



Roche Holdings, Inc.
Annual Report 2009

Roche Holdings, Inc. Annual Report 2009

Management Report and

Consolidated Financial Statements

for the year ended on December 31, 2009

Management Report

1. Review of the twelve months ended 2009

Important events

Effective March 26, 2009 the Roche Holdings, Inc. (RHI) Group completed the transaction to take full ownership of Genentech, Inc., a biotechnology company in the United States. The RHI Group financed the Genentech transaction by using its own funds and by raising net proceeds of \$40.3 billion from a series of debt offerings. In 2009, RHI further made significant progress on the related integration and restructuring activities of the U.S. pharmaceuticals business. Further details are given in Notes 3 and 7 to the Financial Statements.

At the beginning of January 2009 the RHI Group completed the acquisition of Memory Pharmaceuticals Corp. ('Memory'), a publicly owned U.S. company based in Montvale, New Jersey. Memory develops innovative drug candidates for the treatment of debilitating central nervous system (CNS) disorders such as Alzheimer's disease and schizophrenia. The total investment was \$50 million.

On January 1, 2009, the shareholder of Roche Holdings, Inc. contributed the Roche Group's shares in IGEN and BioVeris to the RHI Group. Their combined recognized net assets at January 1, 2009 were \$384 million and this is reported as a capital contribution. They are part of the Immunodiagnostics business in the Diagnostics operation segment.

The financial and economic crisis has not had a significant impact on the RHI Group's operations in 2009. The RHI Group continues to actively monitor the situation, including its credit risk, mainly resulting from three major wholesalers.

Financial performance

In 2009 the RHI Group's total sales were \$17 billion, an increase of 1%, with the Pharmaceuticals Division representing 84% of RHI total sales and the Diagnostics Division contributing 16%. The growth in Pharmaceuticals was significantly driven by Tamiflu in virology and by additional key products in the oncology portfolio, especially Avastin, and Lucentis in ophthalmology. These increased sales were partly offset by the decline in CellCept in transplantation due to the patent expiry in the United States. In Diagnostics sales growth driver was the Applied Science and the Tissue Diagnostics business. Tissue Diagnostics contained twelve months of operations compared with eleven months' sales consolidated in 2008 due to the timing of the Ventana acquisition.

The RHI Group's operating profit before exceptional items increased by 2% to \$6.0 billion, above sales growth of 1%, reflecting the RHI Group's top line growth, continuing productivity improvements and focus on cost management, despite significantly increased investments in research and development. The operating profit margin before exceptional items increased by 0.3 percentage points to reach 35.2%. In the Pharmaceuticals Division operating profit before exceptional items decreased by 1% to \$5.9 billion, driven by a significant increase in investments in research and development and by the costs of the voluntary withdrawal of Raptiva. Operating profit in the Diagnostics Division was \$143 million recovering from the accounting impact of last year's acquisition of Ventana and other one-time expenses in the 2008 results.

The Pharmaceuticals Division incurred exceptional operating expenses of \$2.1 billion relating to the Genentech transaction, restructuring of Pharmaceuticals manufacturing operations and an increase in its provisions for major legal cases, whereas the comparative period contained exceptional income of \$250 million from the settlement of litigation and expenses of \$225 million from the initial stages of Pharmaceuticals Division U.S. reorganization. This swing of \$2.2 billion led to a decline of the RHI Group's operating profit to \$3.8 billion. Of the exceptional operating expenses \$1.1 billion are non-cash items which relate mainly to impairments of manufacturing sites.

The RHI Group financed the Genentech transaction by a combination of own funds, bonds, notes and commercial paper. The RHI Group raised net proceeds of \$40.3 billion through a series of debt offerings. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group. As a consequence, the underlying dynamics of the RHI Group's treasury results changed significantly during 2009, with a substantial increase in interest expenses. Additionally the RHI Group entered into derivative contracts with related parties to

hedge the foreign exchange risk arising from bonds and notes issued in currencies other than U.S. dollars. The net foreign exchange result of these derivative contracts was not material. The financing costs from related parties were \$848 million, an increase of \$396 million mainly arising from guarantee fees in connection to the bonds and notes issued and interest on the additional related-party debt taken out to fund the Genentech transaction. Various favorable tax impacts contributed to the decline of the RHI Group's effective tax rate before exceptional items to 31.5% compared to 38.7% in the comparative period.

