Oy	Espoo	EUR	0.2	100
	Roche Oy	Espoo	EUR	(-)	100
France	Institut Roche de Recherche et Médecine Translationnelle SAS	Boulogne-Billancourt	EUR	(-)	100
	InterMune France SAS	Boulogne-Billancourt	EUR	(-)	100
	Roche Diabetes Care France SAS	Meylan	EUR	4.5	100
	Roche Diagnostics France S.A.S.	Meylan	EUR	16.0	100
	Roche S.A.S.	Boulogne-Billancourt	EUR	38.2	100
	Ventana Medical Systems S.A.S.	Illkirch	EUR	0.9	100
Georgia	Roche Georgia LLC	Tbilisi	GEL	0.5	100
Germany	InterMune Deutschland GmbH	Berlin	EUR	(-)	100
	Galenus Mannheim GmbH	Mannheim	EUR	1.7	100
	Galenus Mannheim Pharma GmbH	Mannheim	EUR	(-)	100
	Roche Beteiligungs GmbH	Grenzach-Wyhlen	EUR	3.6	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	EUR	6.0	100
	Roche Diabetes Care GmbH	Mannheim	EUR	(-)	100
	Roche Diabetes Care Deutschland GmbH	Mannheim	EUR	(-)	100
	Roche Diagnostics Deutschland GmbH	Mannheim	EUR	1.0	100
	Roche Diagnostics GmbH	Mannheim	EUR	94.6	100
	Roche mtm laboratories AG	Heidelberg	EUR	1.4	100
	Roche Pharma AG	Grenzach-Wyhlen	EUR	61.4	100
	Roche PVT GmbH	Waiblingen	DEM	(-)	100
	Swisslab GmbH	Berlin	EUR	(-)	100
	Verum Diagnostica GmbH	Munich	EUR	(-)	100
Ghana	Roche Products Ghana Limited	Accra	GHS	1.2	100
Greece	Roche (Hellas) S.A.	Athens	EUR	80.1	100
	Roche Diagnostics (Hellas) S.A.	Athens	EUR	48.7	100
Guatemala	Productos Roche Guatemala S.A.	Guatemala	GTQ	0.6	100
Honduras	Productos Roche (Honduras), S.A.	Tegucigalpa	HNL	(-)	100

