Roche Holdings, Inc.

Annual Report 2013

Roche Holdings, Inc. Consolidated Financial Statements

Contents

Management Report

1. Review for the year ended December 31, 2013

Principal activities

Roche Holdings, Inc. (RHI) is the holding company for the Roche Group's U.S. operations and performs financing activities for other members of the RHI Group.

RHI Group results

The RHI Group reported strong overall results in 2013, with sales up by 9.2% to $20.3 billion and operating profit up by 40.1% to $9.3 billion. RHI had a positive cash flow from operating activities of $7.3 billion. Pharmaceuticals Division sales increased by 10.9% to $17.2 billion driven by growth in recently launched medicines as well as established products. The key growth drivers in oncology were the HER2 franchise (Herceptin and the recently launched Perjeta and Kadcyla), Rituxan and Avastin. Sales of Lucentis, Activase/TNKase, Xolair and Tamiflu also increased. Negative impacts included decreases in sales of Pegasys and Boniva. Diagnostics Division sales remained stable at $3.1 billion with growth in Professional Diagnostics, Molecular Diagnostics and Tissue Diagnostics being offset by a decline in Diabetes Care. The RHI Group's operating profit margin improved by 10.1 percentage points to 45.9% of sales due to strong operating performance and lower restructuring expenses compared to 2012. The RHI Group's net income increased by 60.7% to $4.4 billion driven by the strong operating performance, lower restructuring expenses and lower financing costs.

<u>Pharmaceuticals Division</u>

Pharmaceuticals Division sales increased by 10.9% to $17.2 billion. The leading products were the oncology medicines Rituxan, Avastin and the HER2 franchise (Herceptin and the recently launched Perjeta and Kadcyla) with sales of $3.6 billion (+8.1%), $2.8 billion (+5.1%) and $2.6 billion (+33.1%), respectively. Of the other products, the main growth drivers were Lucentis (+15.4%), Activase/TNKase (+20.1%), Xolair (+13.3%) and Tamiflu (+24.6%) due to a severe flu season in North America. Gazyva received approval in November 2013 for previously untreated chronic, lymphocytic leukemia and sales for the remainder of 2013 were $3 million. Sales benefited from a reserves release of $196 million for the 340B Drug Discount Program (340B Program), more than half of which were for Rituxan. Negative impacts included decreases in sales of Pegasys and the expected further decline in Boniva.

In oncology, demand for the established products grew due to expanded use in existing indications. Furthermore, growth was driven by the HER2 franchise following the launches of Perjeta and Kadcyla and increased usage of Herceptin in both breast and gastric cancer. Rituxan sales benefited from the release of sales reserves for the 340B Program. Avastin sales grew as a result of expanded use in colorectal cancer and also benefited from the release of the 340B Program sales reserves. In ophthalmology, Lucentis sales increased driven by growth in the retinal vein occlusion (RVO) and diabetic macular edema (DME) indications and a stable market share in wet age-related macular degeneration (wAMD) following the approval given earlier this year for a less frequent dosing regimen. Pegasys sales decreased by 42.6% due to further treatment deferrals in anticipation of the expected launch of interferon-free combination therapies.

Royalties and other operating income increased by 12.9% to $4.1 billion due to higher income from out-licensing agreements and royalties. The increase in out-licensing income was mainly due to the recognition of previously deferred income from related-parties under research and development cost-sharing agreements. The increase in royalty income was due to higher related party royalty bearing sales for Avastin and Herceptin and the new royalty income stream for Perjeta.

Cost of sales increased by 1.9% to $4.7 billion, mainly due to higher sales volumes, initial costs of implementing supply chain strategies for future growth and unfavourable product mix effects, partially offset by a one-time income from restructuring plans. As a percentage of sales, cost of sales decreased by 2.5 percentage points to 27.5% of sales compared to 30.0% in 2012. Royalty expenses were 13.6% higher mainly driven by the newly launched oncology products and the increased sales of Tamiflu. In addition there were back royalty expenses of $45 million due to the latest developments in the Sanofi arbitration (see Note 19 to the RHI Consolidated Financial Statements). Expenses from collaboration and profit-sharing agreements increased mainly driven by higher co-promotion expenses. This was as a result of higher sales of Rituxan, including those related to the release of the 340B Program sales reserves, and increased sales of Xolair and Tarceva. The net income from restructuring plans was due to $573 million from the reversal of previously incurred impairment charges for a bulk drug production unit at the Vacaville site in California (see Note 7 to the RHI Consolidated Financial Statements).

Marketing and distribution costs remained stable at $2.3 billion. Sales and marketing efforts focused on supporting the existing portfolio and the newly launched products, such as Perjeta, Erivedge and Gazyva.

Research and development costs decreased by 5.4% to $4.2 billion, with the decrease mainly driven by the higher restructuring costs for the Nutley site closure recorded in 2012. There was lower spending in therapeutic areas such as ophthalmology and inflammation, with the discontinuation of inflammation research in Nutley. These were partially offset by increased investments in the oncology therapeutic area, where activities were focused on new indications for recently launched products and other developments, such as PD-L1 targeted therapy. In addition the Pharmaceuticals Division capitalised $265 million (2012: $202 million) as intangible assets for the in-licensing of pipeline compounds and technologies. The impairments of intangible assets include $273 million following a portfolio reassessment within the hepatitis C virus (HCV) franchise and a further $58 million in respect of other projects. Restructuring costs of $76 million were recorded, consisting mainly of employee-related costs and outside services for the closure of the Nutley site.

General and administration costs decreased by 13.5% to $0.9 billion, mainly driven by the lower restructuring costs in 2013. This was partially offset by an increase in administration costs mainly due to a shift of headcount from Corporate. There was also an increase in the U.S. Branded Pharmaceutical Product Fee ("Excise Tax") to $189 million (2012: $174 million). Restructuring costs of $188 million were recorded mainly for site closure costs for Nutley, consisting of employee-related costs, property taxes and outside services and provisions of $95 million to cover site running costs until the expected divestment in 2015.

The Pharmaceuticals Division's operating profit increased by 36.5% to $9.3 billion in 2013, driven by the strong operating performance and lower restructuring expenses compared to 2012.

<u>Diagnostics Division</u>

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

Diagnostics Division sales remained stable at $3.1 billion. Professional Diagnostics sales increased by 7.7% to $1.2 billion, driven by strong demand for immunoassays and platforms used in clinical laboratories. The main contributors were the cobas 6000 and cobas 8000 product lines and automation solutions. The coagulation patient self-monitoring business also had strong growth. Tissue Diagnostics sales increased by 2.2% to $0.5 billion. Sales were impacted by recent changes in U.S. guidelines and reimbursements (see below).

Based on the latest business plans prepared during the second half of 2013, a goodwill impairment charge of $192 million was recorded in the Tissue Diagnostics business. The main factor leading to this impairment was reduced revenue expectations in the U.S. These follow recent changes in the College of American Pathologists guidelines for the use of negative reagent controls in immunohistochemistry testing which reduced volumes and changes which reduced the reimbursement amount to laboratories. Molecular Diagnostics sales increased by 2.8% to $0.7 billion, mainly driven by the blood screening business and tests for the human papilloma virus (HPV), which overcompensated for a decline in the Sequencing Business. Diabetes Care sales decreased by 12.8% to $0.7 billion, mainly due to reimbursement cuts for blood glucose monitoring supplies.

Costs of sales increased marginally to $2.0 billion, driven by an increase in period costs. As a percentage of sales, cost of sales remained stable at 63.4% of sales compared to 63.1% in 2012.

Marketing and distribution costs remained stable at $0.8 billion. This was driven mainly by lower spending in Diabetes Care and the former Applied Science business following the restructuring initiatives offset by increased spending for sales force and distribution in Professional and Molecular Diagnostics.

Research and development costs increased by 43.5% to $0.2 billion, driven by increased spending for instrument development costs for major platforms in Professional and Molecular Diagnostics and lower compensation from related parties under research and development cost-sharing agreements. Furthermore, research and development cost increased due to the acquisition of Constitution Medical Inc. in Boston. This was partially offset by a decline in business expenses in the former Applied Science business as a result of the restructuring.

General and administration costs increased by 17.0% to $0.4 billion. In 2013 goodwill impairment charges of $192 million were recorded in the Tissue Diagnostics business and $33 million were incurred for the write-off of the goodwill from the 454 Life Sciences acquisition in the former Applied Science business. In 2012 a goodwill impairment charge of $200 million was incurred for the full write-off of the goodwill from the NimbleGen acquisition. Administration costs increased due to higher business taxes due to the new U.S. Medical Device Tax with costs of $26 million.

Corporate operating results

Corporate costs decreased to $21 million (2012: $337 million). In 2012 there was an expense of $259 million for environmental remediation activities in Nutley, New Jersey. In 2013 there was a release of $57 million for environmental remediation provisions for the Nutley site. Administration costs decreased mainly due to a shift of headcount to the Pharmaceuticals Division.

Restructuring plans

During 2013 the RHI Group has continued the implementation of a number of major restructuring initiatives to position the business for the future. The operational closure of the Nutley site in New Jersey, which was announced in 2012, was completed on schedule at the end of 2013. On October 14, 2013 the Pharmaceuticals Division published details of investments to increase its biologic medicine manufacturing network capacity. As part of this a bulk drug production unit at the Vacaville site in California that had been discontinued and fully written down in 2009 will be brought back into service, resulting in a reversal of the previously incurred impairment charges of $573 million. The Diagnostics Division continued the implementation of various programmes in the Diabetes Care and Applied Science businesses to address long-term profitability. On April 23, 2013 it was announced that the Applied Science business area's portfolio of products will be integrated within the other business areas of the Diagnostics Division. Restructuring costs in 2013 were over $1.6 billion lower compared to those in 2012.

Impairment of goodwill and intangible assets

Impairment charges of $556 million were recorded for goodwill and intangible assets, notably for product intangibles in the Pharmaceuticals Division's hepatitis C virus (HCV) franchise and goodwill in the Tissue Diagnostics business.

Treasury and taxation results

The RHI Group financed the Genentech transaction in 2009 by a combination of own funds, bonds, notes and commercial paper raising net proceeds of $40.3 billion through a series of debt offerings. All debt issued in 2009 is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group.

Financing costs were $1.3 billion representing a decrease of 20.0% compared to 2012. The main driver was a decrease of 25.4% in interest expense which reflects the continued repayment of the debt incurred to finance the Genentech transaction. The loss on early redemption of debt was $269 million, compared to $262 million in 2012. At December 31, 2013 debt was $33.6 billion compared to $39.3 billion in 2012. This decrease is mainly due to debt redemptions of $6.6 billion during the year.

In January 2013 there was the retrospective re-enactment of the 2012 U.S. research and development tax credits, which means that the 2013 results include a whole year of tax credits in respect of 2012 as well as tax credits for 2013.

Net income

Net income increased by 60.7% to $4.4 billion, driven by the strong operating performance, lower restructuring expenses and lower financing costs. Also there was $573 million of income from the reversal of the previous impairment booked to a facility at the Vacaville site in California.

Cash flow

The cash inflows from operating activities decreased by $0.3 billion to $7.3 billion in 2013. This was mainly due to the increased cash generated from operations being more than offset by an increase in net working capital to related parties and higher income tax payments which increased by $0.7 billion to $2.4 billion. The cash outflows from investing activities increased by $0.8 billion to $1.1 billion mainly due to the acquisition of Constitution Medical Investors, Inc. in July 2013 and increased investments in intangible assets and property, plant and equipment. The cash outflows from financing activities of $6.1 billion were mainly due to debt repayments of $6.6 billion, interest payments of $1.2 billion, payments for equity compensation plans of $1.1 billion and dividends paid to related parties of $1.0 billion. This was partly offset by $4.1 billion drawn from the cash pool with related parties.

Financial position

At December 31, 2013 the RHI Group had net liabilities of $20.9 billion (2012: net liabilities of $24.8 billion). In 2009 the Genentech transaction was accounted for in full as an equity transaction and as a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced (see Note 1 to the RHI Consolidated Financial Statements). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of $14.2 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Total assets decreased by $3.8 billion to $24.7 billion at December 31, 2013 mainly due to a decrease in related party receivables. Total liabilities decreased by $7.7 billion to $45.6 billion at December 31, 2013 mainly due to debt repayments. At December 31, 2013 the carrying value of debt was $33.6 billion (2012: $39.3 billion), of which $17.7 billion (2012: $17.7 billion) is due to related parties.

Merger and acquisitions

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

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of RHI's counterparties. The RHI Group's financial risk management is described in Note 26 to the RHI Consolidated Financial Statements.

Uncertainties

Key accounting judgements, estimates and assumptions are described in Note 1 to the RHI Consolidated Financial Statements. Provisions and contingent liabilities are described in Note 19 to the RHI Consolidated Financial Statements.

3. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge as of the date of their approval of the Annual Financial statements at February 3, 2014:

- the Annual Financial Statements at December 31, 2013, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole; and that
- the Management Report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Franz B. Humer	Alan Hippe	Severin Schwan
Chairman of the Board	Vice Chairman of the Board	Member of the Board

Roger Brown	Frederick C. Kentz III	David P. McDede	Bruce Resnick
Member of the Board	Member of the Board	Member of the Board	Member of the Board

Roche Holdings, Inc. Consolidated Financial Statements

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2013 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2]	**17,217**	**3,099**	**-**	**20,316**
Royalties and other operating income [2]	4,110	322	-	4,432
Cost of sales	(4,739)	(1,966)	-	(6,705)
Marketing and distribution	(2,271)	(750)	-	(3,021)
Research and development [2]	(4,184)	(244)	-	(4,428)
General and administration	(882)	(372)	(21)	(1,275)
Operating profit [2]	**9,251**	**89**	**(21)**	**9,319**
Financing costs [3]				(1,336)
Financing costs – related parties [27]				(782)
Other financial income (expense) [3]				57
Other financial income (expense) – related parties [27]				-
Profit before taxes				**7,258**
Income taxes [4]				(2,905)
Net income				**4,353**
Attributable to				
- Roche Holdings, Inc. shareholder [21]				4,353

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2012 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2]	**15,525**	**3,084**	**-**	**18,609**
Royalties and other operating income [2]	3,640	320	-	3,960
Cost of sales	(4,651)	(1,947)	-	(6,598)
Marketing and distribution	(2,291)	(756)	-	(3,047)
Research and development [2]	(4,425)	(170)	-	(4,595)
General and administration	(1,020)	(318)	(337)	(1,675)
Operating profit [2]	**6,778**	**213**	**(337)**	**6,654**
Financing costs [3]				(1,671)
Financing costs – related parties [27]				(868)
Other financial income (expense) [3]				(84)
Other financial income (expense) – related parties [27]				122
Profit before taxes				**4,153**
Income taxes [4]				(1,445)
Net income				**2,708**
Attributable to				
- Roche Holdings, Inc. shareholder [21]				2,708

As disclosed in Note 29, the consolidated income statement for the year ended December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published consolidated income statement is provided in Note 29.