Overall net income decreased by \$2.2 billion to \$1.2 billion due to the exceptional items. Excluding these, net income was \$2.5 billion.

In 2009, the underlying business continued to show good cash generation, partly due to income tax reimbursements. As a result, the cash flow from operating activities increased by \$2.8 billion to \$8.1 billion compared to the comparative period 2008. Cash flow from investing activities increased by \$10.3 billion to \$5.7 billion, with the main driver being the liquidation of certain debt securities to fund the Genentech transaction and the absence of the investment into the acquisition of Ventana in 2008. The cash flow from financing activities decreased by \$17.7 billion, where a total of \$47.0 billion was used to acquire full ownership of Genentech, which was funded by a \$40.3 billion increase in third party bonds and notes. A total of \$7.2 billion was paid during 2009 to repay some of that debt. In addition, a further \$2.9 billion was deposited with the Roche Group's cash pool and is included in the receivables from Roche Pharmholding Ltd. in the balance sheet. The total decrease in cash was \$2.9 billion.

Financial position

The slight increase in total assets mainly results from an increase in related party receivables, offset by the decrease in marketable securities to partially fund the Genentech transaction. In addition, the capital contribution of IGEN and BioVeris to RHI increased net assets. Debt increased by \$37.6 billion to finance the Genentech transaction. 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's was significantly reduced. At December 31, 2009, RHI had a negative equity of \$30.3 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds and notes with a carrying value of \$36.4 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

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 the RHI Group's counterparties. The RHI Group's financial risk management is described in Note 30 to the Consolidated Financial Statements for the year ended December 31, 2009.

Uncertainties

As well as being the holding company for the Roche Group's U.S. operations, a further activity of Roche Holdings, Inc. is to provide finance to other members of the RHI Group and to refinance this on the bond or loan markets.

The RHI Group's provisions and contingent liabilities are described in Note 24 to the Financial Statements ended December 31, 2009. In addition, key assumptions and sources of estimation uncertainty in the preparation of the financial statements are described in Note 1 to these Financial Statements.

The difficulties in the financial markets and the economy have not had a significant impact on the RHI Group's businesses so far. However, the developments are being closely monitored and if the situation continues or worsens through 2010, then the risk of negative impacts becomes more likely.

Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual future results, financial situation development or performance of the RHI Group and the historical results given in the Management Report and the Financial Statements for the year ended 2009.

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 audited financial statements as at January 26, 2010: the audited financial statements as at December 31, 2009, 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
Chairman of the Board

Erich Hunziker
Vice Chairman of the Board

Severin Schwan
Member of the Board

Frank J. D'Angelo
Member of the Board

Frederick C. Kentz III
Member of the Board

David P. McDede
Member of the Board

Bruce Resnick
Member of the Board

Roche Holdings, Inc. Consolidated Financial Statements

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2009 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales ²	14,221	2,793	-	17,014
Royalties and other operating income ²	3,236	221	-	3,457
Cost of sales	(4,335)	(1,939)	-	(6,274)
Marketing and distribution	(2,418)	(683)	-	(3,101)
Research and development ²	(4,174)	(119)	-	(4,293)
General and administration	(658)	(130)	(23)	(811)
Operating profit before exceptional items ²	5,872	143	(23)	5,992
Major legal cases ²⁴	(295)	-	-	(295)
Changes in RHI Group organization ⁷	(1,850)	-	-	(1,850)
Operating profit ²	3,727	143	(23)	3,847
Associates ¹⁴				-
Financial income ⁴				(694)
Financial income – related parties ³¹				979
Financing costs ⁴				(1,760)
Financing costs – related parties ³¹				(848)
Exceptional financing costs ⁴				(154)
Profit before taxes				1,370
Income taxes ⁵				(1,154)
Income taxes on exceptional items ⁵				975
Net income				1,191
Attributable to				
- Roche Holdings, Inc. shareholder				816
- Non-controlling interests				375