Country	Company	City	Share capital (in millions)	Equity interest (in %)
Hungary	Roche (Hungary) Ltd.	Budapest	HUF 30.0	100
	Roche Services (Europe) Ltd.	Budapest	HUF 3.0	100
India	Roche Diagnostics (India) Pvt. Ltd.	Mumbai	INR 149.2	100
	Roche Products (India) Pvt. Ltd.	Mumbai	INR 1,000.0	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR 1,323.0	98.6
Iran	Roche Pars Co. (Ltd.)	Tehran	IRR 41,610.0	100
Ireland	Roche Diabetes Care Limited, Irish branch	Dublin	EUR (-)	100
	Roche Ireland Limited	Clarecastle	EUR 2.4	100
	Roche Products (Ireland) Limited	Dublin	EUR (-)	100
Israel	Medingo Ltd.	Yotneam Illit	ILS 8.0	100
	Roche Pharmaceuticals (Israel) Ltd.	Petach Tikva	ILS (-)	100
Italy	InterMune S.r.L.	Milan	EUR (-)	100
	Roche Diagnostics S.p.A.	Milan	EUR 18.1	100
	Roche S.p.A.	Milan	EUR 34.1	100
Ivory Coast	Roche Côte d'Ivoire SARL	Abidjan	XOF 50.0	100
Jordan	F. Hoffmann-La Roche Ltd / Jordan P.S.C.	Amman	JOD (-)	100
Japan	Roche Diagnostics K.K.	Tokyo	JPY 2,500.0	100
Kazakhstan	Roche Kazakhstan LLP	Almaty	KZT 150.0	100
Kenya	Roche Kenya Limited	Nairobi	KES 40.0	100
Latvia	Roche Latvija SIA	Riga	EUR 0.3	100
Lebanon	Roche Lebanon SARL	Beirut	LBP 100.0	100
Lithuania	UAB Roche Lietuva	Vilnius	LTL 0.8	100
Macedonia	Roche Makedonija DOOEL	Skopje	MKD 0.3	100
Malaysia	Roche (Malaysia) Sdn. Bhd.	Kuala Lumpur	MYR 4.0	100
	Roche Diagnostics (Malaysia) Sdn. Bhd.	Petaling Jaya	MYR 0.9	100
	Syntex Pharmaceuticals Sdn. Bhd.	Kuala Lumpur	MYR (-)	100
Mauritius	Roche Products (Mauritius) Limited	Quatre Bornes	MUR 4.0	100
Mexico	Productos Roche, S.A. de C.V.	Mexico City	MXN 82.6	100
	Roche Servicios de México, S.A. de C.V.	Mexico City	MXN 3.5	100
Moldova	Roche Products Limited S.R.L.	Chisinau	MDL 1.8	100
Morocco	Roche S.A.	Casablanca	MAD 59.5	100
Myanmar	Roche Myanmar Company Limited	Yangon	USD (-)	100
Netherlands	InterMune Benelux B.V.	Nieuwegein	EUR (-)	100
	Roche Diabetes Care Nederland B.V.	Almere	EUR (-)	100
	Roche Diagnostics Nederland B.V.	Almere	EUR 2.3	100
	Roche Finance Europe B.V.	Woerden	EUR 2.0	100
	Roche Nederland B.V.	Woerden	EUR 10.9	100
	Roche Pharmholding B.V.	Woerden	EUR 467.8	100
New Zealand	Roche Diagnostics NZ Limited	Auckland	NZD 3.0	100
	Roche Products (New Zealand) Limited	Auckland	NZD 13.5	100
Nicaragua	Productos Roche (Nicaragua) S.A.	Managua	NIO (-)	100
Nigeria	Roche Products Limited	Lagos	NGN 200.0	100
Norway	Roche Diagnostics Norge A/S	Oslo	NOK 5.8	100
	Roche Norge A/S	Oslo	NOK 6.2	100
Pakistan	Roche Pakistan Limited	Karachi	PKR 38.3	100
Palestine	Roche Pharmaceuticals Palestine Ltd	Ramallah and Al-Bireh	USD 1.2	100
Panama	Productos Roche (Panamá) S.A.	Panama City	PAB (-)	100
	Productos Roche Interamericana S.A.	Panama City	USD 0.1	100
	Roche Products Inc.	Panama City	USD 0.5	100
	Syntex Puerto Rico Inc.	Panama City	USD (-)	100
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN 11.1	100
	Roche Farma (PERU) S.A.	Lima	PEN 1.7	100
Philippines	Roche (Philippines) Inc.	Taguig City	PHP 300.0	100
Poland	Roche Diabetes Care Polska sp. z o.o.	Warsaw	PLN 2.0	100
	Roche Diagnostics Polska Sp. z o.o.	Warsaw	PLN 8.0	100
	Roche Polska Sp. z o.o.	Warsaw	PLN 25.0	100
Portugal	Roche Farmacéutica Química, Lda.	Amadora	EUR 1.1	100
	Roche Sistemas de Diagnósticos, Sociedade Unipessoal, Lda.	Amadora	EUR 2.6	100
Puerto Rico	Roche Operations Ltd.	Ponce	USD (-)	100
Romania	Roche Romania S.R.L.	Bucharest	RON 472.2	100
Russian Federation	Limited Liability Company Roche Diagnostics Rus	Moscow	RUB 250.0	100
	Roche – Moscow Ltd.	Moscow	RUB 2.6	100
Serbia	Roche d.o.o. Beograd	Belgrade	EUR 9.6	100
Singapore	Roche Diabetes Care Asia Pacific Pte. Ltd.	Singapore	SGD (-)	100
	Roche Diagnostics Asia Pacific Pte. Ltd.	Singapore	SGD 20.4	100
	Roche Singapore Pte. Ltd.	Singapore	SGD 4.0	100
	Roche Singapore Technical Operations, Pte. Ltd.	Singapore	USD 35.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	EUR 0.3	100
Slovenia	Roche farmacevtska družba d.o.o.	Ljubljana	EUR 0.2	100
South Africa	Roche Products (Proprietary) Limited	Illovo	ZAR 60.0	100
South Korea	Roche Diagnostics Korea Co., Ltd.	Seoul	KRW 22,969.0	100
	Roche Korea Company Ltd.	Seoul	KRW 13,375.0	100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Spain	Andreu Roche S.A.	Madrid	EUR	0.1	100
	InterMune Spain, S.L.	Madrid	EUR	(-)	100
	Roche Diagnostics S.L.	Barcelona	EUR	18.0	100
	Roche Farma S.A.	Madrid	EUR	54.1	100
	Syntex Roche S.A.	Madrid	EUR	0.1	100
Sri Lanka	Roche Products Colombo (Private) Limited	Colombo	LKR	14.0	100
Sweden	InterMune Nordics AB	Kista	SEK	(-)	100
	Roche AB	Stockholm	SEK	20.0	100
	Roche Diagnostics Scandinavia AB	Bromma	SEK	9.0	100
Switzerland	F. Hoffmann-La Roche Ltd	Basel	CHF	150.0	100
	Hoffmann-La Roche Ltd	Basel	CHF	0.5	100
	InterMune International AG	Muttenz	CHF	0.1	100
	InterMune Schweiz GmbH	Muttenz	CHF	(-)	100
	Rabbit-Air Ltd	Bachenbülach	CHF	3.0	100
	Roche Capital Market Ltd	Basel	CHF	1.0	100
	Roche Diabetes Care Ltd.	Rotkreuz	CHF	0.9	100
	Roche Diagnostics (Switzerland) Ltd	Rotkreuz	CHF	1.0	100
	Roche Diagnostics International Ltd	Rotkreuz	CHF	20.0	100
	Roche Finance Ltd	Basel	CHF	409.2	100
	Roche Forum Buonas Ltd	Buonas	CHF	0.1	100
	Roche Glycart Ltd	Schlieren	CHF	0.3	100
	Roche Long Term Foundation	Basel	CHF	0.5	100
	Roche Pharma (Switzerland) Ltd	Reinach	CHF	2.0	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD	80.0	100
	Roche Products Ltd.	Taipei	TWD	100.0	100
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB	103.0	100
	Roche Thailand Limited	Bangkok	THB	12.0	100
Tunisia	Roche Tunisie SA	Tunis	TND	0.8	100
Turkey	Roche Diagnostik Sistemleri Ticaret A.S.	Istanbul	TRY	80.0	100
	Roche Müstahzarları Sanayi Anonim Şirketi	Istanbul	TRY	249.5	100
Ukraine	Roche Ukraine LLC	Kiev	UAH	124.0	100
United Arab Emirates	Roche Diagnostics Middle East FZCO	Dubai	AED	19.0	100
	Roche Middle East FZCO	Dubai	AED	0.5	100
United Kingdom	InterMune Bristol Limited	London	GBP	(-)	100
	InterMune Holdings Limited	London	GBP	(-)	100
	InterMune UK & I Limited	London	GBP	(-)	100
	InterMune UK Limited	London	GBP	(-)	100
	Piramed Limited	Welwyn Garden City	GBP	(-)	100
	Roche Diabetes Care Limited	Burgess Hill	GBP	0.4	100
	Roche Diagnostics Ltd.	Burgess Hill	GBP	32.6	100
	Roche Holding (UK) Limited	Welwyn Garden City	GBP	100.0	100
	Roche Products Limited	Welwyn Garden City	GBP	98.3	100
	Roche Registration Limited	Welwyn Garden City	GBP	(-)	100
United States	454 Life Sciences Corporation	Branford	USD	(-)	100
	Anadys Pharmaceuticals, Inc.	South San Francisco	USD	(-)	100
	Bina Technologies Inc.	Redwood City	USD	(-)	100
	BioVeris Corporation	Indianapolis	USD	(-)	100
	Genentech, Inc.	South San Francisco	USD	(-)	100
	Genentech USA, Inc.	South San Francisco	USD	(-)	100
	Genia Technologies Corp.	Mountain View	USD	(-)	100
	HLR Consumer Health, Inc.	Nutley	USD	(-)	100
	Hoffmann-La Roche Inc.	Nutley	USD	3.0	100
	IGEN International, Inc.	Pleasanton	USD	(-)	100
	InterMune, Inc.	Wilmington	USD	(-)	100
	IQuum, Inc.	Marlborough	USD	(-)	100
	Marcadia Biotech, Inc.	Nutley	USD	(-)	100
	Roche Carolina Inc.	Florence	USD	(-)	100
	Roche Diabetes Care, Inc.	Indianapolis	USD	(-)	100
	Roche Diagnostics Corporation	Indianapolis	USD	(-)	100
	Roche Diagnostics Hematology, Inc.	Westborough	USD	(-)	100
	Roche Diagnostics Operations, Inc.	Indianapolis	USD	(-)	100
	Roche Health Solutions Inc.	Fishers	USD	(-)	100
	Roche Holdings, Inc.	South San Francisco	USD	1.0	100
	Roche Laboratories Inc.	Nutley	USD	(-)	100
	Roche Molecular Systems, Inc.	Pleasanton	USD	(-)	100
	Roche NimbleGen, Inc.	Madison	USD	(-)	100
	Roche TCRC, Inc.	New York	USD	(-)	100
	Seragon Pharmaceuticals Inc.	Wilmington	USD	(-)	100
	Spring Bioscience Corp.	Pleasanton	USD	(-)	100
	Ventana Medical Systems, Inc.	Tucson	USD	(-)	100
Uruguay	Roche International Ltd. – Montevideo Branch	Hamilton	UYU	(-)	100
Venezuela	Productos Roche S.A.	Caracas	VEF	78.2	100
Vietnam	Roche Vietnam Co., Ltd.	Ho Chi Minh City	USD	5.0	100