Roche Holdings, Inc. consolidated statement of comprehensive income *in millions of USD*

	Year ended December 31,	
	2013	2012
Net income recognised in income statement	**4,353**	**2,708**
Other comprehensive income		
Remeasurements of defined benefit plans [21]	470	(155)
Items that will not be reclassified to the income statement	**470**	**(155)**
Available-for-sale investments [21]	14	(1)
Cash flow hedges [21]	31	73
Items that may be reclassified subsequently to the income statement	**45**	**72**
Other comprehensive income, net of tax	**515**	**(83)**
Total comprehensive income	**4,868**	**2,625**
Attributable to		
- Roche Holdings, Inc. shareholder [21]	4,868	2,625

As disclosed in Note 29, the statement of comprehensive income for the year ended December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published statement of comprehensive income is provided in Note 29.

Roche Holdings, Inc. consolidated balance sheet *in millions of USD*

	December 31, 2013	December 31, 2012	December 31, 2011
Non-current assets			
Property, plant and equipment [7]	5,354	4,870	5,499
Goodwill [8]	5,442	5,558	5,758
Intangible assets [9]	2,659	2,586	3,175
Deferred tax assets [4]	2,656	3,135	2,309
Defined benefit plan assets [23]	135	156	146
Other non-current assets [14]	460	468	454
Other non-current assets – related parties [27]	–	2	223
Total non-current assets	**16,706**	**16,775**	**17,564**
Current assets			
Inventories [10]	2,031	1,974	1,720
Accounts receivable – trade [11]	2,203	2,065	1,926
Accounts receivable – related parties [26, 27]	2,650	6,572	5,265
Current income tax assets [4]	–	50	34
Other current assets[15]	638	613	497
Other current assets – related parties [27]	2	169	171
Marketable securities [12]	469	266	215
Total current assets	**7,993**	**11,709**	**9,828**
Total assets	**24,699**	**28,484**	**27,392**
Non-current liabilities			
Long-term debt [20]	(13,930)	(15,065)	(23,033)
Long-term debt – related parties [20, 27]	(13,130)	(17,680)	(15,030)
Deferred tax liabilities [4]	(475)	(437)	(580)
Defined benefit plan liabilities [23]	(1,404)	(2,144)	(1,918)
Provisions [19]	(435)	(462)	(406)
Other non-current liabilities [17]	(36)	(50)	(64)
Other non-current liabilities – related parties [27]	(306)	(229)	(188)
Total non-current liabilities	**(29,716)**	**(36,067)**	**(41,219)**
Current liabilities			
Short-term debt [20]	(1,984)	(6,571)	(3,442)
Short-term debt – related parties [20, 27]	(4,550)	-	(1,170)
Current income tax liabilities [4]	(599)	(1,106)	(582)
Provisions [19]	(1,766)	(1,687)	(1,314)
Accounts payable – trade and other [16]	(565)	(417)	(490)
Accounts payable – related parties [27]	(745)	(2,349)	(835)
Other current liabilities [18]	(3,949)	(4,049)	(3,820)
Other current liabilities – related parties [27]	(1,732)	(1,023)	(525)
Total current liabilities	**(15,890)**	**(17,202)**	**(12,178)**
Total liabilities	**(45,606)**	**(53,269)**	**(53,397)**
Total net liabilities	**(20,907)**	**(24,785)**	**(26,005)**
Equity			
Capital and reserves attributable to Roche Holdings, Inc. shareholder [21]	(20,907)	(24,785)	(26,005)

As disclosed in Note 29, the balance sheets at December 31, 2012 and December 31, 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheets is provided in Note 29.

Roche Holdings, Inc. consolidated statement of cash flows *in millions of USD*

	Year ended December 31, 2013	2012
Cash flows from operating activities		
Cash generated from operations [25]	11,295	9,932
(Increase) decrease in net working capital	(258)	(498)
(Increase) decrease in net working capital - related parties	(643)	456
Payments made for defined benefit plans [23]	(151)	(125)
Utilisation of provisions [19]	(620)	(495)
Cash flows from operating activities, before income taxes paid	**9,623**	**9,270**
Income taxes paid	(2,360)	(1,673)
Total cash flows from operating activities	**7,263**	**7,597**
Cash flows from investing activities		
Purchase of property, plant and equipment	(557)	(425)
Purchase of intangible assets	(420)	(202)
Disposal of property, plant and equipment	20	37
Disposal of intangible assets	39	139
Business combinations [5]	(219)	-
Interest received	2	1
Proceeds from repayment of loans issued to related parties	-	54
Interest received from related parties	4	10
Sales of marketable securities	25	23
Purchases of marketable securities	-	(2)
Other investing cash flows	8	22
Total cash flows from investing activities	**(1,098)**	**(343)**
Cash flows from financing activities		
Proceeds from issue of related party debt [20]	-	2,705
Redemption and repurchase of bonds and notes [20]	(6,616)	(4,717)
Repayment of related party debt [20]	-	(1,225)
Increase (decrease) in commercial paper [20]	436	(732)
Increase (decrease) in other debt [20]	(21)	(18)
Hedging arrangements - related parties	106	55
Interest paid	(1,162)	(1,412)
Dividends paid to related parties	(1,000)	-
Interests and other financing - related parties	(800)	(901)
Recharges and prepayments to related parties for equity compensation plans [24]	(1,133)	(232)
(Increase) decrease of cash pool balance with related parties	4,066	(781)
Total cash flows from financing activities	**(6,124)**	**(7,258)**
Increase (decrease) in cash and cash equivalents	**41**	**(4)**
Cash and cash equivalents at January 1	(110)	(106)
Cash and cash equivalents at December 31 [a), 13]	**(69)**	**(110)**

a) Cash overdrafts of $69 million (2012: $110 million) are included within current liabilities in the balance sheet.

Roche Holdings, Inc. consolidated statement of changes in equity *in millions of USD*

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Total equity
Year ended December 31, 2012					
At January 1, 2012	**1**	**(26,077)**	**91**	**(20)**	**(26,005)**
Net income recognised in income statement	–	2,708	–	–	2,708
Available-for-sale investments	–	–	(1)	–	(1)
Cash flow hedges	–	–	–	73	73
Remeasurements of defined benefit plans	–	(155)	–	–	(155)
Total comprehensive income	**-**	**2,553**	**(1)**	**73**	**2,625**
Dividends	–	(1,000)	–	–	(1,000)
Equity compensation plans	–	(405)	–	–	(405)
At December 31, 2012	**1**	**(24,929)**	**90**	**53**	**(24,785)**
Year ended December 31, 2013					
At January 1, 2013	**1**	**(24,929)**	**90**	**53**	**(24,785)**
Net income recognised in income statement	–	4,353	–	–	4,353
Available-for-sale investments	–	–	14	–	14
Cash flow hedges	–	–	–	31	31
Remeasurements of defined benefit plans	–	470	–	–	470
Total comprehensive income	**-**	**4,823**	**14**	**31**	**4,868**
Dividends	–	–	–	–	-
Equity compensation plans	–	(990)	–	–	(990)
At December 31, 2013	**1**	**(21,096)**	**104**	**84**	**(20,907)**

As disclosed in Note 29, the statement of changes in equity for the year ended December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published total equity at January 1, 2012 is provided in Note 29.

Notes to the Roche Holdings, Inc. Consolidated Financial Statements

1. General accounting principles

Basis of preparation

The consolidated financial statements (hereafter 'the Annual Financial Statements') of the RHI Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 February 3, 2014.

These financial statements are the Annual Financial Statements of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries ('RHI' or 'the RHI Group'). RHI is 100% indirectly owned by Roche Holding Ltd, a public company registered in Switzerland and the parent company of the Roche Group. Roche Holdings, Inc. and its subsidiaries are therefore members of the Roche Group.

The RHI Group's significant accounting policies and changes in accounting policies are disclosed in Note 29.

Going concern: The RHI Group completed the purchase of the non-controlling interests in Genentech effective March 26, 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 RHI 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 RHI Group at that time was reduced by approximately $47 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At December 31, 2013 the RHI Group had a negative equity of $20.9 billion (December 31, 2012: $24.8 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of $14.2 billion which are guaranteed by Roche Holding Ltd. Management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In 2013, the RHI Group generated an operating profit of $9.3 billion and a positive operating cash flow of $7.3 billion.

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 RHI's business is such that many sales transactions do not have a simple structure and may consist of multiple components occurring at different times. RHI 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 RHI 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 December 31, 2013 the RHI Group has $1,731 million in provisions and accruals for expected sales returns, chargebacks and other rebates, including U.S. Medicaid. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the RHI Group's experience. At December 31, 2013 the RHI Group has $34 million 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 RHI Group's experience, taking also into account current economic conditions.

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

Impairment: At December 31, 2013 the RHI Group had $5,354 million in property, plant and equipment (see Note 7), $5,442 million in goodwill (see Note 8) and $2,659 million in intangible assets (see Note 9). Goodwill and intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment or closure of facilities, the presence or absence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairment.

Pensions and other post-employment benefits: The RHI Group operates a number of defined benefit plans and the fair value of the recognised plan assets and liabilities are based upon statistical and actuarial calculations. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate, inflation rate, expected mortality and medical cost trend rate assumptions. At December 31, 2013 the present value of RHI's defined benefit obligation is $4,555 million (see Note 23). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the assets or liabilities recognised in the balance sheet in future periods.

Legal provisions: The RHI Group provides for anticipated legal settlement costs when there is a probable outflow of resources that can be reliably estimated. At December 31, 2013, the RHI Group had $633 million in legal provisions. The status of significant legal cases is disclosed in Note 19. These estimates consider the specific circumstances of each legal case, relevant legal advice and are inherently judgemental due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material.

Environmental provisions: The RHI Group provides for anticipated environmental remediation costs when there is a probable outflow or resources that can be reasonably estimated. At December 31, 2013, the RHI Group had $360 million in environmental provisions (see Note 19). Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgemental due to uncertainties related to the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of the problematic materials attributable to the RHI Group at the remediation sites and the financial capabilities of the other potentially responsible parties. The estimates could change substantially over time as new facts emerge and each environmental remediation progresses.

Income taxes: At December 31, 2013, the RHI Group had a current income tax net liability of $599 million and a deferred tax net asset of $2,181 million (see Note 4). Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Factors that may impact on current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

Leases: The treatment of leasing transactions is mainly determined by whether the lease is considered to be an operating lease or a 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 RHI 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 RHI 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 RHI 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 revenue from the sale or licensing of products or technology to third parties. Certain corporate activities that cannot be reasonably allocated to the other reportable business segments based on RHI's management and organisational structure are reported as 'Corporate'. These include functions for communications, human resources, finance (including treasury, taxes and pension fund management), legal, safety and environmental services.

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
	2013	2012	2013	2012	2013	2012	2013	2012
Revenues from external customers and related parties								
Sales	17,217	15,525	3,099	3,084	–	–	20,316	18,609
Royalties and other operating income	4,110	3,640	322	320	–	–	4,432	3,960
Total	**21,327**	**19,165**	**3,421**	**3,404**	**-**	**-**	**24,748**	**22,569**
Segment results								
Operating profit	9,251	6,778	89	213	(21)	(337)	9,319	6,654
Capital expenditure								
Business combinations	–	–	392	–	–	–	392	-
Additions to property, plant and equipment	372	294	188	145	5	–	565	439
Additions to intangible assets	265	202	175	–	–	–	440	202
Total capital expenditure	**637**	**496**	**755**	**145**	**5**	**-**	**1,397**	**641**
Research and development								
Research and development costs	4,184	4,425	244	170	–	–	4,428	4,595
Other segment information								
Depreciation of property, plant and equipment	398	431	150	149	1	–	549	580
Amortisation of intangible assets	118	99	162	167	–	–	280	266
Impairment (reversal) of property, plant and equipment	(535)	442	10	11	–	–	(525)	453
Impairment of goodwill	–	–	225	200	–	–	225	200
Impairment of intangible assets	331	375	–	11	–	–	331	386
Equity compensation plan expenses	246	267	22	19	3	6	271	292

Net operating assets *in millions of USD*

			Assets			Liabilities			Net assets
	2013	2012	2011	2013	2012	2011	2013	2012	2011
Pharmaceuticals	12,516	12,081	12,438	(5,049)	(5,708)	(4,741)	7,467	6,373	7,697
Diagnostics	7,242	6,998	7,378	(1,050)	(886)	(879)	6,192	6,112	6,499
Corporate	29	8	14	(328)	(299)	(42)	(299)	(291)	(28)
Total operating	**19,787**	**19,087**	**19,830**	**(6,427)**	**(6,893)**	**(5,662)**	**13,360**	**12,194**	**14,168**
Non-operating	4,912	9,397	7,562	(39,179)	(46,376)	(47,735)	(34,267)	(36,979)	(40,173)
RHI Group	**24,699**	**28,484**	**27,392**	**(45,606)**	**(53,269)**	**(53,397)**	**(20,907)**	**(24,785)**	**(26,005)**

As disclosed in Note 29, the non-operating net assets at December 31, 2012 and December 31, 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheet is provided in Note 29.

Supplementary unaudited information on sales for major products is given in the Management Report.

Major customers

In total three U.S. national wholesale distributors represent substantially all of the RHI Group's revenues in 2013. The three U.S. national wholesale distributors are AmerisourceBergen Corp., with $5 billion (2012: $5 billion), McKesson Corp. with $5 billion (2012: $5 billion) and Cardinal Health, Inc. with $3 billion (2012: $3 billion). 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 USD*

	2013	2012
Interest expense	(964)	(1,292)
Amortisation of debt discount [20]	(20)	(29)
Net gains (losses) on redemption and repurchase of bonds and notes [20]	(269)	(262)
Discount unwind [19]	(13)	(9)
Net interest cost of defined benefit plans [23]	(70)	(79)
Total financing costs	**(1,336)**	**(1,671)**

Other financial income (expense) *in millions of USD*

	2013	2012
Net gains (losses) on sale of equity securities	27	38
Write-downs and impairments of equity securities	(1)	(4)
Net income from equity securities	**26**	**34**
Net interest income	**2**	**1**
Foreign exchange gains (losses)	**23**	**(121)**
Net other financial income (expense)	**6**	**2**
Total other financial income (expense)	**57**	**(84)**

Net foreign exchange gains of $23 million were largely offset by a net loss of $25 million made on foreign exchange derivatives with related parties (see Note 27).