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2008 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales ²	14,088	2,709	-	16,797
Royalties and other operating income ²	3,053	65	-	3,118
Cost of sales	(4,562)	(1,916)	-	(6,478)
Marketing and distribution	(2,247)	(716)	-	(2,963)
Research and development ²	(3,571)	(50)	-	(3,621)
General and administration	(811)	(178)	(4)	(993)
Operating profit before exceptional items ²	5,950	(86)	(4)	5,860
Major legal cases ²⁴	250	-	-	250
Changes in RHI Group organization ⁷	(225)	-	-	(225)
Operating profit ²	5,975	(86)	(4)	5,885
Associates ¹⁴				-
Financial income ⁴				422
Financial income – related parties ³¹				41
Financing costs ⁴				(341)
Financing costs – related parties ³¹				(452)
Profit before taxes				5,555
Income taxes ⁵				(2,141)
Income taxes on exceptional items ⁵				(12)
Net income				3,402
Attributable to				
- Roche Holdings, Inc. shareholder				1,870
- Non-controlling interests				1,532

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

	Year ended December 31,	
	2009	2008
Net income recognized in income statement	1,191	3,402
Other comprehensive income		
Available-for-sale investments ²⁷	25	(90)
Cash flow hedges ²⁷	69	15
Defined benefit post-employment plans ²⁷	(5)	(611)
Other comprehensive income, net of tax	89	(686)
Total comprehensive income	1,280	2,716
Attributable to		
- Roche Holdings, Inc. shareholder ²⁷	890	1,216
- Non-controlling interests ²⁸	390	1,500
Total	1,280	2,716

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

	December 31, 2009	December 31, 2008	December 31, 2007
Non-current assets			
Property, plant and equipment ¹¹	6,274	7,615	7,018
Goodwill ¹²	5,537	4,096	2,442
Intangible assets ¹³	3,106	3,344	1,954
Associates ¹⁴	-	-	-
Financial long-term assets ¹⁵	130	371	564
Financial long-term assets – related parties ³¹	95	95	95
Other long-term assets ¹⁵	317	322	380
Other long-term assets – related parties ³¹	169	-	-
Deferred income tax assets ⁵	2,079	1,224	857
Post-employment benefit assets ⁹	116	84	307
Total non-current assets	17,823	17,151	13,617
Current assets			
Inventories ¹⁶	1,726	2,006	2,207
Accounts receivable – trade ¹⁷	1,862	1,825	1,985
Accounts receivable – related parties ^{23,31}	6,588	1,990	1,964
Current income tax assets ⁵	101	103	7
Other current assets ¹⁸	560	627	1,300
Marketable securities ¹⁹	269	6,382	4,637
Cash and cash equivalents ²⁰	10	2,910	1,042
Total current assets	11,116	15,843	13,142
Total assets	28,939	32,994	26,759
Non-current liabilities			
Long-term debt ²⁶	(33,012)	(2,418)	(2,877)
Long-term debt – related parties ^{26,31}	(8,400)	(7,612)	(3,460)
Deferred income tax liabilities ⁵	(475)	(401)	(106)
Post-employment benefit liabilities ⁹	(1,340)	(1,332)	(614)
Provisions ²⁴	(249)	(275)	(250)
Other non-current liabilities ²⁵	(116)	(151)	(446)
Other non-current liabilities – related parties ³¹	(72)	-	-
Total non-current liabilities	(43,664)	(12,189)	(7,753)
Current liabilities			
Short-term debt ²⁶	(5,929)	(993)	(604)
Short-term debt – related parties ^{26,31}	(1,415)	(205)	(1,204)
Current income tax liabilities ⁵	(874)	(584)	(411)
Provisions ²⁴	(1,136)	(427)	(1,073)
Accounts payable – trade and other ²¹	(622)	(526)	(654)
Accounts payable – related parties ³¹	(993)	(747)	(377)
Accrued and other current liabilities ²²	(4,447)	(3,132)	(2,829)
Other current liabilities – related parties ³¹	(156)	-	-
Total current liabilities	(15,572)	(6,614)	(7,152)
Total liabilities	(59,236)	(18,803)	(14,905)
Total net assets	(30,297)	14,191	11,854
Equity			
Capital and reserves attributable to Roche Holdings, Inc. shareholder ²⁷	(30,297)	7,200	6,589
Equity attributable to non-controlling interests ²⁸	-	6,991	5,265
Total equity	(30,297)	14,191	11,854