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

32. Significant accounting policies

Consolidation policy

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

Segment reporting

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

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

Foreign currency translation

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

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

Revenues

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

Cost of sales

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

Research and development

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

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

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

Licensing, milestone and other upfront receipts

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

Employee benefits

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

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

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

Pensions and other post-employment benefits

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

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

Recognised in the income statement:

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

Recognised in other comprehensive income:

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

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

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

Equity compensation plans

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

Property, plant and equipment

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

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

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

Leases

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

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

Business combinations

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

Goodwill

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

Intangible assets

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

Product intangibles in use	up to 20 years
Marketing intangibles in use	up to 5 years
Technology intangibles in use	up to 14 years

Impairment of property, plant and equipment and intangible assets

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

Impairment of goodwill

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

Inventories

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

Accounts receivable

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

Cash and cash equivalents

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

Provisions and contingencies

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

Fair values

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

Financial instruments

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

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

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

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

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

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

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

Impairment of financial assets

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

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

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

Hedge accounting

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

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

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

Debt

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

Taxation

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

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

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

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

Own equity instruments

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

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 'Levies'

These do not have a material impact on the Group's overall results and financial position.

Future new and revised standards

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2015 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 2015, notably IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers'.

33. Subsequent events

On 15 January 2015 the Swiss National Bank announced that it was discontinuing the minimum exchange rate of 1.20 Swiss francs per euro. The amounts reported in these Annual Financial Statements do not reflect changes in foreign exchange rates after 31 December 2014. Since the Group uses the Swiss franc as the presentation currency in its consolidated financial statements, then 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.

At the date of approval of the Annual Financial Statements changes in foreign exchange rates had not caused material foreign exchange transaction gains or losses in the Group's results for 2015. The Group's foreign exchange risk management is disclosed in Note 29 and the currency translation sensitivity of the Group's results to movements in foreign currency exchange rates is included in the Financial Review on pages 29 to 30.

Report of Roche Management on Internal Control over Financial Reporting

Report of Roche Management on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of its system of internal control over financial reporting as of 31 December 2014 based on the criteria for effective internal control over financial reporting described in *Internal Control – Integrated Framework version 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the system of internal control over financial reporting was effective as of 31 December 2014.

The Statutory Auditor KPMG AG has audited the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2014, in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA). They have also issued a report on the effectiveness of the Group's system of internal control over financial reporting. This report is set out on page 127.



Christoph Franz
Chairman of the Board of Directors



Alan Hippe
Chief Financial Officer

Basel, 26 January 2015

Report of the Statutory Auditor on the Consolidated Financial Statements

Report of the Statutory Auditor to the General Meeting of Shareholders of Roche Holding Ltd, Basel

As statutory auditor, we have audited the accompanying consolidated financial statements of Roche Holding Ltd, which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 40 to 124 for the year ended 31 December 2014.

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

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

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

Opinion. In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS), and comply with Swiss law.

Report on Other Legal Requirements

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

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

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



A handwritten signature in black ink, appearing to read 'Ian Starkey'.

Ian Starkey
Licensed Audit Expert, Auditor in Charge

A handwritten signature in black ink, appearing to read 'François Rouiller'.

François Rouiller
Licensed Audit Expert

Basel, 26 January 2015

Report of the Independent Auditor on Internal Control over Financial Reporting

Report of the Independent Auditor on Internal Control over Financial Reporting to the Board of Directors of Roche Holding Ltd, Basel

We have examined the Roche Group's system of internal control over financial reporting as of 31 December 2014, based on criteria established in *Internal Control – Integrated Framework version 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

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

In our opinion, the Roche Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2014 based on criteria established in *Internal Control – Integrated Framework version 2013* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Swiss Auditing Standards and International Standards on Auditing, the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2014 and our report dated 26 January 2015 expressed an unqualified opinion on those consolidated financial statements.



KPMG AG

Ian Starkey
Licensed Audit Expert, Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 26 January 2015

Multi-Year Overview and Supplementary Information

Multi-Year Overview

Statistics, as reported

	2005	2006	2007	
Income statement in millions of CHF				
Sales	35,511	42,041	46,133	
EBITDA	11,404	14,436	17,068	
Operating profit	8,669	11,730	14,468	
Net income attributable to Roche shareholders	5,787	7,880	9,761	
Research and development	5,705	6,589	8,385	
Balance sheet in millions of CHF				
Non-current assets	33,739	33,519	35,349	
Current assets	35,626	40,895	42,834	
Total assets	69,365	74,414	78,183	
Non-current liabilities	(18,130)	(14,908)	(10,422)	
Current liabilities	(9,492)	(12,692)	(14,454)	
Total liabilities	(27,622)	(27,600)	(24,876)	
Net assets	41,743	46,814	53,307	
Capital and reserves attributable to Roche shareholders	34,922	39,444	45,347	
Equity attributable to non-controlling interests	6,821	7,370	7,960	
Additions to property, plant and equipment	3,428	3,878	3,648	
Personnel				
Number of employees at end of year	68,218	74,372	78,604	
Key ratios				
Net income attributable to Roche shareholders as % of sales	16	19	21	
Net income attributable to Roche shareholders as % of equity	17	20	22	
Research and development as % of sales	16	16	18	
Current ratio %	375	322	296	
Equity and non-controlling interests as % of total assets	60	63	68	
Human capital return on investment ratio	1.97	2.16	2.34	
Data on shares and non-voting equity securities				
Number of shares	160,000,000	160,000,000	160,000,000	
Number of non-voting equity securities (<i>Genussscheine</i>)	702,562,700	702,562,700	702,562,700	
Total shares and non-voting equity securities	862,562,700	862,562,700	862,562,700	
Total dividend in millions of CHF	2,156	2,933	3,968	
Earnings per share and non-voting equity security (diluted) in CHF	6.71	9.05	11.16	
Dividend per share and non-voting equity security in CHF	2.50	3.40	4.60	