Net financial expense *in millions of USD*

	2013	2012
Financing costs	(1,336)	(1,671)
Other financial income (expense)	57	(84)
Net financial expense	**(1,279)**	**(1,755)**
Financial result from Treasury management	(1,209)	(1,676)
Financial result from Pension management	(70)	(79)
Net financial expense	**(1,279)**	**(1,755)**

As disclosed in Note 29, the net financial expense for the year ended December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net financial expense is provided in Note 29.

4. Income taxes

Income tax expenses *in millions of USD*

	2013	2012
Current income taxes	(2,262)	(2,191)
Deferred taxes	(643)	746
Total income tax (expense)	**(2,905)**	**(1,445)**

As disclosed in Note 29, the income tax expense for year ended December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income tax expense is provided in Note 29.

In January 2013 there was the retrospective re-enactment of the 2012 U.S. research and development tax credits, which means that the 2013 results include a whole year of tax credits in respect of 2012 as well as tax credits for 2013. RHI's effective tax rate can be reconciled to the RHI Group's average expected tax rate as follows:

Reconciliation of RHI's effective tax rate

	2013	2012
Average expected tax rate	35.0%	35.0%
Tax effect of		
- Non-taxable income/non-deductible expenses	+2.1%	+3.2%
- Equity compensation plans	-0.3%	-0.8%
- Research, development and other manufacturing tax credits	-4.4%	-3.9%
- U.S. state tax impacts	+1.0%	+2.3%
- Other differences	+6.6%	-1.0%
RHI's effective tax rate	**40.0%**	**34.8%**

Tax effects of other comprehensive income *in millions of USD*

			2013			2012
	Pre-tax amount	Tax	After-tax amount	Pre-tax amount	Tax	After-tax amount
Remeasurements of defined benefit plans	732	(262)	470	(240)	85	(155)
Available-for-sale investments	22	(8)	14	(4)	3	(1)
Cash flow hedges	48	(17)	31	114	(41)	73
Other comprehensive income	**802**	**(287)**	**515**	**(130)**	**47**	**(83)**

Income tax assets (liabilities) *in millions of USD*

	2013	2012	2011
Current income taxes			
- Assets	-	50	34
- Liabilities	(599)	(1,106)	(582)
Net current income tax assets (liabilities)	**(599)**	**(1,056)**	**(548)**
Deferred taxes			
- Assets	2,656	3,135	2,309
- Liabilities	(475)	(437)	(580)
Net deferred tax assets (liabilities)	**2,181**	**2,698**	**1,729**

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

	2013	2012
Net current income tax asset (liability) at January 1	(1,056)	(548)
Income taxes paid	2,360	1,673
(Charged) credited to the income statement	(2,262)	(2,191)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	357	8
Other	2	2
Net current income tax assets (liabilities) at December 31	**(599)**	**(1,056)**

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

	Property, plant and equipment	Intangible assets	Defined benefit plans	Other temporary differences	Total
Year ended December 31, 2012					
At January 1, 2012	(326)	(877)	644	2,288	1,729
Business combinations [5]	-	-	-	-	-
(Charged) credited to the income statement	168	205	(16)	389	746
(Charged) credited to other comprehensive income [21]	-	-	85	(38)	47
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	-	-	-	176	176
At December 31, 2012	**(158)**	**(672)**	**713**	**2,815**	**2,698**
Year ended December 31, 2013					
At January 1, 2013	(158)	(672)	713	2,815	2,698
Business combinations [5]	-	(110)	-	3	(107)
(Charged) credited to the income statement	(129)	363	(16)	(861)	(643)
(Charged) credited to other comprehensive income [21]	-	-	(262)	(25)	(287)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	-	-	-	520	520
At December 31, 2013	**(287)**	**(419)**	**435**	**2,452**	**2,181**

The deferred tax assets for other temporary differences mainly relates to accrued and other liabilities and provisions.

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

Unrecognised tax losses: expiry

	2013 Amount ($ million)	2013 Applicable tax rate	2012 Amount ($ million)	2012 Applicable tax rate
Within one year	-	-	-	-
Between one and five years	-	-	-	-
More than five years	3,932	3%	2,632	3%
Total unrecognised tax losses	**3,932**	**3%**	**2,632**	**3%**

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

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the RHI Group, regarded as permanently reinvested, were $7.3 billion at December 31, 2013 (2012: $4.2 billion).

5. Business combinations

Acquisitions – 2013

Constitution Medical Investors, Inc. On July 1, 2013 the RHI 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, of which $220 million was paid in cash and $66 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until the end of 2017 and the range of undiscounted outcomes is between zero and $255 million. The identifiable assets acquired and liabilities assumed are set out in the table below.

Acquisitions – 2013: net assets acquired *in millions of USD*

	CMI
Intangible assets - Product intangibles: not available for use	283
Deferred tax liabilities	(107)
Other net assets (liabilities)	1
Net identifiable assets	**177**
Goodwill	109
Total consideration	**286**
Cash	220
Contingent consideration [26]	66
Total consideration	**286**

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

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

Cash flows from business combinations

Acquisitions: net cash outflow *in millions of USD*

	2013
Cash consideration paid	(220)
Cash in acquired company	1
Contingent consideration paid [26]	-
Total net cash outflow	**(219)**

6. Restructuring plans

During 2013 the RHI Group continued with the implementation of several major restructuring plans initiated in prior years, notably the reorganisation of research and development in the Pharmaceuticals Division and programmes to address the long-term profitability in the Diabetes Care and former Applied Science businesses in Diagnostics. Additionally, there was income of $573 million from the reversal of previously incurred charges for a bulk drug production unit at the Vacaville site in California.

Restructuring plans: costs incurred *in millions of USD*

	Diagnostics [1]	Pharma R&D [2]	Other Plans [3]	Total
Year ended December 31, 2013				
Restructuring costs				
- Employee related costs	35	49	15	99
- Site closure costs	24	38	(572)	(510)
- Other reorganisation expenses	18	161	12	191
Total restructuring costs	**77**	**248**	**(545)**	**(220)**
Additional costs				
- Impairment of goodwill	33	-	-	33
- Impairment of intangible assets	-	-	-	-
- Legal and environmental costs	-	(57)	-	(57)
Total costs	**110**	**191**	**(545)**	**(244)**
Year ended December 31, 2012				
- Employee related costs	18	146	64	228
- Site closure costs	11	404	54	469
- Other reorganisation expenses	7	24	51	82
Total restructuring costs	**36**	**574**	**169**	**779**
Additional costs				
- Impairment of goodwill	200	-	-	200
- Impairment of intangible assets	9	31	49	89
- Legal and environmental costs	-	259	1	260
Total costs	**245**	**864**	**219**	**1,328**

1) Includes restructuring of the Diabetes Care and former Applied Science business areas.

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

3) Includes the Operational Excellence programme (Pharmaceuticals and Diagnostics) and in 2012 dalcetrapib (Pharmaceuticals).

Diagnostics Division – Applied Science and Diabetes Care restructuring

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

During 2013 total costs of $77 million (2012: $36 million) were incurred mainly for headcount reductions. In addition, goodwill impairment charges of $33 million were incurred for the write-off of the goodwill from the 454 Life Sciences acquisitions in the former Applied Science business area. During 2012 a goodwill impairment charge of $200 million was incurred for the full write-off of the goodwill from the NimbleGen acquisition and intangible asset impairment charges of $9 million were incurred.

Pharmaceutical Division – Research and Development reorganisation

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

During 2013 total costs of $248 million were incurred. These costs include $115 million for employee-related and other reorganisation costs during the year and additional provisions of $95 million to cover site running costs until the expected divestment in 2015. The provisions were mainly for employee-related costs, property taxes and outside services. There was a further impairment of $38 million to the carrying value of the Nutley site, based on the most recent external property market data. In addition the first results of the environmental investigations showed that the expected cost of remediation may be lower than originally expected and accordingly the environmental provisions were reduced by $57 million.

During 2012 total costs of $574 million were incurred mainly for severance, other employee-related costs and property, plant and equipment impairments at the Nutley site. In addition there were environmental remediation costs at the Nutley site of $259 million and intangible asset impairment charges of $31 million as a result of portfolio prioritisation decisions linked to the reorganisation.

Other restructuring plans

On October 14, 2013 the Pharmaceuticals Division announced that as part of its investments to increase its 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 $573 million from the reversal of previously incurred impairment charges (see Note 7).

During 2013 costs of $19 million (2012: $161 million) were incurred for the previously announced Operational Excellence programme, mainly for employee-related costs in the Pharmaceuticals Division. Other plans totaled $9 million (2012: $5 million). In 2012 there were also $4 million of restructuring costs which consist of property, plant and equipment write-off. Additionally $49 million intangible asset impairment charges were expensed in respect of the termination of the dalcetrapib dal-OUTCOMES trial and all the studies in the dal-HEART programme.

Restructuring plans: summary of costs incurred *in millions of USD*

	2013	2012
Employee-related costs		
- Termination costs	77	287
- Defined benefit plans	-	(72)
- Other employee-related costs	22	13
Total employee-related costs	**99**	**228**
Site closure costs		
- Impairment (reversal) of property, plant and equipment	(529)	441
- Accelerated depreciation of property, plant and equipment	1	14
- (Gains) losses on disposal of property, plant and equipment	-	(10)
- Other site closure costs	18	24
Total site closure costs	**(510)**	**469**
Other reorganisation expenses	191	82
Total restructuring costs	**(220)**	**779**
Additional costs		
- Impairment of goodwill [8]	33	200
- Impairment of intangible assets [9]	-	89
- Legal and environmental costs [19]	(57)	260
Total costs	**(244)**	**1,328**

Restructuring plans: classification of costs *in millions of USD*

	Depreciation, amortisation and impairment	Other costs	2013 Total	Depreciation, amortisation and impairment	Other costs	2012 Total
Cost of sales						
- Pharmaceuticals	(572)	9	(563)	6	9	15
- Diagnostics	2	27	29	13	8	21
Marketing and distribution						
- Pharmaceuticals	-	1	1	-	47	47
- Diagnostics	-	28	28	2	12	14
Research and development						
- Pharmaceuticals	-	76	76	196	179	375
- Diagnostics	4	8	12	2	9	11
General and administration						
- Pharmaceuticals	38	150	188	325	52	377
- Diagnostics	33	8	41	200	7	207
- Corporate	-	(56)	(56)	-	261	261
Total	**(495)**	**251**	**(244)**	**744**	**584**	**1,328**
Total by operating segment						
- Pharmaceuticals	(534)	236	(298)	527	287	814
- Diagnostics	39	71	110	217	36	253
- Corporate	-	(56)	(56)	-	261	261
Total	**(495)**	**251**	**(244)**	**744**	**584**	**1,328**

7. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At January 1, 2012					
Cost	437	5,319	4,831	317	10,904
Accumulated depreciation and impairment	-	(2,109)	(3,280)	(16)	(5,405)
Net book value	**437**	**3,210**	**1,551**	**301**	**5,499**
Year ended December 31, 2012					
At January 1, 2012	437	3,210	1,551	301	5,499
Additions	-	6	173	260	439
Disposals	(2)	(4)	(13)	-	(19)
Transfers	1	91	153	(245)	-
Depreciation charge	-	(231)	(349)	-	(580)
Impairment reversal (charge)	-	(260)	(133)	(60)	(453)
Other	3	(4)	(15)	-	(16)
At December 31, 2012	**439**	**2,808**	**1,367**	**256**	**4,870**
Cost	439	5,359	5,008	278	11,084
Accumulated depreciation and impairment	-	(2,551)	(3,641)	(22)	(6,214)
Net book value	**439**	**2,808**	**1,367**	**256**	**4,870**
Year ended December 31, 2013					
At January 1, 2013	439	2,808	1,367	256	4,870
Additions	-	6	183	376	565
Disposals	-	(2)	(24)	-	(26)
Transfers	-	65	291	(356)	-
Depreciation charge	-	(208)	(341)	-	(549)
Impairment reversal (charge)	-	374	152	(1)	525
Other	-	-	(31)	-	(31)
At December 31, 2013	**439**	**3,043**	**1,597**	**275**	**5,354**
Cost	439	5,371	5,099	293	11,202
Accumulated depreciation and impairment	-	(2,328)	(3,502)	(18)	(5,848)
Net book value	**439**	**3,043**	**1,597**	**275**	**5,354**

Impairment reversal (charge)

On October 14, 2013 the Pharmaceuticals Division announced details of investments to increase its 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 Vacaville and Oceanside. 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 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 RHI 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 $573 million in 2013. The impairment reversal of $573 million represents the net book value from the time of the original impairment for the assets that will be brought back into use, less the depreciation that would have been charged in the intervening period had that impairment not occurred (see Note 6). This was partly offset by a further impairment of $38 million to the carrying value of the Nutley site, based on the most recent external property market data. During 2012 the impairment charges mainly related to property, plant and equipment at the Nutley site.

Classification of impairment of property, plant and equipment *in millions of USD*

	2013	2012
Cost of sales	569	(19)
Marketing and distribution	(3)	(5)
Research and development	(4)	(105)
General and administration	(37)	(324)
Total impairment reversal (charge)	**525**	**(453)**

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

Leasing arrangements where the RHI Group is the lessee

Finance leases: At December 31, 2013 the capitalised cost of property, plant and equipment under finance leases was $257 million (2012: $257 million) and the net book value of these assets was $128 million (2012: $150 million). The carrying value of the leasing obligation was $200 million (2012: $221 million), which is reported as part of Debt (see Note 20).

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

	Future minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Within one year	34	33	22	19
Between one and five years	150	145	119	106
More than five years	59	103	59	96
Total	**243**	**281**	**200**	**221**
Future finance charges	–	–	43	60
Total future minimum lease payments (undiscounted)	**243**	**281**	**243**	**281**

Operating leases: RHI 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 RHI Group. Total operating lease rental expense was $74 million (2012: $78 million).