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

	Year ended December 31,	
	2009	2008
Cash flows from operating activities		
Cash generated from operations ²⁹	7,779	7,445
(Increase) decrease in working capital	631	728
(Increase) decrease in working capital related parties	421	(98)
Payments made for defined benefit post-employment plans ⁹	(168)	(54)
Utilization of provisions ²⁴	(386)	(780)
Cash flows from operating activities, before income taxes paid	8,277	7,241
Income taxes paid	(199)	(1,908)
Total cash flows from operating activities	8,078	5,333
Cash flows from investing activities		
Purchase of property, plant and equipment	(828)	(1,010)
Purchase of intangible assets	(164)	(475)
Disposal of property, plant and equipment	68	21
Disposal of intangible assets	123	83
Disposal of products	-	9
Divestment of subsidiary ³³	27	-
Business combinations ⁶	(30)	(2,373)
Interest received	59	253
Interest received from related parties ³¹	13	37
Sales of marketable securities	7,286	2,011
Purchases of marketable securities	(922)	(3,024)
Other investing cash flows	37	(83)
Total cash flows from investing activities	5,669	(4,551)
Cash flows from financing activities		
Proceeds from issue of bonds and notes ²⁶	40,304	-
Proceeds from issue of related party debt ²⁶	963	4,427
Redemption and repurchase of bonds and notes ²⁶	(7,222)	-
Repayment of related party debt ²⁶	(390)	(1,274)
Increase (decrease) in commercial paper ²⁶	(240)	(100)
Increase (decrease) in other debt	(91)	(252)
Increase (decrease) in short-term borrowings	-	-
Hedging arrangements related parties	1,422	-
Change in ownership interest in subsidiaries		
- Genentech ³	(47,017)	-
- Ventana ⁶	-	(1,170)
- Memory ⁶	(5)	-
Interest paid	(634)	(118)
Interests and other financing related parties ³¹	(795)	(421)
Recharges and prepayments to related parties for equity compensation plans ¹⁰	(178)	(27)
Genentech		
- Genentech equity compensation plans ¹⁰	99	680
- Genentech share repurchases ³	-	(780)
(Increase) decrease of cash pool balance with related parties ³¹	(2,863)	121
Total cash flows from financing activities	(16,647)	1,086
Increase (decrease) in cash and cash equivalents	(2,900)	1,868
Cash and cash equivalents at January 1	2,910	1,042
Cash and cash equivalents at December 31 ²⁰	10	2,910

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserve	Total	Non-controlling interests	Total equity
Year ended December 31, 2008							
At January 1, 2008	1	6,473	116	(1)	6,589	5,265	11,854
Net income recognized in income statement	-	1,870	-	-	1,870	1,532	3,402
Available-for-sale investments	-	-	(51)	-	(51)	(39)	(90)
Cash flow hedges	-	-	-	8	8	7	15
Defined benefit post-employment plans	-	(611)	-	-	(611)	-	(611)
Total comprehensive income	-	1,259	(51)	8	1,216	1,500	2,716
Business combinations ⁶	-	-	-	-	-	291	291
Dividends paid ^{27, 28}	-	-	-	-	-	-	-
Equity compensation plans ^{27, 28}	-	751	-	-	751	529	1,280
Genentech share repurchases ³	-	(436)	-	-	(436)	(344)	(780)
Changes in ownership interests in subsidiaries							
- Ventana ⁶	-	(879)	-	-	(879)	(291)	(1,170)
Changes in non-controlling interests ^{27, 28}	-	(41)	-	-	(41)	41	-
At December 31, 2008	1	7,127	65	7	7,200	6,991	14,191
Year ended December 31, 2009							
At January 1, 2009	1	7,127	65	7	7,200	6,991	14,191
Net income recognized in income statement	-	816	-	-	816	375	1,191
Available-for-sale investments	-	-	23	-	23	2	25
Cash flow hedges	-	-	-	56	56	13	69
Defined benefit post-employment plans	-	(5)	-	-	(5)	-	(5)
Total comprehensive income	-	811	23	56	890	390	1,280
Business combinations ⁶	-	-	-	-	-	4	4
Capital contribution related parties ²⁷	-	382	-	-	382	-	382
Dividends paid ^{27, 28}	-	-	-	-	-	-	-
Equity compensation plans ^{27, 28}	-	297	-	-	297	154	451
Changes in ownership interests in subsidiaries							
- Genentech ³	-	(39,050)	-	-	(39,050)	(7,550)	(46,600)
- Memory ⁶	-	(1)	-	-	(1)	(4)	(5)
Changes in non-controlling interests ^{27, 28}	-	(15)	-	-	(15)	15	-
At December 31, 2009	1	(30,449)	88	63	(30,297)	-	(30,297)

Notes to the Roche Holdings, Inc. Consolidated Financial Statements

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

1. Summary of significant accounting policies

Basis of preparation of the consolidated financial statements

These financial statements are the consolidated 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 parent company of the Roche Group. Roche Holdings, Inc. and its subsidiaries are therefore members of the Roche Group.