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

2008	2009	2010	2011	2012	2013	2014
45,617	49,051	47,473	42,531	45,499	46,780	47,462
16,637	18,028	18,517	16,933	19,040	19,802	19,558
13,924	12,277	13,486	13,454	14,125	16,376	14,090
8,969	7,784	8,666	9,343	9,539	11,164	9,332
8,845	9,874	10,026	8,326	9,552	9,270	9,895
37,485	36,086	33,408	33,344	33,434	33,003	44,527
38,604	38,479	27,612	28,232	31,371	29,164	31,114
76,089	74,565	61,020	61,576	64,805	62,167	75,641
(10,163)	(43,084)	(34,380)	(30,884)	(27,868)	(25,166)	(30,975)
(12,104)	(22,067)	(14,978)	(16,210)	(20,209)	(15,760)	(23,108)
(22,267)	(65,151)	(49,358)	(47,094)	(48,077)	(40,926)	(54,083)
53,822	9,414	11,662	14,482	16,728	21,241	21,558
44,479	7,366	9,469	12,095	14,494	19,294	19,586
9,343	2,048	2,193	2,387	2,234	1,947	1,972
3,187	2,837	2,633	2,006	2,130	2,458	2,905
80,080	81,507	80,653	80,129	82,089	85,080	88,509
20	16	18	22	21	24	20
20	106	92	77	66	58	48
19	20	21	20	21	20	21
319	174	184	174	155	185	135
71	13	19	24	26	34	29
2.25	2.02	2.13	2.31	2.25	2.45	2.16
160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700
4,313	5,175	5,693	5,865	6,340	6,728	6,901 ^{a)}
10.23	9.02	10.11	10.98	11.16	12.93	10.81
5.00	6.00	6.60	6.80	7.35	7.80	8.00 ^{a)}

a) 2014 dividend proposed by the Board of Directors.

Sales by Division in millions of CHF

	2010	2011	2012	2013	2014
Pharmaceuticals	37,058	32,794	35,232	36,304	36,696
Diagnostics	10,415	9,737	10,267	10,476	10,766
Total	47,473	42,531	45,499	46,780	47,462

Sales by geographical area in millions of CHF

	2010	2011	2012	2013	2014
Switzerland	464	507	505	526	526
Germany	2,970	2,595	2,534	2,729	2,900
Rest of Europe	13,256	11,706	11,308	11,341	11,119
Europe	16,690	14,808	14,347	14,596	14,545
United States	16,446	14,133	15,932	17,169	18,041
Rest of North America	1,051	1,047	1,035	1,042	962
North America	17,497	15,180	16,967	18,211	19,003
Latin America	3,397	3,115	3,410	3,363	3,285
Japan	4,718	4,314	4,735	3,936	3,755
Rest of Asia	3,591	3,616	4,368	5,129	5,327
Asia	8,309	7,930	9,103	9,065	9,082
Africa, Australia and Oceania	1,580	1,498	1,672	1,545	1,547
Total	47,473	42,531	45,499	46,780	47,462

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

	2010	2011	2012	2013	2014
Pharmaceuticals	1,464	1,049	1,049	1,294	1,674
Diagnostics	1,150	956	1,079	1,158	1,228
Corporate	49	1	2	6	3
Total	2,663	2,006	2,130	2,458	2,905

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

	2010	2011	2012	2013	2014
Switzerland	413	381	398	487	691
Germany	577	352	318	456	527
Rest of Europe	334	353	371	317	335
Europe	1,324	1,086	1,087	1,260	1,553
United States	658	401	411	515	683
Rest of North America	24	5	8	51	6
North America	682	406	419	566	689
Latin America	127	115	135	104	113
Japan	242	185	186	137	154
Rest of Asia	254	194	270	362	371
Asia	496	379	456	499	525
Africa, Australia and Oceania	34	20	33	29	25
Total	2,663	2,006	2,130	2,458	2,905

Supplementary Core results and EPS information

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

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

- Global restructuring plans (see Note 6) are excluded.
- Amortisation and impairment of intangible assets (see Note 9) and impairment of goodwill (see Note 8) are excluded.
- Acquisition accounting and other one-time impacts from Alliance arrangements and Business Combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) would be excluded.
- Legal and environmental expenses (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control (currently none) would be excluded.
- Material one-time treasury items such as major debt restructurings (see Note 20) are excluded.
- Pension plan settlements (see Note 25) are excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 4).

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

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

Core results reconciliation – 2014 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Major debt restructuring	Pension plan settlements	Normalisation of ECP tax benefit	Core
Sales	47,462	–	–	–	–	–	–	–	–	47,462
Royalties and other operating income	2,404	–	–	–	–	–	–	–	–	2,404
Cost of sales	(13,381)	139	637	225	39	–	–	–	–	(12,341)
Marketing and distribution	(8,657)	219	2	–	–	–	–	–	–	(8,436)
Research and development	(9,895)	106	67	809	–	–	–	–	–	(8,913)
General and administration	(3,843)	191	–	874	23	215	–	–	–	(2,540)
Operating profit	14,090	655	706	1,908	62	215	–	–	–	17,636
Financing costs	(1,821)	2	–	–	9	19	429	–	–	(1,362)
Other financial income (expense)	246	–	–	–	–	–	–	–	–	246
Profit before taxes	12,515	657	706	1,908	71	234	429	–	–	16,520
Income taxes	(2,980)	(241)	(237)	(328)	(39)	(44)	(150)	–	32	(3,987)
Net income	9,535	416	469	1,580	32	190	279	–	32	12,533
Attributable to										
– Roche shareholders	9,332	416	468	1,580	32	190	279	–	32	12,329
– Non-controlling interests	203	–	1	–	–	–	–	–	–	204