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

	2013	2012
Within one year	86	88
Between one and five years	218	165
More than five years	45	61
Total minimum payments	**349**	**314**

Leasing arrangements where the RHI Group is the lessor

Finance leases: Certain assets, mainly Diagnostic 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 USD*

	Gross investment in lease		Present value of minimum lease receipts	
	2013	2012	2013	2012
Within one year	41	32	37	28
Between one and five years	76	77	68	71
More than five years	1	2	1	1
Total	**118**	**111**	**106**	**100**
Unearned finance income	(10)	(10)	n/a	n/a
Unguaranteed residual value	n/a	n/a	2	1
Net investment in lease	**108**	**101**	**108**	**101**

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

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

At December 31, 2013, machinery and equipment with an original cost of $483 million (2012: $425 million) and a net book value of $180 million (2012: $165 million) 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 USD*

	2013	2012
Within one year	13	14
Between one and five years	26	25
More than five years	-	-
Total minimum receipts	**39**	**39**

Capital commitments

The RHI Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totaling $187 million (2012: $79 million).

8. Goodwill

Goodwill: movements in carrying value of assets *in millions of USD*

	2013	2012
At January 1		
Cost	5,758	5,758
Accumulated impairment	(200)	-
Net book value	**5,558**	**5,758**
Year ended December 31		
At January 1	5,558	5,758
Business combinations [5]	109	-
Impairment charge	(225)	(200)
At December 31	**5,442**	**5,558**
Cost	5,867	5,758
Accumulated impairment	(425)	(200)
Net book value	**5,442**	**5,558**
Allocated to the following cash-generating units		
Pharmaceuticals	1,960	1,960
Total Pharmaceuticals Division	**1,960**	**1,960**
Diabetes Care	2	2
Professional Diagnostics	1,574	1,465
Molecular Diagnostics	-	-
Applied Science	-	33
Tissue Diagnostics	604	796
Strategic goodwill (held at divisional level and not allocated to business areas)	1,302	1,302
Total Diagnostics Division	**3,482**	**3,598**

Impairment charge

During 2013 impairment charges totaling $225 million were recorded which related to:

- A goodwill impairment charge of $192 million was recorded in the Tissue Diagnostics business area within the Diagnostics Division. This impairment is based on the latest business plans prepared during the second half of 2013. The main factors leading to this impairment were reduced revenue expectations in the U.S. 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 April 23, 2013 the reorganisation of the Applied Science business area was announced (see Note 6). A goodwill impairment charge of $33 million was incurred for the full write-off of the goodwill from the 454 Life Sciences acquisition in 2007 in the former Applied Science business area.

During 2012 a goodwill impairment charge of $200 million was incurred for the full write-off of the goodwill from the NimbleGen acquisition in 2007 (see Note 6).

Impairment testing

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

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

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

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

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

Sensitivity analysis

Management has performed sensitivity analyses for both Roche Pharmaceuticals and the Diagnostics Division, which increased the discount rate by 1% combined with decreasing the forecast cash flows by 5%. Except for the Tissue Diagnostics business area, the results of the sensitivity analyses demonstrated that the above changes in the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount at December 31, 2013. The above key assumption changes would result in a further goodwill impairment of $394 million in the Tissue Diagnostics business area at December 31, 2013.

9. Intangible assets

Intangible assets: movements in carrying value of assets *in millions of USD*

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At January 1, 2012					
Cost	5,243	1,985	4	581	7,813
Accumulated amortisation and impairment	(3,811)	(252)	(1)	(574)	(4,638)
Net book value	**1,432**	**1,733**	**3**	**7**	**3,175**
Year ended December 31, 2012					
At January 1, 2012	1,432	1,733	3	7	3,175
Business combinations [5]	-	-	-	-	-
Additions	97	80	-	25	202
Disposals	(13)	(126)	-	-	(139)
Transfers	20	(20)	-	-	-
Amortisation charge	(258)	-	(3)	(5)	(266)
Impairment charge	(25)	(361)	-	-	(386)
At December 31, 2012	**1,253**	**1,306**	**-**	**27**	**2,586**
Cost	5,323	1,767	4	606	7,700
Accumulated amortisation and impairment	(4,070)	(461)	(4)	(579)	(5,114)
Net book value	**1,253**	**1,306**	**-**	**27**	**2,586**
Allocation by operating segment					
- Pharmaceuticals	514	790	-	25	1,329
- Diagnostics	739	516	-	2	1,257
Total RHI Group	**1,253**	**1,306**	**-**	**27**	**2,586**
Year ended December 31, 2013					
At January 1, 2013	1,253	1,306	-	27	2,586
Business combinations [5]	-	283	-	-	283
Additions	256	155	-	29	440
Disposals	(20)	(19)	-	-	(39)
Transfers	103	(103)	-	-	-
Amortisation charge	(275)	-	-	(5)	(280)
Impairment charge	(20)	(311)	-	-	(331)
At December 31, 2013	**1,297**	**1,311**	**-**	**51**	**2,659**
Cost	5,676	2,053	4	635	8,368
Accumulated amortisation and impairment	(4,379)	(742)	(4)	(584)	(5,709)
Net book value	**1,297**	**1,311**	**-**	**51**	**2,659**
Allocation by operating segment					
- Pharmaceuticals	542	512	-	49	1,103
- Diagnostics	755	799	-	2	1,556
Total RHI Group	**1,297**	**1,311**	**-**	**51**	**2,659**

Significant intangible assets at December 31, 2013 *in millions of USD*

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
Tanox acquisition	Pharmaceuticals	241	6 years
Ventana acquisition	Diagnostics	303	4 years
Product intangibles not available for use			
Ventana acquisition	Diagnostics	516	n/a
CMI acquisition	Diagnostics	283	n/a

Classification of amortisation and impairment expenses *in millions of USD*

	Amortisation		Impairment	
	2013	2012	2013	2012
Cost of sales				
- Pharmaceuticals	(71)	(70)	-	(14)
- Diagnostics	(161)	(163)	-	(11)
Marketing and distribution				
- Diagnostics	-	(3)	-	-
Research and development				
- Pharmaceuticals	(47)	(29)	(331)	(361)
- Diagnostics	(1)	(1)	-	-
Total	**(280)**	**(266)**	**(331)**	**(386)**

Internally generated intangible assets

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

Intangible asset impairment

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

Impairment charges – 2013

Pharmaceuticals Division: Impairment charges totaling $331 million were recorded which related to:

- A portfolio reassessment within the hepatitis C virus (HCV) franchise ($273 million). The assets concerned, which were not yet being amortised, were written down to their recoverable value of $5 million.
- A portfolio reassessment within the cardiovascular and metabolic diseases franchise ($34 million). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop two collaboration projects with alliance partners ($20 million). The assets concerned, which were being amortised, were fully written down.
- A decision to stop development of one compound with an alliance partner ($4 million). The asset concerned, which was not yet being amortised, was fully written down.

Impairment charges – 2012

Pharmaceuticals Division: Impairment charges totaling $375 million were recorded which related to:

- A clinical data assessment of a project acquired as part of the Marcadia acquisition ($172 million);
- Various restructuring initiatives ($80 million), mainly related to the termination of the dalcetrapib trials (see Note 6).
- Portfolio prioritisation decisions ($52 million), mainly related to the return of the monoclonal antibody RG 7334 anti-PLGF MAb to the alliance partners.
- A clinical data assessment of a collaboration project with an alliance partner ($57 million).
- A decision to stop development of one compound with an alliance partner ($14 million).

Diagnostics Division: Impairment charges totaling $11 million were recorded which mainly related to the Applied Science business area restructuring (see Note 6).

Potential commitments from alliance collaborations

The RHI Group is party to in-licensing and similar arrangements with its alliance partners. These arrangements may require the RHI 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.

RHI'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 RHI's current best estimate.

Potential future third-party collaboration payments at December 31, 2013 *in millions of USD*

	Pharmaceuticals	Diagnostics	RHI Group
Within one year	122	-	122
Between one and two years	290	-	290
Between two and three years	103	-	103
Total	**515**	**-**	**515**

10. Inventories

Inventories *in millions of USD*

	2013	2012	2011
Raw materials and supplies	318	282	271
Work in process	38	63	95
Intermediates	923	1,085	714
Finished goods	936	748	852
Less: provision for slow-moving and obsolete inventory	(184)	(204)	(212)
Total inventories	**2,031**	**1,974**	**1,720**

Inventories expensed through cost of sales totaled $4.7 billion (2012: $4.2 billion). Inventories write-downs during the year resulted in an expense of $152 million (2012: $175 million).

11. Accounts receivable

Accounts receivable *in millions of USD*

	2013	2012	2011
Trade receivables	2,387	2,363	2,110
Notes receivable	8	8	8
Other receivables	36	28	21
Allowances for doubtful accounts	(34)	(27)	(24)
Charge-backs and other allowances	(194)	(307)	(189)
Total accounts receivable	**2,203**	**2,065**	**1,926**

Allowances for doubtful accounts: movements in recognised liability *in millions of USD*

	2013	2012
At January 1	(27)	(24)
Additional allowances created	(12)	(3)
Unused amounts reversed	3	-
Utilised during the year	1	1
Other	1	(1)
At December 31	**(34)**	**(27)**

Bad debt allowance expense charged to marketing and distribution totaled $6 million (2012: expense of $1 million).

12. Marketable securities

Marketable securities *in millions of USD*	2013	2012	2011
Available-for-sale financial assets			
Equity securities	469	266	215
Total marketable securities	**469**	**266**	**215**

13. Cash and cash equivalents

Cash and cash equivalents *in millions of USD*	2013	2012	2011
Cash and cash equivalents	-	-	-
Cash overdraft [18]	(69)	(110)	(106)
Total cash and cash equivalents	**(69)**	**(110)**	**(106)**

14. Other non-current assets

Other non-current assets *in millions of USD*	2013	2012	2011
Available-for-sale investments – held at fair value [26]	25	32	44
Available-for-sale investments – held at cost [26]	10	4	11
Loans receivable	5	5	-
Long-term trade receivables	1	1	1
Restricted cash	9	9	9
Other receivables – third and related parties	71	73	54
Total financial non-current assets	**121**	**124**	**119**
Long-term employee benefits	265	267	244
Other assets	74	77	91
Total non-financial non-current assets	**339**	**344**	**335**
Total other non-current assets	**460**	**468**	**454**

The available-for-sale investments are mainly equity investments in private biotechnology companies, which are kept as part of RHI'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 USD*	2013	2012	2011
Derivative financial instruments [26]	-	-	-
Other receivables	468	469	374
Total financial current assets	**468**	**469**	**374**
Prepaid expenses	161	140	111
Other assets	9	4	12
Total non-financial current assets	**170**	**144**	**123**
Total other current assets	**638**	**613**	**497**

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

16. Accounts payable

Accounts payable *in millions of USD*	2013	2012	2011
Trade payables	530	415	443
Other taxes payable	31	28	28
Other payables	4	(26)	19
Total accounts payable	**565**	**417**	**490**

17. Other non-current liabilities

Other non-current liabilities in millions of USD	2013	2012	2011
Deferred income	20	29	39
Other long-term liabilities	16	21	25
Total other non-current liabilities	**36**	**50**	**64**

18. Other current liabilities

Other current liabilities *in millions of USD*	2013	2012	2011
Deferred income	53	50	136
Accrued payroll and related items	887	832	748
Interest payable	508	701	820
Derivative financial instruments [26]	304	117	66
Accrued charge-backs and other allowances	833	884	732
Accrued royalties and commissions	746	825	738
Other accrued liabilities	549	530	474
Cash overdrafts	69	110	106
Total other current liabilities	**3,949**	**4,049**	**3,820**

19. Provisions and contingent liabilities

Provisions: movements in recognised liabilities *in millions of USD*

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended December 31, 2012						
At January 1, 2012	739	164	176	158	483	1,720
Additional provisions created	66	278	322	84	305	1,055
Unused amounts reversed	(15)	-	(51)	(4)	(74)	(144)
Utilised	(62)	(10)	(179)	(78)	(166)	(495)
Discount unwind [3]	1	8	-	-	-	9
Other	-	-	-	4	-	4
At December 31, 2012	**729**	**440**	**268**	**164**	**548**	**2,149**
- Current portion	711	108	268	68	532	1,687
- Non-current portion	18	332	-	96	16	462
At December 31, 2012	**729**	**440**	**268**	**164**	**548**	**2,149**
Year ended December 31, 2013						
At January 1, 2013	729	440	268	164	548	2,149
Additional provisions created	93	10	159	100	356	718
Unused amounts reversed	(24)	(60)	(8)	-	(40)	(132)
Utilised	(163)	(42)	(202)	(81)	(132)	(620)
Discount unwind [3]	-	12	-	-	1	13
Business combinations						
- Acquired companies [5]	-	-	-	-	-	-
- Contingent consideration [26]	-	-	-	-	66	66
Other	(2)	-	-	7	2	7
At December 31, 2013	**633**	**360**	**217**	**190**	**801**	**2,201**
- Current portion	622	134	177	75	758	1,766
- Non-current portion	11	226	40	115	43	435
At December 31, 2013	**633**	**360**	**217**	**190**	**801**	**2,201**
Expected outflow of resources						
- Within one year	622	134	177	75	758	1,766
- Between one to two years	11	128	40	16	18	213
- Between two to three years	-	21	-	14	10	45
- More than three years	-	77	-	85	15	177
At December 31, 2013	**633**	**360**	**217**	**190**	**801**	**2,201**

Legal provisions

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

In 2013 legal expenses totaled $69 million (2012: $61 million) which reflect the recent developments in various legal matters. Details of the major legal cases outstanding are disclosed below.

Environmental provisions

Provisions for environmental matters include various separate environmental issues. By their nature the amounts and timings of any outflows are difficult to predict. Significant provisions are discounted by 5% where the time value of money is material. The significant provision relates to the closure of the U.S. site in Nutley, New Jersey. The first results of the environmental investigations at Nutley showed that the expected cost of remediation may be lower than originally expected and accordingly the environmental provisions were reduced by $57 million.

Restructuring provisions

These arise from planned programmes that materially change the scope of business undertaken by the RHI 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 RHI Group. The timings of these cash outflows are reasonably certain. These provisions are not discounted as the time value of money is not material in these matters. The significant provisions relate to the restructuring of research and development activities within the Pharmaceuticals Division mainly related to the closure of the U.S. site in Nutley, New Jersey and the restructuring of the Diabetes Care and Applied Science businesses within the Diagnostics Division.