The consolidated financial statements of the RHI Group have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared using the historical cost convention except that, as disclosed in the accounting policies below, certain items, including derivatives and available-for-sale investments, are shown at fair value. They were approved for issue by the Board of Directors on January 26, 2010.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

Effective March 26, 2009, the purchase of the non-controlling interests in Genentech was completed (see Note 3). Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, 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 was reduced by approximately \$47 billion and at December 31, 2009 the RHI Group had a negative equity of \$30.3 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds and notes with a carrying value of \$36.4 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. Accordingly, management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In 2009, the RHI Group generated an operating profit of \$3.847 million and a positive operating cash flow of \$8.1 billion.

Changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. Retrospective application requires that the results of the comparative period and the opening balances of that period are restated as if the new accounting policy had always been applied. In some cases the transitional requirements of the particular standard or interpretation specify that the changes are to be applied prospectively. Prospective application requires that the new accounting policy only be applied to the results of the current period and the comparative period is not restated. In addition comparatives have been reclassified or extended from the previously reported results to take into account any presentational changes.

Consolidation policy

These financial statements are the consolidated financial statements of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries.

The subsidiaries are those companies controlled, directly or indirectly, by Roche Holdings, Inc., where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is normally evidenced when Roche Holdings, Inc. owns, either directly or indirectly, more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. Special Purpose Entities are consolidated where the substance of the relationship is that the Special Purpose Entity is controlled by the RHI Group. 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 unrealized 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.

Investments in associates are accounted for using the equity method. These are companies over which the RHI Group exercises, or has the power to exercise, significant influence, but which it does not control. This is normally evidenced when the RHI Group owns 20% or more of the voting rights or currently exercisable potential voting rights of the company. Balances and transactions with associates that result in unrealized income are eliminated to the extent of the RHI Group's interest in the associate. Interests in joint ventures are reported using the line-by-line proportionate consolidation method.

Segment reporting

The RHI Group's format for segment reporting is operating segments. The RHI Group operates in the United States of America ('U.S.')

 and does not have separately distinguishable geographical segments.

The determination of the RHI Group's operating segments is based on the organization units for which information is reported to the RHI Group's management. 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 organizational structure are reported as 'Corporate'. Previously within the Pharmaceuticals Division there had been two sub-divisions, Roche Pharmaceuticals and Genentech. Following the completion of the Genentech transaction (see Note 3), the Genentech sub-division was merged into the Pharmaceuticals Division in these consolidated financial statements.

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 qualifying cash flow hedges, which are recorded in equity.

Revenues

Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts and volume rebates, and exclude value added taxes and other taxes directly linked to sales. Revenues from the sale of products are recognized 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 recognized 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. Where necessary, single transactions are split into separately identifiable components to reflect the substance of the transaction. 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

In addition to its internal research and development activities, the RHI Group is also party to in-licensing and similar arrangements with its alliance partners. The RHI Group may also acquire in-process research and development assets, either through business combinations or through purchases of specific assets.

Internal research costs are charged against income as incurred. Internal development costs are capitalized as intangible assets only when there is an identifiable asset that can be completed and that will generate probable future economic benefits and when the cost of such an asset can be measured reliably. The RHI Group does not currently have any such internal development costs that qualify for capitalization as intangible assets. Internal development costs are therefore charged against income as incurred since the criteria for their recognition as an asset are not met.

In-process research and development assets acquired either through in-licensing arrangements, business combinations or separate purchases are capitalized as intangible assets as described below. Once available for use, such intangible assets are amortized on a straight-line basis over the period of the expected benefit and are reviewed for impairment at each reporting date.

Licensing, milestone and other upfront receipts and payments

Royalty income is recognized 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 recognized as revenue when the cash is received. Certain RHI Group companies receive from third parties upfront, milestone and other similar payments relating to the sale or licensing of products or technology. Revenue associated with performance milestones is recognized 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 recognized in income as earned over the period of the development collaboration or the manufacturing obligation.