Core results reconciliation – 2013 in millions of CHF

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

Divisional core results reconciliation – 2014 in millions of CHF

	IFRS	Global restruc- turing	Intangibles amorti- sation	Intangibles impairment	Alliances & business combi- nations	Legal & environ- mental	Pension plan settlements	Core
Pharmaceuticals								
Sales	36,696	–	–	–	–	–	–	36,696
Royalties and other operating income	2,273	–	–	–	–	–	–	2,273
Cost of sales	(8,013)	82	341	–	39	–	–	(7,551)
Marketing and distribution	(6,130)	155	1	–	–	–	–	(5,974)
Research and development	(8,380)	101	66	337	–	–	–	(7,876)
General and administration	(2,142)	53	–	322	21	179	–	(1,567)
Operating profit	14,304	391	408	659	60	179	–	16,001
Diagnostics								
Sales	10,766	–	–	–	–	–	–	10,766
Royalties and other operating income	131	–	–	–	–	–	–	131
Cost of sales	(5,368)	57	296	225	–	–	–	(4,790)
Marketing and distribution	(2,527)	64	1	–	–	–	–	(2,462)
Research and development	(1,515)	5	1	472	–	–	–	(1,037)
General and administration	(1,242)	138	–	552	2	38	–	(512)
Operating profit	245	264	298	1,249	2	38	–	2,096
Corporate								
General and administration	(459)	–	–	–	–	(2)	–	(461)
Operating profit	(459)	–	–	–	–	(2)	–	(461)

Divisional core results reconciliation – 2013 in millions of CHF

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

Core EPS (basic)

	2014	2013
Core net income attributable to Roche shareholders (CHF millions)	12,329	12,316
Weighted average number of shares and non-voting equity securities in issue (millions) ²⁷	849	848
Core earnings per share (basic) (CHF)	14.53	14.52

Core EPS (diluted)

	2014	2013
Core net income attributable to Roche shareholders (CHF millions)	12,329	12,316
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	(1)
Net income used to calculate diluted earnings per share (CHF millions)	12,328	12,315
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions) ²⁷	863	863
Core earnings per share (diluted) (CHF)	14.29	14.27

Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group
	2014	2013	2014	2013	2014	2013	2013
Depreciation, amortisation and impairment							
Depreciation of property, plant and equipment	1,037	1,024	872	847	8	7	1,917
Amortisation of intangible assets	408	177	298	326	–	–	706
Impairment (reversal) of property, plant and equipment	46	(488)	5	14	–	–	51
Impairment of goodwill	322	–	552	288	–	–	874
Impairment of intangible assets	337	350	697	12	–	–	1,034
Total	2,150	1,063	2,424	1,487	8	7	4,582
Other adjustments							
Add back							
– Expenses for equity-settled equity compensation plans	282	295	43	40	25	25	350
– Net (income) expense for provisions	695	740	169	219	3	91	867
– Net (gain) loss from disposals	(444)	18	12	10	–	–	(432)
– Non-cash working capital and other items	368	18	100	90	(1)	(106)	467
Deduct							
– Utilisation of provisions	(552)	(697)	(250)	(257)	(71)	(46)	(873)
– Proceeds from disposals	280	31	39	40	–	–	319
Total	629	405	113	142	(44)	(36)	698
Operating profit cash adjustments	2,779	1,468	2,537	1,629	(36)	(29)	5,280
EBITDA							
Core operating profit	16,001	16,108	2,096	2,177	(461)	(381)	17,636
Depreciation and impairment of property, plant and equipment – Core basis	1,041	1,040	873	851	8	7	1,922
EBITDA	17,042	17,148	2,969	3,028	(453)	(374)	19,558
– margin, % of sales	46.4	47.2	27.6	28.9	–	–	41.2

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation – 2014 in millions of CHF

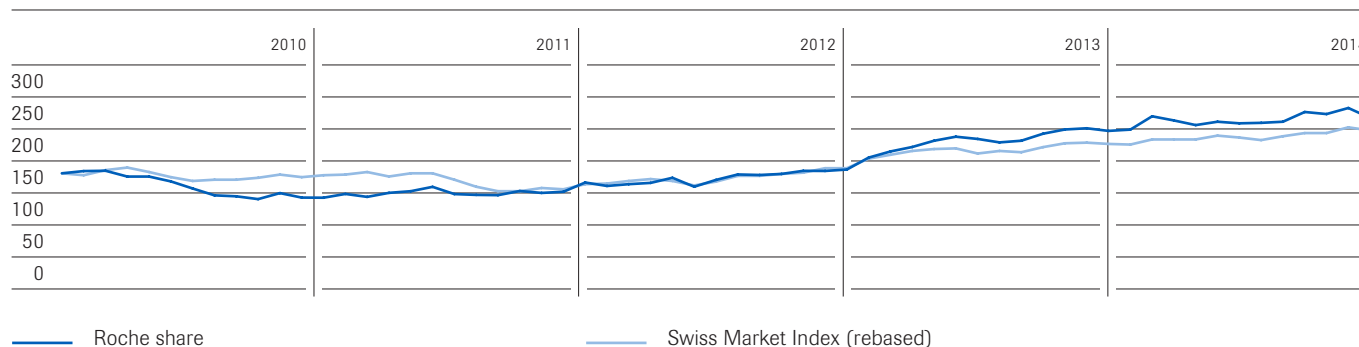
	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	11,919	5,136	140	–	17,195
Goodwill	4,719	5,230	–	–	9,949
Intangible assets	11,070	1,811	–	–	12,881
Inventories	5,736	2,007	–	–	7,743
Provisions	(2,982)	(714)	(547)	–	(4,243)
Current income tax net liabilities	–	–	–	(2,372)	(2,372)
Deferred tax net assets	–	–	–	2,224	2,224
Defined benefit plan net liabilities	–	–	–	(8,303)	(8,303)
Marketable securities	–	–	–	7,961	7,961
Cash and cash equivalents	–	–	–	3,742	3,742
Debt	–	–	–	(25,714)	(25,714)
Other net assets (liabilities)					
– Net working capital	152	735	(96)	–	791
– Long-term net operating assets	396	(46)	(11)	–	339
– Other	–	–	–	(635)	(635)
Total net assets	31,010	14,159	(514)	(23,097)	21,558