Employee provisions

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

Other provisions

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

Other provisions *in millions of USD*

	2013	2012	2011
Sales returns	704	500	377
Contingent consideration [26]	67	-	48
Other items	30	48	58
Total other provisions	**801**	**548**	**483**

Contingent liabilities

The operations and earnings of the RHI 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. The industries in which the RHI 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 RHI 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 RHI 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. RHI Group's best estimate for future commitment payments are given in Note 9.

Pharmaceuticals legal cases

Accutane: Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the United States and elsewhere relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. At December 31, 2013 HLR was defending approximately 7,760 actions involving approximately 7,863 plaintiffs brought in various federal and state courts throughout the U.S. 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 U.S 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 U.S.

All of the actions pending in federal court alleging IBD were consolidated for pre-trial proceedings in a Multi-District Litigation in the U.S. District Court for the Middle District of Florida, Tampa Division. Since July 2007 the District Court has granted summary judgment in favor of HLR for all of the federal IBD cases that have proceeded. Since August 2008 all of these rulings have been affirmed by the U.S. 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 December 31, 2013 juries in the Superior Court have ruled in favor of the plaintiff in eight cases, assessing total compensatory damages totaling $67.7 million, and ruled in favor of HLR in four cases. For the eight cases that were originally ruled in favor of the plaintiff by the Superior Court, HLR is in the process of appealing two cases ($27.4 million); one case is scheduled for a retrial in January 2014 ($10.5

million); post-trial briefing is on-going for two cases ($18.0 million); and three cases have had their verdicts reversed in favor of HLR ($11.8 million).

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

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

In addition in October 2008 Sanofi affiliate Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated patent-license agreement between one of Hoechst's predecessors and Genentech that pertained to the above-mentioned patents and related patents outside the U.S. 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 RHI Group recorded a back royalty expense of $45 million, net of the assumed reimbursement of a portion of the RHI Group's obligation by its co-promotion partner in the U.S, and a corresponding amount in accrued liabilities (December 31, 2012: accrued liability of $67 million).

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

Average Wholesale Prices litigation: HLR and Roche Laboratories Inc. ('RLI'), along with approximately 50 other brand and generic pharmaceutical companies, have been named as defendants in several legal actions in the U.S. 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 December 31, 2013, HLR and RLI are defending one AWP action filed in the State of New Jersey. Discovery is currently pending in this case. HLR and RLI are vigorously defending themselves in this matter. The outcome of this matter cannot be determined at this time.

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

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

On January 31, 2014 the parties agreed to a settlement that resolves 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 concern GSK's U.S. Patent Nos. RE40,070 and RE41,555. GSK is asserting claims against Genentech alleging infringement of the patents by Herceptin and Lucentis, and is seeking compensatory damages. In its lawsuit Genentech is seeking a judicial declaration of non-infringement and invalidity of the patents. In June 2012 the parties agreed to dismiss the California action without prejudice and the consolidated case is now proceeding in Delaware. On August 22, 2013 the Delaware Court issued a claim construction order construing two terms of the '555 patent. Trial is scheduled for June 2014. The outcome of this matter cannot be determined at this time.

Boniva litigation: HLR, Genentech and various other Roche affiliates (collectively 'Roche') have been named as defendants in numerous legal actions in the U.S. 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 December 31, 2013 Roche is defending approximately 306 actions involving approximately 320 plaintiffs brought in federal and state courts throughout the U.S. 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.

Diagnostics legal cases

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

20. Debt

Debt: movements in carrying value of recognised liabilities *in millions of USD*

	2013	2012
At January 1	39,316	42,675
Proceeds from issue of bonds and notes	-	-
Redemption and repurchase of bonds and notes	(6,616)	(4,717)
Increase (decrease) in commercial paper	436	(732)
Increase (decrease) in amounts due to related parties	-	1,480
Increase (decrease) in other debt	(21)	(18)
Net (gains) losses on redemption and repurchase of bonds and notes	269	262
Amortisation of debt discount [3]	20	29
Net foreign exchange (gains) losses	190	337
At December 31	**33,594**	**39,316**
- Bonds and notes	14,923	21,060
- Commercial paper	791	355
- Amounts due to related parties	17,680	17,680
- Finance lease obligations [7]	200	221
Total debt	**33,594**	**39,316**
- Long-term debt	27,060	32,745
- Short-term debt	6,534	6,571
Total debt	**33,594**	**39,316**

Foreign currency losses of $190 million are mainly related to the weaker U.S. dollar compared to the euro and occurred in Roche Holdings, Inc., which is the issuer of most of the outstanding bonds and notes. These losses were recorded in the income statement, where they have been offset by gains on the hedging derivatives.

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

Bonds and notes

Recognised liabilities and effective interest rates of bonds and notes *in millions of USD*

	Effective interest rate		2013	2012	2011
	Underlying instrument	Including hedging			
U.S. dollar-denominated notes – fixed rate					
5.0% notes due March 1, 2014, principal 2.75 billion U.S. dollars (ISIN: USU75000AL00 and US771196AQ59)	5.31%	n/a	–	1,820	1,742
6.0% notes due March 1, 2019, principal 4.5 billion U.S. dollars outstanding 4.1 billion U.S. dollars (ISIN: USU75000AM82 and US771196AS16)	6.37%	n/a	4,234	4,438	4,430
7.0% notes due March 1, 2039, principal 2.5 billion U.S. dollars (ISIN: USU75000AN65 and US771196AU61)	7.43%	n/a	2,416	2,414	2,413
European Medium Term Note program – fixed rate					
4.625% notes due March 4, 2013, principal 5.25 billion euros (ISIN: XS0415624393)	4.82%	5.53%	–	4,377	5,547
5.5% notes due March 4, 2015, principal 1.25 billion pounds sterling, outstanding 0.90 billion pounds sterling (ISIN: XS0415625283)	5.70%	5.78%	1,482	1,450	1,380
5.625% notes due March 4, 2016, principal 2.75 billion euros, outstanding 2.10 billion euros (ISIN: XS0415624120)	5.70%	6.36%	2,895	2,770	3,556
6.5% notes due March 4, 2021, principal 1.75 billion euros (ISIN: XS0415624716)	6.66%	7.00%	2,397	2,292	2,245
Swiss franc bonds – fixed rate					
2.5% bonds due March 23, 2012, principal 2.5 billion Swiss francs (ISIN: CH0038365117)	2.68%	2.88%	–	–	2,338
Genentech Senior Notes					
4.75% Senior Notes due July 15, 2015, principal 1.0 billion U.S. dollars (ISIN: US368710AG46)	4.87%	n/a	1,000	1,000	1,000
5.25% Senior Notes due July 15, 2035, principal 500 million U.S. dollars (ISIN: US368710AC32)	5.39%	n/a	499	499	499
Total bonds and notes			**14,923**	**21,060**	**25,150**

Bonds and notes - maturity *in millions of USD*

	2013	2012	2011
Within one year	1,171	6,197	2,338
Between one and two years	2,482	–	5,547
Between two and three years	2,895	2,450	1,742
Between three and four years	–	2,770	2,380
Between four and five years	–	–	3,556
More than five years	8,375	9,643	9,587
Total bonds and notes	**14,923**	**21,060**	**25,150**

Unamortised discount included in carrying value of bonds and notes *in millions of USD*

	2013	2012	2011
U.S. dollar notes	123	151	167
Euro notes	23	28	43
Swiss franc bonds	-	-	1
Pound sterling notes	3	5	7
Total unamortised discount	**149**	**184**	**218**

Currency swaps: Subsequent to the debt issuances in 2009 to finance the Genentech transaction, the proceeds of all of the European Medium Term Note program and all Swiss franc-denominated bonds were swapped into U.S. dollars by entering into derivative contracts with related parties. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside the RHI Group has entered with third party financial institutions. As a result, in these financial statements, the bonds and notes have economic characteristics equivalent to U.S. dollar-denominated bonds and notes.

Issuance of new bonds and notes – 2013 and 2012

The RHI Group did not issue any bonds or notes in 2013 and 2012.

Redemption and repurchase of bonds and notes – 2013

Redemption of euro-denominated notes: On the due date of March 4, 2013 the RHI Group redeemed the 4.625% fixed rate notes with a principal of 3.313 billion euros. The cash outflow was $4,314 million, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 5.53%.

Redemption of U.S. dollar-denominated notes: On December 20, 2012 the RHI Group resolved to exercise its option to call for redemption of the entire outstanding U.S. dollar-denominated 5.0% fixed rate notes due March 1, 2014. On March 21, 2013 the RHI Group redeemed the remaining outstanding principal of $1.75 billion 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 U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $1,821 million, plus accrued interest, and there was an additional $1 million loss recorded on redemption. The effective interest rate of these notes was 5.31%.

Partial redemption of U.S. dollar-denominated notes: On June 28, 2013 the RHI Group resolved to exercise its option to call for early partial redemption of U.S. dollar-denominated 6.0% fixed rate notes due March 1, 2019. On August 29, 2013 the RHI Group redeemed an outstanding principal of $400 million 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 U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $481 million, plus accrued interest, and there was an $86 million loss recorded on redemption. The effective interest rate of these notes was 6.37%.

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

Redemption and repurchase of bonds and notes – 2012

During 2012 the RHI Group redeemed 2.2 billion Swiss francs ($2.4 billion) of bonds on their due date, completed a tender offer to repurchase 1.6 billion euros ($2.3 billion) of notes and exercised its option to call for the early redemption of $1.75 billion of notes on March 21, 2013.

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

Cash outflows from redemption and repurchase of bonds and notes *in millions of USD*

	2013	2012
Swiss franc-denominated bonds	-	(2,406)
European Medium Term Note program euro-denominated notes	(4,314)	(2,311)
U.S. dollar-denominated notes	(2,302)	-
Total cash outflows from redemption and repurchase of bonds and notes	**(6,616)**	**(4,717)**

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 of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euro is available (jointly with other borrowers in the Roche Group) as back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At December 31, 2013 unsecured commercial paper notes with a principal of $791 million and an interest rate of 0.07% were outstanding.

Movements in commercial paper obligations *in millions of USD*

	2013	2012
At January 1	355	1,087
Net cash proceeds (payments)	436	(732)
At December 31	**791**	**355**

Recognised liabilities due to related parties

The movements of the amounts due to related parties are shown in the table below:

Recognised liabilities due to related parties *in millions of USD*

	2013	2012	2011
At January 1	17,680	16,200	15,215
Cash inflows from related parties	-	2,705	14,290
Cash outflows to related parties	-	(1,225)	(13,305)
At December 31	**17,680**	**17,680**	**16,200**

	Effective interest rate	2013	2012	2011
Term note 0.48% due January 10, 2012, principal $20 million	0.48%	-	-	20
Term note 6.20% due September 17, 2012, principal $250 million	6.29%	-	-	250
Term note 5.70% due November 13, 2012, principal $900 million	5.78%	-	-	900
Term note 1.99% due January 6, 2014, principal $1,750 million	2.00%	1,750	1,750	1,750
Term note 3.04% due March 3, 2014, principal $1,000 million	3.06%	1,000	1,000	1,000
Term note 2.25% due March 14, 2014, principal $500 million	2.26%	500	500	500
Term note 5.52% due March 14, 2014, principal $800 million	5.60%	800	800	800
Term note 6.45% due July 17, 2014, principal $200 million	6.56%	200	200	200
Term note 2.53% due September 3, 2014, principal $300 million	2.55%	300	300	300
Term note 2.12% due March 19, 2015, principal $1,300 million	2.13%	1,300	1,300	1,300
Term note 1.66% due April 16, 2015, principal $1,000 million	1.67%	1,000	1,000	1,000
Term note 1.56% due June 5, 2015, principal $1,750 million	1.53%	1,750	1,750	1,750
Term note 1.66% due June 19, 2015, principal $250 million	1.67%	250	250	250
Term note 1.47% due August 6, 2015, principal $250 million	1.48%	250	250	-
Term note 1.39% due January 14, 2016, principal $500 million	1.40%	500	500	-
Term note 5.80% due February 12, 2018, principal $1,400 million	5.88%	1,400	1,400	1,400
Term note 5.80% due February 12, 2018, principal $2,000 million	5.88%	2,000	2,000	2,000
Term note 5.79% due February 25, 2020 principal $1,500 million	5.88%	1,500	1,500	1,500
Term note 5.60% due June 8, 2020, principal $280 million	5.68%	280	280	280
Term note 4.65% due September 20, 2021, principal $1,000 million	4.71%	1,000	1,000	1,000
Term note 3.13% due March 25, 2022, principal $1,000 million	3.15%	1,000	1,000	-
Term note 3.10% due November 13, 2022, principal $900 million	3.12%	900	900	-
Total amounts due to related parties		**17,680**	**17,680**	**16,200**

Issues from related parties: Issues of new term notes from related parties are shown in the table below:

Cash inflows from related parties *in millions of USD*

	2013	2012
Term note 1.53% issued January 10, 2012	-	35
Term note 1.47% issued February 6, 2012	-	250
Term note 1.47% issued February 22, 2012	-	20
Term note 1.39% issued June 14, 2012	-	500
Term note 3.10% issued November 13, 2012	-	900
Term note 3.13% issued December 27, 2012	-	1,000
Total cash inflows from related party issues	**-**	**2,705**

Payments to related parties: Payments of term notes to related parties are shown in the table below:

Cash outflows to related party issues *in millions of USD*

	2013	2012
Term note 0.48% due January 10, 2012, principal $20 million	-	20
Term note 1.53% due August 24, 2012, principal $35 million	-	35
Term note 1.47% due August 24, 2012, principal $20 million	-	20
Term note 6.20% due September 17, 2012, principal $250 million	-	250
Term note 5.70% due November 13, 2012, principal $900 million	-	900
Total cash outflows to related party issues	**-**	**1,225**

21. Equity attributable to RHI shareholder

Changes in equity attributable to RHI shareholder *in millions of USD*

			Reserves		
	Share capital	Retained earnings	Fair value	Hedging	Total
Year ended December 31, 2012					
At January 1, 2012	1	(26,077)	91	(20)	(26,005)
Net income recognised in income statement	-	2,708	-	-	2,708
Available-for-sale investments					
- Fair value gains (losses) taken to equity	-	-	30	-	30
- Transferred to income statement	-	-	(34)	-	(34)
- Income taxes [4]	-	-	3	-	3
Cash flow hedges					
- Gains (losses) taken to equity	-	-	-	229	229
- Transferred to income statement [a)]	-	-	-	(115)	(115)
- Income taxes [4]	-	-	-	(41)	(41)
Defined benefit plans					
- Remeasurement gains (losses) [23]	-	(240)	-	-	(240)
- Income taxes [4]	-	85	-	-	85
Other comprehensive income, net of tax	**-**	**(155)**	**(1)**	**73**	**(83)**
Total comprehensive income	**-**	**2,553**	**(1)**	**73**	**2,625**
Dividends paid	-	(1,000)	-	-	(1,000)
Equity compensation plans	-	(405)	-	-	(405)
At December 31, 2012	**1**	**(24,929)**	**90**	**53**	**(24,785)**

As disclosed in Note 29, the reserves at December 31, 2012 and December 31, 2011 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published reserves is provided in Note 29.