Payments made by RHI Group companies to third parties and associates for such items are capitalized as intangible assets.

Employee benefits

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the RHI Group. Where the RHI Group provides long-term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned. Liabilities for long-term employee benefits are discounted to take into account the time value of money, where material.

Pensions and other post-employment benefits

Most employees are covered by defined benefit and defined contribution post-employment plans sponsored by RHI Group companies. RHI's contributions to defined contribution plans are charged to the appropriate income statement heading within the operating results in the year to which they relate. The accounting and reporting of defined benefit plans are based on recent actuarial valuations. The defined benefit obligations and service costs are 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 long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds. Past service costs are allocated over the average period until the benefits become vested. Current and past service costs are charged to the appropriate income statement heading within the operating results. Pension plan administration and funding is overseen at a corporate level and any settlement gains and losses resulting from changes in funding arrangements are reported as general and administration expenses within the 'Corporate' segment. The expected returns on plan assets and interest costs are charged to financial income and financing costs, respectively. Actuarial gains and losses, which consist of differences between assumptions and actual experiences and the effects of changes in actuarial assumptions, are recorded directly in equity. 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. The recognition of pension assets is limited to the total of the present value of any future refunds from the plans or reductions in future contributions to the plans and any cumulative unrecognized past service costs. Adjustments arising from the limit on the recognition of assets for defined benefit plans are recorded directly in equity.

Equity compensation plans

Certain employees of the RHI Group participate in equity compensation plans, including separate plans at Genentech (prior to the Genentech transaction). 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. For cash-settled plans, a liability is recorded, which is measured at fair value at each reporting date with any movements in fair value being recorded to the appropriate income statement heading within the operating results. Any subsequent cash flows from exercise of vested awards are recorded as a reduction of the liability.

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 capitalized 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. Estimated useful lives of major classes of depreciable assets are as follows:

Land improvements	40 years
Buildings	10-50 years
Machinery and equipment	5-15 years
Diagnostic instruments	3-5 years
Office equipment	3 years
Motor vehicles	5 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 life of the assets is regularly reviewed and, if necessary, the future depreciation charge is accelerated. Repairs and maintenance costs are expensed as incurred.

Leases

Where the RHI Group is the lessee, leases of property, plant and equipment where the RHI Group has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized 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. Assets acquired under finance leases are depreciated in accordance with RHI's policy on property, plant and equipment. If there is no reasonable certainty that the RHI Group will obtain ownership by the end of the lease term, the asset is 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. Leases where substantially all of the risks and rewards of ownership are not transferred to the RHI Group are classified as operating leases. 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, which primarily occurs in the Diagnostics Division, assets subject to finance leases are initially reported as receivables at an amount equal to the net investment in the lease. Assets subject to operating leases are reported within property, plant and equipment. Lease income from finance leases is subsequently recognized as earned income over the term of the lease based on the effective interest rate method. Lease income from operating leases is recognized over the lease term on a straight-line basis.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The consideration transferred in a business combination is measured at fair value at the date of acquisition. This consideration includes the cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the RHI Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within general and administration expenses. At the date of acquisition the RHI Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets

acquired and the liabilities assumed are initially recognized at fair value. Where the RHI Group does not acquire 100% ownership of the acquired business non-controlling interest are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the RHI Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business in the functional currency of that business. Goodwill is not amortized, but is assessed for possible impairment at each reporting date and is additionally tested annually for impairment. Goodwill may also arise upon investments in associates, being the surplus of the cost of investment over the RHI Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates. 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.

Intangible assets

Purchased patents, licenses, trademarks and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Intangible assets are amortized over their useful lives on a straight-line basis beginning from the point when they are available for use. Estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful life of intangible assets is regularly reviewed.

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 pre-tax interest rate. When an impairment loss arises, the useful life of the asset in question is reviewed and, if necessary, the future depreciation/amortization charge is accelerated. The impairment of financial assets is discussed below in the 'Financial assets' policy.

Impairment of goodwill

Goodwill is assessed for possible impairment at each reporting date and is additionally tested annually for impairment. Goodwill is allocated to cash-generating units as described in Note 12. 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 methodology used in the impairment testing is further described in Note 12.