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

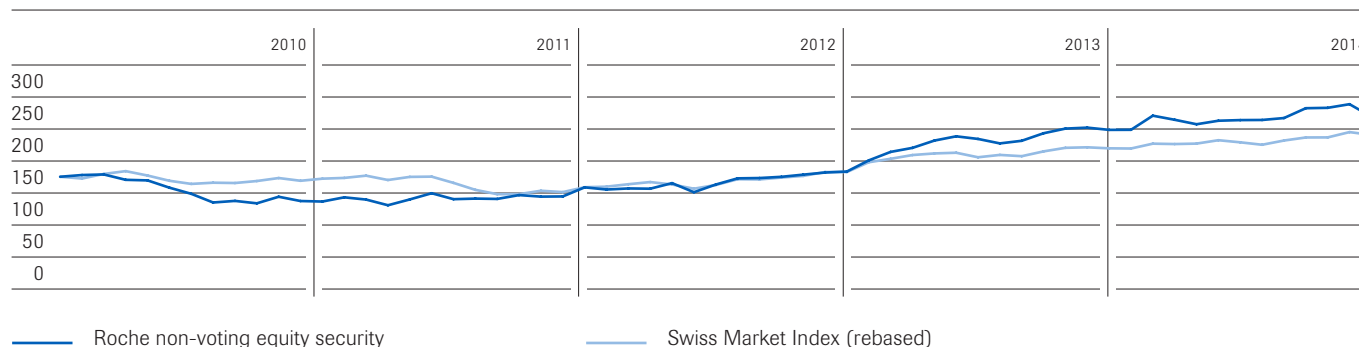
	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	10,898	4,721	141	–	15,760
Goodwill	2,082	5,063	–	–	7,145
Intangible assets	1,878	2,066	–	–	3,944
Inventories	4,069	1,837	–	–	5,906
Provisions	(2,151)	(522)	(572)	–	(3,245)
Current income tax net liabilities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

Roche Securities

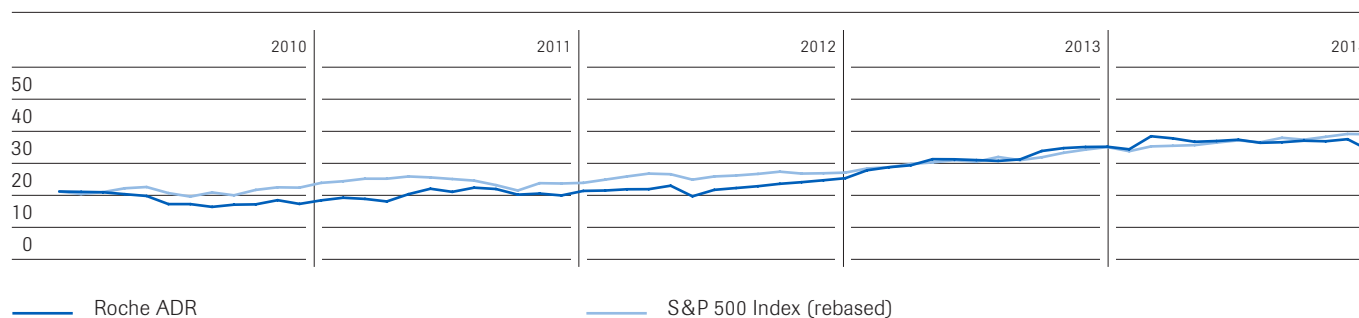
Price development of share in CHF



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



Price development of American Depositary Receipt (ADR) in USD



Eight Roche American Depositary Receipts (ADRs) are equivalent to one non-voting equity security (*Genussschein*). ADRs have been traded in the US over-the-counter market since July 1992.

Information in these tables is restated for the change in the ratio for the ADRs from 1:1 to 2:1 effective 24 January 2005, the change in the ratio for the ADRs from 2:1 to 4:1 effective 9 January 2009 and the change in the ratio for the ADRs from 4:1 to 8:1 effective 27 February 2014.

Number of shares and non-voting equity securities^{a)}

	2010	2011	2012	2013	2014
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities (<i>Genussscheine</i>) (no nominal value)	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
Total	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700
Number of own shares and non-voting equity securities (<i>Genussscheine</i>) held	(11,214,765)	(15,084,967)	(14,093,890)	(13,537,704)	(12,819,364)
Total in issue	851,347,935	847,477,733	848,468,810	849,024,996	849,743,336

Data per share and non-voting equity security in CHF

	2010	2011	2012	2013	2014
Earnings (basic)	10.14	11.01	11.12	13.16	10.99
Earnings (diluted)	10.11	10.98	11.03	12.93	10.81
Core earnings (basic)	12.81	12.33	13.60	14.52	14.53
Core earnings (diluted)	12.78	12.30	13.49	14.27	14.29
Equity attributable to Roche shareholders	11.12	14.27	17.08	22.73	23.05
Dividend	6.60	6.80	7.35	7.80	8.00 ^{c)}
Stock price of share ^{b)} Opening	181.00	142.80	166.60	186.90	247.40
High	191.70	167.00	191.70	258.50	289.00
Low	134.30	123.80	157.10	186.90	239.40
Year-end	142.80	166.60	186.90	247.40	267.75
Stock price of non-voting equity security (<i>Genussschein</i>) ^{b)} Opening	175.80	137.00	159.20	184.00	249.20
High	186.00	159.70	188.60	258.50	294.60
Low	130.20	117.00	149.20	184.00	239.00
Year-end	137.00	159.20	184.00	249.20	269.90

Market capitalisation in millions of CHF

	2010	2011	2012	2013	2014
Year-end	117,563	136,102	156,582	211,291	229,003

Key ratios (year-end)

	2010	2011	2012	2013	2014
Dividend yield of shares in %	4.6	4.1	3.9	3.2	3.0
Dividend yield of non-voting equity securities (<i>Genussschein</i>) in %	4.8	4.3	4.0	3.1	3.0
Price/earnings of shares	14	15	17	19	25
Price/earnings of non-voting equity securities (<i>Genussschein</i>)	14	15	16	19	25

- a) Each non-voting equity security (*Genussschein*) confers the same rights as any of the shares to participate in the available earnings and any remaining proceeds from liquidation following repayment of the nominal value of the shares and the participation certificate capital (if any). Shares and non-voting equity securities are listed on the SIX Swiss Exchange. Roche Holding Ltd has no restrictions as to ownership of its shares or non-voting equity securities.
- b) All stock price data reflect daily closing prices.
- c) 2014 dividend proposed by the Board of Directors.