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

Changes in equity attributable to RHI shareholder *in millions of USD*

	Share capital	Retained earnings	Reserves Fair value	Hedging	Total
Year ended December 31, 2013					
At January 1, 2013	1	(24,929)	90	53	(24,785)
Net income recognised in income statement	-	4,353	-	-	4,353
Available-for-sale investments					
- Fair value gains (losses) taken to equity	-	-	48	-	48
- Transferred to income statement	-	-	(26)	-	(26)
- Income taxes [4]	-	-	(8)	-	(8)
Cash flow hedges					
- Gains (losses) taken to equity	-	-	-	262	262
- Transferred to income statement [a)]	-	-	-	(214)	(214)
- Income taxes [4]	-	-	-	(17)	(17)
Defined benefit plans					
- Remeasurement gains (losses) [23]	-	732	-	-	732
- Income taxes [4]	-	(262)	-	-	(262)
Other comprehensive income, net of tax	**-**	**470**	**14**	**31**	**515**
Total comprehensive income	**-**	**4,823**	**14**	**31**	**4,868**
Dividends paid	-	-	-	-	-
Equity compensation plans	-	(990)	-	-	(990)
At December 31, 2013	**1**	**(21,096)**	**104**	**84**	**(20,907)**

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

Genentech transaction

The RHI Group completed the purchase of the non-controlling interests in Genentech effective March 26, 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 RHI 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 RHI Group at that time was reduced by approximately $47 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At December 31, 2013 the RHI Group had a negative equity of $20.9 billion (December 31, 2012: $24.8 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

At December 31, 2013 the authorised and issued share capital of Roche Holdings, Inc., which is the RHI Group's parent company, consisted of 1,000 shares with a nominal value of $1,000 each, as in the preceding year. All the shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On December 20, 2012 the Board of Directors of RHI resolved to declare a dividend of $1 million per share to RHI's sole stockholder, Roche Finance AG, which has been paid in the first six months of 2013. On January 14, 2014 the Board of Directors of RHI resolved to declare a dividend of $1 million per share to RHI's sole stockholder, Roche Finance AG, which will be paid during 2014.

Own equity instruments

The RHI Group holds none of its own equity shares.

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.

22. Employee benefits

Employee remuneration *in millions of USD*	2013	2012
Wages and salaries	3,084	3,028
Social security costs	199	183
Defined contribution plans [23]	220	194
Operating expenses for defined benefit plans [23]	94	22
Equity compensation plans [24]	271	292
Termination costs [6]	77	287
Other employee benefits	367	325
Employees' remuneration included in operating results	**4,312**	**4,331**
Net interest cost of defined benefit plans [23]	70	79
Total employees' remuneration	**4,382**	**4,410**

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.

23. Pensions and other post-employment benefits

As disclosed in Note 29, following the implementation of IAS 19 (revised) the RHI Group has amended its accounting policy with respect to pensions and other post-employment benefits and restated the related 2012 comparatives and disclosures.

The RHI 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 RHI's long-term financial position. Most employees are covered by post-employment benefit plans sponsored by RHI Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and market practice within the U.S. Post-employment benefit plans are classified for IFRS as 'defined contribution plans' if the RHI 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 RHI Group to funds administered by third parties. The RHI Group's expenses for these plans were $220 million (2012: $194 million). No assets or liabilities are recognised in RHI'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 RHI's contributions. The RHI Group's major defined contribution plan is the U.S. Roche 401(k) Savings Plan.

Defined benefit plans

RHI's plans are mostly established as trusts independent of the RHI Group and are funded by payments from RHI Group companies and by employees. In some cases, the plan is unfunded and the RHI Group pays pensions to retired employees directly from its own financial resources. The plans are governed by a senior governing body, the Roche U.S. Governance Committee. 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 RHI Group's financial statements.

The RHI Group's major defined benefit plans have been closed to new members since 2007. New employees now join the U.S. Roche 401(k) Savings Plan. The largest of the remaining defined benefit plans is a funded pension plan. 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 RHI Group making periodic contributions to the plans. In 2013 payments made by the RHI Group were $130 million (2012: $114 million). Where there is an under-funding this would normally be remedied by additional company contributions.

In 2013 some of the 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, which settled an obligation of $264 million. This led to a gain of $20 million, which is included as a settlement gain in 2013.

Past service costs in 2012 include $73 million of income recorded in respect of curtailments to defined benefit plans. This arose primarily from the reorganisation of the Pharmaceuticals Division's Research and Development organisation, which involved the closure of the site in Nutley, New Jersey.

Other post-employment benefit ('OPEB') plans: These consist mostly of post-retirement healthcare and life insurance schemes. These plans are mainly unfunded and are contributory for employees, with the RHI Group also making contributions directly from its own financial resources. The RHI Group's major defined benefit OPEB plans 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. Reimbursement rights are linked to the post-employment medical plan and represent the expected reimbursement of the medical expenditure provided under the Medicare Prescription Drug Improvement and Modernization Act of 2003. There is no statutory funding requirement for these plans. The RHI Group is funding these plans to the extent that it is tax efficient. In 2013 there were no payments made by the RHI Group to these plans (2012: none). At December 31, 2013 the IFRS funding status was 57% (2012: 51%), including reimbursement rights, for the funded OPEB plans.

Defined benefit plans: income statement *in millions of USD*

			2013			2012
	Pension plans	Other post-employment benefit plans	Total expense	Pension plans	Other post-employment benefit plans	Total expense
Current service cost	90	16	106	80	15	95
Past service (income) cost	9	(1)	8	(67)	(6)	(73)
Settlement (gain) loss	(20)	-	(20)	-	-	-
Total operating expenses	**79**	**15**	**94**	**13**	**9**	**22**
Net interest cost of defined benefit plans	44	26	70	48	31	79
Total expense recognised in income statement	**123**	**41**	**164**	**61**	**40**	**101**

Funding status

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

During 2013 the fair value of plan assets remained stable as an increase due to favourable market conditions was offset by a settlement payment of $244 million. Higher discount rates compared to 2012 resulted in a decrease in the overall defined benefit obligation. As a result the IFRS funded status of the funded defined benefit plans improved to 76% (2012: 66%).

Defined benefit plans: funding status *in millions of USD*

			2013			2012
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
Funded plans						
- Fair value of plan assets	2,800	351	3,151	2,874	351	3,225
- Defined benefit obligation	(3,273)	(859)	(4,132)	(3,919)	(998)	(4,917)
Over (under) funding	**(473)**	**(508)**	**(981)**	**(1,045)**	**(647)**	**(1,692)**
Unfunded plans	(229)	(194)	(423)	(236)	(216)	(452)
Total funding status	**(702)**	**(702)**	**(1,404)**	**(1,281)**	**(863)**	**(2,144)**
Limit on asset recognition	-	-	-	-	-	-
Reimbursement rights	-	135	135	-	156	156
Net recognised asset (liability)	**(702)**	**(567)**	**(1,269)**	**(1,281)**	**(707)**	**(1,988)**
Reported in balance sheet						
- Defined benefit plan assets	-	135	135	-	156	156
- Defined benefit plan liabilities	(702)	(702)	(1,404)	(1,281)	(863)	(2,144)

Plan assets

The responsibility for the investment strategies of funded plans is with the senior governance body, the Roche U.S. Governance Committee. Asset-liability studies are performed regularly for all major post-employment benefit plans. These studies examine the obligations from post-employment 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. The asset-liability study includes strategies to match the cash flows of the assets with the plan obligations. The RHI Group currently does not use annuities or longevity swaps to manage longevity risk.

Plan assets are managed using external asset managers. The actual performance is continually monitored by the pension fund governance body as well as being closely monitored at a corporate level. In these financial statements the difference between the interest income and actual return on plan assets is a remeasurement that is recorded directly to other comprehensive income. During 2013 the actual return on plan assets was a gain of $241 million (2012: gain of $375 million).

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 USD*

			2013			2012
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At January 1	2,874	507	3,381	2,579	490	3,069
Interest income on plan assets	108	19	127	112	19	131
Remeasurements on plan assets	89	6	95	219	44	263
Employer contributions, net of reimbursements	130	(4)	126	114	(7)	107
Employee contributions	-	-	-	-	-	-
Benefits paid – funded plans	(157)	(42)	(199)	(150)	(37)	(187)
Benefits paid – settlements	(244)	-	(244)	-	-	-
Past service income (cost)	-	-	-	-	(2)	(2)
At December 31	**2,800**	**486**	**3,286**	**2,874**	**507**	**3,381**

Defined benefit plans: composition of plan assets *in millions of USD*

	2013	2012
Equity securities	1,285	1,727
Debt securities	1,061	1,095
Property	204	259
Cash and money market instruments	130	14
Other investments	471	130
At December 31	**3,151**	**3,225**

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 REITs and commercial property funds which have quoted market prices (Level 1 fair value hierarchy) and 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 hedge funds, private equity and commodities. These mostly have quoted market prices (Level 1 fair value hierarchy) or other observable inputs (Level 2 fair value hierarchy).

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. The corporate bonds have maturity terms approximating to the terms of the related pension obligation.

The RHI Group's final salary-based defined benefit pension plans 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 now join the RHI Group's defined contribution plans. 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 USD*

			2013			2012
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At January 1	4,155	1,214	5,369	3,666	1,175	4,841
Current service cost	90	16	106	80	15	95
Interest cost	152	45	197	160	50	210
Remeasurements:						
– demographic assumptions	29	11	40	-	-	-
– financial assumptions	(484)	(147)	(631)	404	68	472
– experience adjustments	(22)	(24)	(46)	66	(35)	31
Employee contributions	-	-	-	-	-	-
Benefits paid – funded plans	(157)	(42)	(199)	(150)	(37)	(187)
Benefits paid – unfunded plans	(6)	(19)	(25)	(4)	(14)	(18)
Benefits paid – settlements	(244)	-	(244)	-	-	-
Past service (income) cost	9	(1)	8	(67)	(8)	(75)
Settlement (gain) loss	(20)	-	(20)	-	-	-
At December 31	**3,502**	**1,053**	**4,555**	**4,155**	**1,214**	**5,369**
Composition of plan						
Active members	1,012	302	1,314	1,264	412	1,676
Deferred vested members	700	16	716	1,084	14	1,098
Retired members	1,790	735	2,525	1,807	788	2,595
At December 31	**3,502**	**1,053**	**4,555**	**4,155**	**1,214**	**5,369**
Duration in years	11.9	12.1	11.9	14.6	15.7	14.9

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 Roche Group corporate management and the Roche 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 Roche Group's actuaries use a mortality table which takes into account historic patterns and expected changes, such as further increases in longevity in the U.S. Rates of employee turnover, disability and early retirement are based on historical behaviour within the RHI Group. 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*

		Male		Female
Mortality table	2013	2012	2013	2012
RP2000 projected to 2020	19.8	19.6	21.6	21.4

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

Defined benefit plans: financial actuarial assumptions

	2013		2012	
	Weighted average	Range	Weighted average	Range
Discount rates	4.70%	4.62% – 4.70%	3.80%	3.71% – 4.73%
Expected rates of salary increases	5.20%	3.00% -5.20%	4.83%	3.00% – 5.30%
Expected rates of pension increases	1.50%	1.50%	1.50%	1.50%
Expected inflation rates	3.00%	3.00%	3.00%	3.00%
Immediate medical cost trend rate	7.40%	7.40%	7.60%	7.60%
Ultimate medical cost trend rate (in 2029)	4.50%	4.50%	4.50%	4.50%

Discount rates are determined with reference to interest rates on high-quality corporate bonds. Expected rates of salary increases are based on expected inflation rates with an adjustment to reflect the RHI Group's latest expectation of long-term real salary increases. Expected rates of pension increases are general link 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.

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 USD*

	2013	2012
1 year increase in life expectancy	152	185
Discount rate		
0.25% increase	(129)	(190)
0.25% decrease	136	197
Expected inflation rates		
0.25% increase	41	51
0.25% decrease	(38)	(49)
Immediate medical cost trend rate		
1.00% increase	121	178
1.00% decrease	(101)	(119)

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

Defined benefit plans: cash flows *in millions of USD*

	2013	2012
Employer contributions, net of reimbursements – funded plans	(126)	(107)
Benefits paid – unfunded plans	(25)	(18)
Total cash inflow (outflow)	**(151)**	**(125)**

Based on the most recent actuarial valuations, the RHI Group expects that employer contributions for funded plans in 2014 will be approximately $130 million, which includes an estimated $101 million of additional contributions. Benefits paid for unfunded plans are estimated to be approximately $33 million.

24. Equity compensation plans

The Roche Group operates several equity compensation plans. 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 USD*

	2013	2012
Cost of sales	60	42
Marketing and distribution	74	80
Research and development	103	112
General and administration	34	58
Total operating expenses	**271**	**292**
Equity compensation plans		
Roche Stock-settled Stock Appreciation Rights	188	220
Roche Restricted Stock Unit Plan	78	68
Roche Performance Share Plan	5	4
Total operating expenses	**271**	**292**
of which		
- Equity-settled	271	292
- Cash-settled	-	-

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

	2013	2012
Equity-settled plans		
Recharges and prepayments to related parties for equity compensation plans	(1,133)	(232)

Equity compensation plans

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

Roche S-SARs – movement in number of rights outstanding

	2013		2012	
	Number of rights (thousands)	Weighted average exercise price (CHF)	Number of rights (thousands)	Weighted average exercise price (CHF)
Outstanding at January 1	40,273	156.63	37,198	154.69
Granted	7,166	214.74	15,560	157.98
Forfeited	(1,173)	165.09	(2,311)	163.22
Exercised	(14,739)	162.51	(9,238)	149.35
Expired	(29)	195.00	(3)	123.00
Transfer of expatriate employees	246	146.85	(933)	157.79
Outstanding at December 31	**31,744**	**166.60**	**40,273**	**156.63**
- of which exercisable	12,634	153.65	14,688	165.34

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

Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Rights outstanding Weighted average exercise price (CHF)	Number exercisable (thousands)	Rights exercisable Weighted average exercise price (CHF)
2007	140	0.18	229.35	140	229.35
2008	497	1.10	194.55	497	194.55
2009	2,108	2.65	162.55	2,108	162.55
2010	4,774	3.74	147.73	4,624	147.87
2011	5,967	4.19	140.23	2,714	140.24
2012	11,399	5.26	158.04	2,516	158.13
2013	6,859	6.26	214.81	35	214.00
Total	**31,744**	**4.79**	**166.60**	**12,634**	**153.65**

Roche Restricted Stock Unit Plan: The Roche Group issues Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Roche 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 December 31, 2013. The RSU Plan regulations were restated and amended effective January 1, 2013 (referred to as the "Roche RSU Plan"). Under the Roche RSU Plan 20 million non-voting equity securities will be available for issuance over a ten-year period. The Roche RSU Plan also includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Group during the vesting period attributable to the number of non-voting equity securities for which an individual award has been granted.