Ticker symbols

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

Roche Holding Ltd, Basel

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Financial Statements

Income statement in millions of CHF

	Year ended 31 December	
	2014	2013
Income		
Income from participations	6,640	6,842
Interest income from loans to Group companies	27	29
Interest and investment income	28	7
Guarantee fee income from Group companies	121	142
Other income	36	28
Total income	6,852	7,048
Expenses		
Financial expenses	(3)	(24)
Administration expenses	(37)	(31)
Other expenses	(46)	(35)
Total expenses	(86)	(90)
Profit before taxes	6,766	6,958
Taxes	(17)	(15)
Net income	6,749	6,943

Balance sheet in millions of CHF

	31 December 2014	31 December 2013
Non-current assets		
Participations	9,166	9,157
Long-term loans to Group companies	622	531
Total non-current assets	9,788	9,688
Current assets		
Accounts receivable from Group companies	3,504	3,827
Short-term loans to Group companies	1,100	-
Other accounts receivable	2	4
Marketable securities	1,669	1,742
Liquid funds	1,094	1,159
Total current assets	7,369	6,732
Total assets	17,157	16,420
Equity		
Share capital	160	160
Non-voting equity securities (<i>Genussscheine</i>)	p.m.	p.m.
Legal reserve:		
- General legal reserve	300	300
- Reserve for own equity instruments	88	217
Free reserve	5,912	5,783
Special reserve	2,152	2,152
Available earnings:		
- Balance brought forward from previous year	1,017	802
- Net profit for the year	6,749	6,943
Total equity	16,378	16,357
Non-current liabilities		
Provisions	35	35
Total non-current liabilities	35	35
Current liabilities		
Accounts payable to Group companies	634	14
Unrealised foreign currency gains	90	-
Other liabilities	20	14
Total current liabilities	744	28
Total liabilities	779	63
Total equity and liabilities	17,157	16,420

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

Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation

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

Participations

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

Valuation methods and translation of foreign currencies

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

Taxes

The tax charge includes corporate income and capital taxes.

2. Equity

Share capital

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

Own equity instruments

During 2014 the company did not purchase any Roche shares (2013: 1.5 million Roche shares with a purchase price of 228.80 Swiss francs per share) and sold 563,324 Roche shares (2013: 551,650 Roche shares) with an average sales price of 262.64 Swiss francs per share (2013: 238.36 Swiss francs per share) and with a net gain of 19 million Swiss francs (2013: net gain of 5 million Swiss francs). Dividend income amounted to 6 million Swiss francs (2013: nil). At 31 December 2014 the remaining 385,026 Roche shares (2013: 948,350 Roche shares) with a net book value of 88 million Swiss francs (2013: 217 million Swiss francs) are included in marketable securities.

Movement in recognised amounts in millions of CHF

	Share capital	Legal reserve	Free reserve	Special reserve	Available earnings	Total equity
As at 1 January 2012	160	300	4,706	2,152	9,085	16,403
Net income	–	–	–	–	5,216	5,216
Dividends	–	–	–	–	(5,865)	(5,865)
Transfer to free reserve	–	–	1,294	–	(1,294)	–
As at 31 December 2012	160	300	6,000	2,152	7,142	15,754
Net income	–	–	–	–	6,943	6,943
Dividends	–	–	–	–	(6,340)	(6,340)
Reserve for own equity instruments	–	217	(217)	–	–	–
As at 31 December 2013	160	517	5,783	2,152	7,745	16,357
Net income	–	–	–	–	6,749	6,749
Dividends	–	–	–	–	(6,728)	(6,728)
Reserve for own equity instruments	–	(129)	129	–	–	–
As at 31 December 2014	160	388	5,912	2,152	7,766	16,378

3. Contingent liabilities

Guarantees

The company has issued guarantees for certain bonds and notes, commercial paper and credit facilities of Group companies. The nominal amount outstanding at 31 December 2014 was 23.6 billion Swiss francs (2013: 16.7 billion Swiss francs). These are described in Note 20 to the Roche Group Annual Financial Statements.

4. Significant shareholders

All shares in the Company are bearer shares, and for this reason the Company does not keep a register of shareholders. The following figures are based on information from shareholders, the shareholder validation check at the Annual General Meeting of 4 March 2014 and on other information available to the Company.

Controlling shareholders

At 31 December 2014 and 2013, based on information supplied to the Group, a shareholder group with pooled voting rights owned 72,018,000 shares, which represented 45.01% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder pooling agreement has existed since 1948. The figures above do not include any shares without pooled voting rights that are held outside this group by individual members of the group. Ms Maja Oeri, formerly a member of the pool, now holds 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

At 31 December 2014, based on information supplied to the Group, 53,332,863 shares (2013: 53,332,863 shares) are owned by Novartis Ltd, Basel, including affiliates thereof (participation below 33⅓%).

5. Risk management

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

6. Board and Executive shareholdings

Board of Directors

Directors Mr André Hoffmann and Dr Andreas Oeri and certain other members of the founder's families who are closely associated with them belong to a shareholder group with pooled voting rights. At the end of 2014 and 2013 this group held 72,018,000 shares (45.01% of issued shares). Detailed information about this group is given in Note 4. In addition at the end of the year the members of the Board of Directors and persons closely associated with them held shares and non-voting equity securities (*Genussscheine*) as shown in the table below.

Mr Arthur Levinson resigned on 4 September 2014. At the Annual General Meeting on 4 March 2014, Dr Franz Humer and Mr William Burns did not stand for re-election. Mr Bernard Poussot and Professor Richard Lifton are nominated for election as new members of the Board of Directors at the AGM on 3 March 2015.

Shareholdings of members of the Board of Directors

	Shares		Non-voting equity securities (<i>Genussscheine</i>)		Other
	2014	2013	2014	2013	
C. Franz	–	–	350	350	
F.B. Humer	n/a	7,492	n/a	67,725	b)
A. Hoffmann	– a)	– a)	200	200	
P. Baschera	1	1	4,600	4,600	
J.I. Bell	300	300	1,647	1,647	
P. Bulcke	–	–	1,350	1,350	
W.M. Burns	n/a	3	n/a	84,735	b)
D. Julius	350	350	2,050	2,050	
A.D. Levinson	n/a	–	n/a	–	
A. Oeri	– a)	– a)	187,793	187,793	
S. Schwan	–	–	–	–	b), c)
P.R. Voser	–	–	3,600	3,600	
B. Weder di Mauro	200	200	800	800	
Total	851	8,346	202,390	354,850	

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

b) Equity compensation awards: Roche Option Plan, S-SARs, RSUs and Roche Performance Share Plan. See below.

c) Dr Schwan was appointed to the Board of Directors on 5 March 2013 and his shareholdings are disclosed in the tables below as a member of the Corporate Executive Committee.