Roche RSUs – movement in number of awards outstanding

	2013 Number of awards (thousands)	2012 Number of awards (thousands)
Outstanding at January 1	1,099	2,211
Granted	710	-
Forfeited	(97)	(97)
Transferred to participants	(1,099)	(955)
Transfer of expatriate employees	19	(60)
Outstanding at December 31	**632**	**1,099**
- of which vested and transferable	2	1

Roche Performance Share Plan: The Roche Group offers future non-voting equity security awards (or, at the discretion of the Roche Group Board of Directors, their cash equivalent) to certain directors and key senior managers. These are non-tradable equity-settled awards. The program currently operates in annual three-year cycles. The Roche Performance Share Plan regulations were restated and amended effective January 1, 2013 (referred to as the "Roche PSP Plan"). The Roche PSP Plan includes a value adjustment which will be an amount equivalent to the sum of shareholder distributions made by the Roche 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 Roche Group's Total Shareholder Return (shares and non-voting equity securities combined) relative to the Roche Group's peers during the three-year period from the date of the grant, and the discretion of the Roche Group 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 December 31, 2013

	2011–2013	2012–2014	2013–2015
Number of awards (thousands)	32	32	30
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2014	Feb. 2015	Feb. 2016
Fair value per unit at grant (CHF)	124.17	153.67	192.60
Total fair value at grant (CHF millions)	**5**	**5**	**6**

Fair value measurement

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

Fair value measurement in 2013

	Roche Stock-settled Stock Appreciation Rights	Roche Restricted Stock Unit Plan	Roche Performance Share Plan
Vesting period	Progressively over 3 years	Cliff vesting after 3 years	Cliff vesting after 3 years
Contractual life	7 years	n/a	n/a
Number granted during year	7,014,184	695,686	30,467
Weighted average fair value (CHF)	22	214	193
Model used	Binomial	Market price [a]	Monte Carlo [b]
Inputs to option pricing model			
- Share price at grant date (CHF)	214	214	184
- Exercise price (CHF)	214	-	-
- Expected volatility [c]	24.8%	n/a	n/a
- Expected dividend yield	6.8%	n/a	n/a
- Early exercise factor [d]	1.19	n/a	n/a
- Expected exit rate	8.1%	n/a	n/a

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 Group and the other individual companies of the peer group based on a three-year history and a risk-free rate of minus 0.192%. The valuation takes into account the defined rank and performance structure which determines the pay-out of the plan.

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

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

25. Statement of cash flows

Cash flows from operating activities

Cash flows from operating activities arise from the RHI Group's primary activities in the Pharmaceuticals and Diagnostics businesses. These are calculated by the indirect method by adjusting RHI'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 USD*

	2013	2012
Net income	4,353	2,708
Add back non-operating (income) expense		
- Financing costs [3]	1,336	1,671
- Financing costs – related parties [27]	782	868
Other financial income (expense) [3]	(57)	84
Other financial income (expense) – related parties [27]	-	(122)
- Income taxes [4]	2,905	1,445
Operating profit	**9,319**	**6,654**
Depreciation of property, plant and equipment [7]	549	580
Amortisation of intangible assets [9]	280	266
Impairment of goodwill [8]	225	200
Impairment of intangible assets [9]	331	386
Impairment (reversal) of property, plant and equipment [7]	(525)	453
Operating (income) expenses for defined benefit plans [23]	94	22
Operating expense for equity-settled equity compensation plans [24]	271	292
Net (income) expense for provisions [19]	586	911
Bad debt (reversal) expense	6	1
Inventory write-downs	152	175
Other adjustments	7	(8)
Cash generated from operations	**11,295**	**9,932**

As disclosed in Note 29, the net income and non-operating (income) expense for the year ended December 31, 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net income and non-operating (income) expense is provided in Note 29.

Cash flows from investing activities

Cash flows from investing activities are principally those arising from the RHI 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 RHI 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 RHI 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 RHI Group's other investments.

Cash flows from financing activities

Cash flows from financing activities are primarily the proceeds from the issue and repayment of the RHI 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 RHI 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.

Significant non-cash transactions

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

26. Risk management

Group risk management

Risk management is a fundamental element of the Roche Group business practice on all levels and encompasses different types of risks. At a Roche 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 of Roche Holding Ltd.

Financial risk management

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

Financial risk management within the Roche Group is governed by policies reviewed by the boards of directors of Roche Holding Ltd. 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 Group.

Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the RHI 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 RHI's financial assets.

Accounts receivable: At December 31, 2013 the RHI Group has account receivables of $2.2 billion (2012: $2.1 billion). These are subject to a policy of active credit risk management which focuses on the assessment of credit availability, ongoing credit evaluation and account monitoring procedures. The objective of trade receivables management is to maximise the collection of unpaid amounts.

At December 31, 2013 the RHI Group's account receivables balance are mainly with three U.S. national wholesale distributors. The combined accounts receivable balance with the three U.S. national wholesale distributors, AmerisourceBergen Corp., McKesson Corp. and Cardinal Health Inc., was equivalent to $1.6 billion representing 66% of RHI's consolidated third party trade receivables (2012: $1.6 billion representing 67%). The remaining accounts receivable balance is mostly with private customers. Risk limits and exposures are continuously monitored. The RHI Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. At December 31, 2013 no collateral was held for trade receivables (2012: none). Of the trade receivables, 98% are with customers located in the U.S. (96% in 2012). Of the overall balance of trade receivables in 2013, $75 million representing 3% were overdue (2012: $33 million representing 2%).

In addition to third party trade receivables, the RHI Group had $2.7 billion accounts receivable balances with related parties mainly in the European Union and Switzerland (2012: $6.6 billion).

Marketable securities: At December 31, 2013 the RHI Group has marketable securities of $469 million (2012: $266 million).

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

Impairment losses: During 2013 total impairment losses for available-for-sale financial assets amounted to $1 million (2012: $4 million).

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. RHI's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Roche Group enjoys strong credit quality and is 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 December 31, 2013 the RHI Group has (jointly with other borrowers in the Roche Group) unused committed credit lines with various financial institutions totaling $5.4 billion (2012: $5.1 billion), all of which serves 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 USD*

	Carrying value	Total	Less than 1 year	1-2 years	2-5 years	Over 5 years
Year ended December 31, 2013						
Debt [20]						
- Bonds and notes	14,923	23,179	2,048	3,322	4,695	13,114
- Other debt	18,671	19,325	5,854	4,954	4,888	3,629
Contingent consideration [19]	67	67	40	2	25	-
Accounts payables [16]	565	565	565	-	-	-
Derivative financial instruments [18]	304	304	304	-	-	-
Total financial liabilities	**34,530**	**43,440**	**8,811**	**8,278**	**9,608**	**16,743**
Year ended December 31, 2012						
Debt [20]						
- Bonds and notes	21,060	30,805	7,312	905	7,534	15,054
- Other debt	18,256	19,505	970	5,064	6,178	7,293
Accounts payable [16]	417	417	417	-	-	-
Derivative financial instruments [18]	117	117	117	-	-	-
Total financial liabilities	**39,850**	**50,844**	**8,816**	**5,969**	**13,712**	**22,347**

Market risk

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

Value-at-Risk: The RHI 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 USD*

	2013	2012
VaR - Interest rate component	382	244
VaR - Foreign exchange component	2	3
VaR - Other price component	18	14
Diversification	(18)	(17)
VaR - Total market risk	**384**	**244**

The interest rate component increased mainly due to a gradual increase in long-term interest rates in major economies partially offset by the repayment of debt during 2013. The foreign exchange component remained stable. The other price component arises mainly from movements in equity security prices and remained largely stable.

Foreign exchange risk

The RHI Group uses the U.S. dollar as its reporting currency and as a result is exposed to movements in foreign currencies, mainly the euro. The objective of RHI's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimise the volatility of RHI's financial result. The primary focus of RHI's foreign exchange risk management activities is on hedging transaction exposures arising through foreign currency flows or monetary positions held in foreign currencies. The RHI Group does not currently hedge translation exposures using financial instruments. RHI uses forward contracts, foreign exchange options and cross-currency swaps to hedge transaction exposures. Application of these instruments intends to continuously lock in favorable developments of foreign exchange rates, thereby reducing the exposure to potential future movements in such rates.

Interest rate risk

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

Other price risk

Other price risk arises mainly from movements in the prices of equity securities. In 2013, the RHI Group held equity securities with a market value of $0.5 billion (2012: $0.3 billion). RHI 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 RHI Group defines the capital that it manages as RHI's total capitalisation, being the sum of debt plus equity. RHI's objectives when managing capital are:

- To safeguard RHI'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 RHI 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 shown in the table below.

Capital *in millions of USD*

	2013	2012	2011
Capital and reserves attributable to RHI shareholder [21]	(20,542)	(24,785)	(26,005)
Total equity	**(20,542)**	**(24,785)**	**(26,005)**
Total debt [20]	**33,594**	**39,316**	**42,675**
Capitalisation	**13,052**	**14,531**	**16,670**

As disclosed in Note 29, the total equity at December 31, 2012 and December 31, 2011 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published reserves is provided in Note 29.

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

The RHI Group is not subject to regulatory capital adequacy requirements as known in the financial services industry.

Financial instruments accounting classification 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 USD*

	Available-for-sale	Fair value - hedging instruments	Fair value - designated	Loans and receivables	Other financial liabilities	Total carrying value	Fair value
Year ended December 31, 2013							
Other non-current assets [14]							
- Available-for-sale investments	35	-	-	-	-	35	35
- Other financial non-current assets	-	-	-	86	-	86	86
Accounts receivable [11]	-	-	-	2,203	-	2,203	2,203
Receivable – related parties [27]	-	595	-	2,057	-	2,652	2,652
Marketable securities [12]	469	-	-	-	-	469	469
Other current assets [15]							
- Derivative financial instruments	-	-	-	-	-	-	-
- Other financial current assets	-	-	-	468	-	468	468
Total financial assets	**504**	**595**	**-**	**4,814**	**-**	**5,913**	**5,913**
Debt [20]							
- Bonds and notes	-	-	-	-	(14,923)	(14,923)	(17,555)
- Amounts due to related parties [27]	-	-	-	-	(17,680)	(17,680)	(17,680)
- Other debt	-	-	-	-	(991)	(991)	(991)
Contingent consideration [19]	-	-	(67)	-	-	(67)	(67)
Accounts payable [16]	-	-	-	-	(565)	(565)	(565)
Payable – related parties [27]	-	-	-	-	(2,783)	(2,783)	(2,783)
Derivative financial instruments [18]	-	(304)	-	-	-	(304)	(304)
Total financial liabilities	**-**	**(304)**	**(67)**	**-**	**(36,942)**	**(37,313)**	**(39,945)**
Year ended December 31, 2012							
Other non-current assets [14]							
- Available-for-sale investments	36	-	-	-	-	36	36
- Other financial non-current assets	-	-	-	88	-	88	88
Accounts receivable [11]	-	-	-	2,065	-	2,065	2,065
Receivable – related parties [27]	-	458	-	6,285	-	6,743	6,743
Marketable securities [12]	266	-	-	-	-	266	266
Other current assets [15]							
- Derivative financial instruments	-	-	-	-	-	-	-
- Other financial current assets	-	-	-	469	-	469	469
Total financial assets	**302**	**458**	**-**	**8,907**	**-**	**9,667**	**9,667**
Debt [20]							
- Bonds and notes	-	-	-	-	(21,060)	(21,060)	(25,001)
- Amounts due to related parties [27]	-	-	-	-	(17,680)	(17,680)	(17,680)
- Other debt	-	-	-	-	(576)	(576)	(576)
Accounts payable [16]	-	-	-	-	(417)	(417)	(417)
Payable – related parties [27]	-	-	-	-	(3,601)	(3,601)	(3,601)
Derivative financial instruments [18]	-	(117)	-	-	-	(117)	(117)
Total financial liabilities	**-**	**(117)**	**-**	**-**	**(43,334)**	**(43,451)**	**(47,392)**

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

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments *in millions of USD*

	Level 1	Level 2	Level 3	Total
Year ended December 31, 2013				
Marketable securities				
- Equity securities	469	-	-	469
Derivative financial instruments – related parties [27]	-	595	-	595
Available-for-sale investments – held at fair value [14]	3	22	-	25
Financial assets recognised at fair value	**472**	**617**	**-**	**1,089**
Derivative financial instruments [18]	-	(304)	-	(304)
Contingent consideration	-	-	(67)	(67)
Financial liabilities recognised at fair value	**-**	**(304)**	**(67)**	**(371)**

Fair value hierarchy of financial instruments *in millions of USD*

	Level 1	Level 2	Level 3	Total
Year ended December 31, 2012				
Marketable securities				
- Equity securities	266	-	-	266
Derivative financial instruments – related parties [27]	-	458	-	458
Available-for-sale investments – held at fair value [14]	-	32	-	32
Financial assets recognised at fair value	**266**	**490**	**-**	**756**
Derivative financial instruments [18]	-	(117)	-	(117)
Financial liabilities recognised at fair value	**-**	**(117)**	**-**	**(117)**

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

Level 3 fair values

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

Contingent consideration arrangements *in millions of USD*

	2013	2012
At 1 January	-	(48)
Arising from business combination [5]	(66)	-
Total unrealised gains and losses included in the income statement		
- Unused amounts reversed	-	48
- Additional amount created	-	-
- Discount unwind	(1)	-
Transfers out of Level 3		
- Utilised [5]	-	-
At December 31	**(67)**	**-**

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from business combination arrangements. The fair value is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate of 4.6%. The expected payments are determined by considering the possible scenarios of forecast sales or other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales or other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At December 31, 2013 the payments under contingent consideration arrangements could be up to $255 million.