Corporate Executive Committee

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

Shareholdings of members of the Corporate Executive Committee

	Shares		Non-voting equity securities (Genussscheine)		Other
	2014	2013	2014	2013	
S. Schwan	91,279	10,000	14,065	68,518	a)
S. Ayyoubi	8,104	3	12,923	16,032	a)
R. Diggelmann	-	-	853	836	a)
A. Hippe	6,970	2,885	8,184	6,851	a)
G.A. Keller	19,192	2,153	7,638	21,413	a), b)
D. O'Day	3	3	7,149	6,177	a)
Total	125,548	15,044	50,812	119,827	

a) Equity compensation awards: Roche Option Plan, S-SARs, RSUs and Roche Performance Share Plan.

b) Close relatives of Dr Keller held 1,100 Roche shares (2013: 1,100 Roche shares).

At 31 December 2014 members of the Corporate Executive Committee held Roche Option Plan awards (ROPs) and Stock-settled Stock Appreciation Rights (S-SARs) as shown in the table below. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 152 to 167.

ROPs and S-SARs awards held at 31 December 2014

Year of issue	2014	2013	2012	2011	2010	2009	2008	Total
S. Schwan	54,453	71,472	163,869	-	-	-	-	289,794
S. Ayyoubi	16,338	21,441	49,161	-	-	-	-	86,940
R. Diggelmann	16,338	17,874	15,000	12,732	6,489	4,263	5,295	77,991
A. Hippe	21,783	28,590	65,547	-	-	-	-	115,920
G.A. Keller	20,424	26,805	61,452	-	-	-	-	108,681
D. O'Day	27,231	35,739	53,259	-	-	-	-	116,229
Total CEC	156,567	201,921	408,288	12,732	6,489	4,263	5,295	795,555
Strike price (CHF)	263.20	214.00	157.50	140.10	175.50	145.40	188.90	
Expiry date	Mar. 2021	Mar. 2020	Mar. 2019	Feb. 2018	Feb. 2017	Feb. 2016	July 2015	

At 31 December 2014 members of the Corporate Executive Committee held Restricted Stock Units (RSUs) as shown in the table below. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 152 to 167. RSU awards are allocated individually at the Remuneration Committee's discretion and will be vested to the recipient after three years only. Thereafter, resulting non-voting equity securities may remain blocked for up to ten years.

RSU awards held at 31 December 2014

Year of issue	2014	2013	Total
S. Schwan	5,551	7,023	12,574
S. Ayyoubi	1,665	2,107	3,772
R. Diggelmann	1,665	1,755	3,420
A. Hippe	2,220	2,809	5,029
G.A. Keller	2,081	2,633	4,714
D. O'Day	2,775	3,511	6,286
Total CEC	15,957	19,838	35,795

At 31 December 2014 members of the Corporate Executive Committee as shown in the table below held PSP awards from the PSP performance cycles 2013–2015 and 2014–2016. The terms and vesting conditions of these awards are disclosed in Note 26 to the Roche Group Annual Financial Statements and additional supplementary information is in the Remuneration Report included in the Annual Report on pages 152 to 167. Each award will result in between zero and two non-voting equity securities (before value adjustment), depending upon the achievement of the performance targets and the discretion of the Board of Directors. At the end of the 2012–2014 cycle the performance targets were achieved and accordingly the participants will receive 175% of the originally targeted non-voting equity securities. The total target number of awards for the other outstanding performance cycles as at 31 December 2014 are shown in the table below.

Roche Performance Share Plan awards held at 31 December 2014

	PSP 2013–2015	PSP 2014–2016
S. Schwan	7,314	5,413
S. Ayyoubi	2,194	1,624
R. Diggelmann	1,828	1,353
A. Hippe	2,925	2,165
G.A. Keller	2,742	2,030
D. O'Day	3,657	2,706
Total CEC	20,660	15,291
Allocation date	Feb. 2016	Feb. 2017

At 31 December 2013 Mr William Burns and members of the Corporate Executive Committee at that time held a total of 1,119,196 Stock-settled Stock Appreciation Rights, 19,838 Restricted Stock Units, and had outstanding a total of 43,485 awards granted under the Roche Performance Share Plan.

Appropriation of Available Earnings

Proposals to the Annual General Meeting in CHF

	2014	2013
Available earnings		
Balance brought forward from previous year	1,016,879,671	801,940,014
Net profit for the year	6,749,466,316	6,942,928,717
Total available earnings	7,766,345,987	7,744,868,731
Appropriation of available earnings		
Distribution of an ordinary dividend of CHF 8.00 gross per share and non-voting equity security (<i>Genussschein</i>) as against CHF 7.80 last year	(6,900,501,600)	(6,727,989,060)
Transfer to free reserve	–	–
Total appropriation of available earnings	(6,900,501,600)	(6,727,989,060)
To be carried forward on this account	865,844,387	1,016,879,671

Report of the Statutory Auditor on the Financial Statements

Report of the Statutory Auditor to the General Meeting of Shareholders of Roche Holding Ltd, Basel

As statutory auditor, we have audited the accompanying financial statements of Roche Holding Ltd, which comprise the income statement, balance sheet and notes on pages 141 to 148 for the year ended 31 December 2014.

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

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

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

Opinion. In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's Articles of Incorporation.

Report on Other Legal Requirements

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

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

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



A handwritten signature in black ink, appearing to read 'Ian Starkey'.

Ian Starkey
Licensed Audit Expert, Auditor in Charge

A handwritten signature in black ink, appearing to read 'François Rouiller'.

François Rouiller
Licensed Audit Expert

Basel, 26 January 2015

Published by

F. Hoffmann-La Roche Ltd
4070 Basel, Switzerland
Tel. +41 (0)61 688 11 11
Fax +41 (0)61 691 93 91

Media Office

Group Communications
4070 Basel, Switzerland
Tel. +41 (0)61 688 88 88
Fax +41 (0)61 688 27 75

Investor Relations

4070 Basel, Switzerland
Tel. +41 (0)61 688 88 80
Fax +41 (0)61 691 00 14

Website

www.roche.com

To order publications

Tel. +41 (0)61 688 30 61
Fax +41 (0)61 688 41 96
E-mail: basel.webmaster@roche.com

**Next Annual General Meeting:
3 March 2015****Cautionary statement regarding forward-looking statements**

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

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2014 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

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