Derivative financial instruments

The RHI Group has entered into various currency swaps for certain non-U.S. 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 USD*

			Assets			Liabilities
	2013	2012	2011	2013	2012	2011
Interest rate derivatives						
- Swaps	-	-	-	-	-	-
Other derivatives	-	-	-	(304)	(117)	(66)
Carrying value of derivative financial instruments [15, 18]	**-**	**-**	**-**	**(304)**	**(117)**	**(66)**
Derivatives subject to master netting agreements	-	-	-	-	-	-
Net amount	**-**	**-**	**-**	**(304)**	**(117)**	**(66)**

Derivative financial instruments related parties *in millions of USD*

			Assets			Liabilities
	2013	2012	2011	2013	2012	2011
Foreign currency derivatives						
- Forward exchange contracts	17	-	-	-	-	(32)
- Cross-currency swaps	578	458	190	-	-	-
Total derivative financial instruments related parties	**595**	**458**	**190**	**-**	**-**	**(32)**

Derivative financial assets with related parties are included in 'accounts receivable – related parties'. The increase compared to 2012 is mainly due to a strengthening of the euro compared to the U.S. dollar during 2013. This was offset by foreign currency transaction losses on the non-U.S. dollar denominated bonds and notes (see Note 20). Derivative financial liabilities with related parties are included in 'accounts payable – related parties'.

Hedge accounting

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

Cash flow hedges: The RHI Group has entered into cross-currency swaps with related parties to hedge foreign exchange and interest rate risk on some of the bonds and notes which are denominated in euros and sterling. At December 31, 2013 such instruments are recorded as fair value assets of $578 million (2012: assets of $458 million). 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 USD*

			2013			2012
	Total	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year
Cash inflows	7,005	325	6,680	11,123	4,392	6,731
Cash outflows	(6,548)	(330)	(6,218)	(10,835)	(4,287)	(6,548)
Total cash inflow (outflow)	**457**	**(5)**	**462**	**288**	**105**	**183**

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 USD*

			2013			2012
	Total	Less than 1 year	More than 1 year	Total	Less than 1 year	More than 1 year
Cash inflows	1,460	325	1,135	1,891	493	1,398
Cash outflows	(1,476)	(330)	(1,146)	(2,011)	(536)	(1,475)
Total cash inflow (outflow)	**(16)**	**(5)**	**(11)**	**(120)**	**(43)**	**(77)**

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

Fair value hedges

The RHI 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 RHI Group has entered into forward contracts, which have been designated and qualify as fair value hedges. At December 31, 2013 such instruments are recorded as fair value liabilities of $304 million (2012: liabilities of $117 million). During 2013 a loss of $187 million was recorded on these forward contracts (2012: loss of $51 million). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

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

27. Related parties

Controlling shareholder

Roche Finance Ltd (Roche Finanz AG), a Swiss corporation, owns all of the issued and outstanding shares of Roche Holdings, Inc. Roche Finance Ltd is a wholly-owned, direct subsidiary of Roche Holding Ltd, a public company registered in Switzerland.

As a member of the Roche Group, all of the RHI Group's related party transactions are with Roche Group affiliates. The transactions include purchases of inventory and other materials, sales of inventory and other materials, allocation of research and development costs under cost-sharing agreements and collaborations, allocation of marketing and distribution costs under cost-sharing agreements, allocations of other expenses attributable to the U.S. business, and the payment and receipt of royalties.

Related party transactions *in millions of USD*

	Year ended December 31,	
	2013	2012
Sales	1,473	1,298
Royalty income	2,314	2,179
Contract revenue	440	110
Purchases of inventory and other materials	(764)	(672)
Reimbursements received under research and development cost-sharing and collaboration agreements	762	565
Payments issued under research and development cost-sharing and collaboration agreements	(848)	(533)
Other revenue (expense), net	(1)	(2)
Financing costs – related parties		
Interest expense	(663)	(696)
Guarantee fees	(119)	(172)
Other financing costs	-	-
Total financing costs – related parties	**(782)**	**(868)**
Other financial income (expense) – related parties		
Gains (losses) on foreign currency derivatives, net	(25)	112
Other financial income (expense)	25	10
Total other financial income (expense) – related parties	**-**	**122**

A net loss of $25 million was mainly due to foreign exchange forward contracts with related parties that were entered into to hedge some of the foreign currency transaction exposure in euros. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside the RHI Group has entered with third party financial institutions.

The interest expense decreased by $33 million mainly due to the lower level of debt with third parties following debt repayments in 2013.

Related party balances *in millions of USD*

	2013	2012	2011
Other non-current assets	-	2	223
Other current assets	2	169	171
Accounts receivable	2,650	6,572	5,265
- of which derivative financial assets	*595*	*458*	*190*
Total receivable – related parties [26]	**2,652**	**6,743**	**5,659**
Long-term debt	(13,130)	(17,680)	(15,030)
Short-term debt	(4,550)	-	(1,170)
Total debt – related parties [26]	**(17,680)**	**(17,680)**	**(16,200)**
Other non-current liabilities	(306)	(229)	(188)
Other current liabilities	(1,732)	(1,023)	(525)
Accounts payable	(745)	(2,349)	(835)
- of which derivative financial liabilities	-	-	*(32)*
Total payable – related parties [26]	**(2,783)**	**(3,601)**	**(1,548)**

The RHI Group deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited of $1 billion are immediately available and bear variable interest referenced to one month LIBOR.

Subsidiaries and associates

A listing of the major RHI Group subsidiaries is included in Note 28. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation. The RHI Group has no associates.

Key management personnel

The purpose of Roche Holdings, Inc. is to act as a holding and financing company for the U.S. operations of the RHI Group and to engage in any lawful act or activity for which a corporation may be organised under the General Corporation Law of Delaware. RHI has no operating functions except through its subsidiaries and the members of the RHI Group Board of Directors act as the chief operating decision-maker.

Board of Directors of Roche Holdings, Inc.

		Date of appointment
Dr Franz B. Humer	Chairman	May 15, 2001
Dr Alan Hippe	Vice-Chairman	April 1, 2011
Dr Severin Schwan	Member of the Board	April 29, 2008
Roger Brown	Member of the Board	October 28, 2011
Frederick C. Kentz III	Member of the Board	December 2, 2008
David P. McDede	Member of the Board	December 2, 2008
Bruce Resnick	Member of the Board	December 2, 2008

Dr Humer, Dr Hippe and Dr Schwan did not receive remuneration or payment for their time and expenses related to their services from RHI during 2013 and 2012.

The RHI Group pays to the directors appointed on December 2, 2008, respectively October 28, 2011 salary, bonus, expense allowance, social insurance contributions in respect of the below remuneration and pays contributions to pension and other post-employment benefit plans. These directors also participate in the equity compensation plans 'Roche Long-Term' and 'Roche Performance Share Plan'. The terms, vesting conditions and fair value of these awards are disclosed in Note 24.

Remuneration of members of the RHI Group Executive Committee *in thousands of USD*

	2013	2012
Salaries, including bonuses and expenses	7,451	4,226
Social security costs	150	91
Pensions and other post-employment benefits	733	623
Equity compensation plans	1,269	1,163
Other employee benefits	310	382
Total	**9,913**	**6,485**

Defined benefit plans

Transactions between the RHI Group and the various defined benefit plans for the employees of the RHI Group are described in Note 23.

28. Subsidiaries and associates

Subsidiaries and associates	City	Equity interest %	
		2013	2012
454 Life Sciences Corporation	Branford	100%	100%
Anadys Pharmaceuticals, Inc.	South San Francisco	100%	100%
BioVeris Corporation	Indianapolis	100%	100%
Genentech, Inc.	South San Francisco	100%	100%
Genentech USA, Inc.	South San Francisco	100%	100%
HLR Consumer Health Inc.	Nutley	100%	100%
Hoffmann-La Roche Inc.	Nutley	100%	100%
IGEN International, Inc.	Pleasanton	100%	100%
Marcadia Biotech, Inc.	Nutley	100%	100%
Roche Carolina Inc.	Florence	100%	100%
Roche Diagnostics Corporation	Indianapolis	100%	100%
Roche Diagnostics Hematology, Inc. [a)]	Westborough	100%	-
Roche Diagnostics Operations, Inc.	Indianapolis	100%	100%
Roche Health Solutions Inc. [b)]	Fishers	100%	100%
Roche Molecular Systems, Inc.	Pleasanton	100%	100%
Roche NimbleGen Iceland, LLC [c)]	Reykjavik	-	100%
Roche NimbleGen, Inc.	Madison	100%	100%
Roche TCRC, Inc.	New York	100%	100%
Spring Bioscience Corp.	Pleasanton	100%	100%
Ventana Medical Systems, Inc.	Tucson	100%	100%

a) CMI acquisition in 2013
b) Legal name change of "Roche Insulin Delivery System Inc." in 2013
c) Liquidated in 2013

29. Significant accounting policies

Consolidation policy

Subsidiaries are all companies (including structured entities) over which the RHI Group has control. The RHI Group controls an entity when the RHI 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 RHI Group, and subsidiaries to be divested are included up to the date on which control passes from the RHI 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 RHI 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

The determination of the RHI Group's operating segments is based on the organisation units for which information is reported to the RHI Group's management.

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

RHI and its subsidiaries use the U.S. dollar as the functional and presentation currency. 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, which are recorded in 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 sales 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 United States, 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 RHI'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 RHI Group are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalisation 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 on-going 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 RHI 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 RHI 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 RHI 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 license 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 RHI 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 RHI 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 RHI Group can no longer withdraw the offer of the benefits or when the RHI Group recognises any related restructuring costs.

Pensions and other post-employment benefits

For defined contribution plans the RHI 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 comprises 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 RHI 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 RHI Group is the lessee: Finance leases exist when substantially all of the risks and rewards of ownership are transferred to the RHI 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 RHI Group. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Where the RHI 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 RHI Group initially recognises 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 RHI 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, licenses, 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. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed. Estimated useful lives of major classes of amortisable intangible assets are as follows:

Product intangibles in use	4–20 years
Marketing intangibles in use	2 years
Technology intangibles in use	7–10 years

Impairment of property, plant and equipment and intangible assets

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

Impairment of goodwill

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

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of finished goods and work in process includes raw materials, direct labor 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 RHI 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 RHI'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 RHI'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. Cash overdrafts that are repayable on demand and form an integral part of the RHI Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

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 RHI 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 flows 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 26.

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 mainly comprise 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 RHI 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 RHI 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 RHI 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: 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: 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 RHI Group, including withholding taxes payable on the distribution of retained earnings within the RHI 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 RHI Group operates.

Changes in accounting policies

The RHI 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 January 1, 2013.

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

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

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

- The revised standard eliminated the option to defer the recognition of actuarial gains and losses from defined benefit plans, known as the 'corridor method'. The RHI Group did not apply this option, but rather uses the option to recognise such gains and losses directly in other comprehensive income. The option currently applied by the RHI Group is the requirement under the revised standard and therefore this change had no impact on the RHI Group's financial statements.
- Net interest on the net defined benefit liability comprises of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the limit on the recognition of pension assets. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking account of any changes from contribution or benefit payments. Previously, expected income on plan assets was based on the estimated long-term rate of the underlying assets in the various plans. The impact on the restated 2012 results was a reduction in net financial income of $110 million for the year ended December 31, 2012. The ongoing impact for 2013 and beyond is expected to be of a similar magnitude. There was no impact on the RHI Group's operating income or net assets from this change.
- Past service costs are now recognised immediately in the income statement in the period of a plan amendment. Previously, past service costs had the portion related to unvested benefits deferred on the balance sheet, which was then progressively released. The impact of this change was an increase in the RHI Group's net assets by $7 million at December 31, 2012 and an increase of $7 million at December 31, 2011.

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

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

Restated RHI Group consolidated income statement *in millions of USD*

	Year ended December 31, 2012		
	As originally published	Application of IAS 19 (revised)	Restated
Operating profit	**6,654**	**-**	**6,654**
Financing costs	(1,802)	131	(1,671)
Financing costs - related parties	(868)	-	(868)
Other financial income (expense)	157	(241)	(84)
Other financial income (expense) - related parties	122	-	122
Profit before taxes	**4,263**	**(110)**	**4,153**
Income taxes	(1,484)	39	(1,445)
Net income	**2,779**	**(71)**	**2,708**

Restated RHI Group consolidated statement of comprehensive income *in millions of USD*

	Year ended December 31, 2012		
	As originally published	Application of IAS 19 (revised)	Restated
Net income recognised in the income statement	2,779	(71)	2,708
Other comprehensive income, net of tax	(154)	71	(83)
Total comprehensive income	**2,625**	**-**	**2,625**

Restated RHI Group consolidated balance sheet (selected items) *in millions of USD*

	December 31, 2012			December 31, 2011		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Deferred tax assets	3,139	(4)	3,135	2,313	(4)	2,309
Defined benefit plan assets	156	-	156	146	-	146
Deferred tax liabilities	(437)	-	(437)	(580)	-	(580)
Defined benefit plan liabilities	(2,155)	11	(2,144)	(1,929)	11	(1,918)
Other net assets	(25,495)	-	(25,495)	(25,962)	-	(25,962)
Net assets	**(24,792)**	**7**	**(24,785)**	**(26,012)**	**7**	**(26,005)**
Capital and reserves attributable to RHI shareholders	(24,792)	7	(24,785)	(26,012)	7	(26,005)
Total equity	**(24,792)**	**7**	**(24,785)**	**(26,012)**	**7**	**(26,005)**

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

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

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

Future new and revised standards

The RHI Group is currently assessing the potential impacts of other new and revised standards and interpretations that will be effective from January 1, 2014 and beyond. Based on the analysis to date, the RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position.

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Report of the Statutory Auditor on the Consolidated Financial Statements to the Annual General Meeting of Shareholders of

Roche Holdings, Inc., Wilmington, Delaware

As independent auditor, we have audited the accompanying consolidated financial statements of Roche Holdings, Inc., which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 7 to 68 for the year ended December 31, 2013.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and 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 judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, 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 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 December 31, 2013 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 3 February 2014