Inventories

Inventories are stated at the lower of cost and net realizable 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 realizable 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 for the difference between the carrying value and the recoverable amount where there is objective evidence that the RHI Group will not be able to collect all amounts due. 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. Long-term accounts receivable are discounted to take into account the time value of money, where material.

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 if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the statement of cash flows.

Provisions

Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. In particular, restructuring provisions are recognized when the RHI Group has a detailed formal plan that has either commenced implementation or been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money, where 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 recognized, but are disclosed where an inflow of economic benefits is probable.

Fair values

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. 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 ('fair value hierarchy'). Valuation techniques will incorporate observable market data about market conditions and other factors that are likely to affect the fair value of a financial instrument. Valuation techniques are typically used for derivative financial instruments. The fair values of financial assets and liabilities at the reporting date are not materially different from their reported carrying values unless specifically mentioned in the Notes to the Consolidated Financial Statements. Information on fair value hierarchy is included in Note 30 on risk management.

Financial assets

Financial assets, principally investments, including marketable securities, are classified as either 'Fair-value-through-profit-or-loss', 'Available-for-sale', 'Held-to-maturity' or 'Loans and receivables'. Fair-value-through-profit-or-loss financial assets are either classified as held-for-trading or designated upon initial recognition. Held-for-trading financial assets are acquired principally to generate profit from short-term fluctuations in price. Financial assets are designated as fair-value-through-profit-or-loss if doing so results in more relevant information by eliminating a measurement or recognition inconsistency. Held-to-maturity financial assets are securities with a fixed maturity that the RHI Group has the intent and ability to hold until maturity. Loans and receivables are financial assets created by the RHI Group or acquired from the issuer in a primary market. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All other financial assets are considered to be available-for-sale.

All financial assets are initially recorded at fair value, including transaction costs, except for assets at fair-value-through-profit-or-loss, which exclude transaction costs. All purchases and sales are recognized on the settlement date. Fair-value-through-profit-or-loss financial assets are subsequently carried at fair value, with all changes in fair value recorded as financial income in the period in which they arise. Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method. Available-for-sale financial assets are subsequently carried at fair value, with all unrealized changes in fair value recorded in equity except for interest calculated using the effective interest rate method and foreign exchange components. When the available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognized in equity are included in financial income for the current period. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

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. In addition any available-for-sale equity securities that have a market value of more than 25% below their original cost, net of any previous impairment, will be considered as impaired. Any available-for-sale equity securities that have a market value below their original cost, net of any previous impairment, for a sustained six-month period will also be considered as impaired. Any decreases in the market price of less than 25% of original cost, net of any previous impairment, which are also for less than a sustained six-month period are not by themselves considered as objective evidence of impairment. Such movements in fair value are recorded in equity until there is objective evidence of impairment or until the asset is sold or otherwise disposed of. For financial assets carried at amortized 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 equity for the difference between the original cost, net of any previous impairment, 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 recognized. For debt securities measured at amortized cost or available-for-sale, the reversal is recognized in income. For equity securities held available-for-sale, the reversal is recognized directly in equity.

A financial asset is derecognized when the contractual cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Derivatives

Derivative financial instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments as discussed in the 'Hedging' policy below, all changes in fair value are recorded as financial income in the period in which they arise. Embedded derivatives are recognized separately if not closely related to the host contract and where the host contract is carried at amortized cost.

Hedge accounting

For the purposes of hedge accounting, hedging relationships may be of three types. A 'fair value hedge' is a hedge of the exposure to changes in fair value of a recognized asset or liability, or an unrecognized 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. A 'cash flow hedge' is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. A 'hedge of a net investment in a foreign operation' is a hedge of the foreign currency exposure on a net investment in a foreign operation.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence (for cash flow hedges), hedge effectiveness and reliability of measurement. If these 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. In particular any derivatives are reported at fair value, with changes in fair value included in financial income.

For qualifying fair value hedges, 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. Any changes in the fair values are reported in financial income.

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. 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 asset or liability, the cumulative changes in the fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the date of recognition. For all other qualifying cash flow hedges, the cumulative changes in the fair value of the hedging instrument that have been recorded in equity are included in financial income when the forecasted transaction affects net income.

For qualifying hedges of net investment in a foreign entity, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity. Any remaining ineffective portion is recorded in financial income where the hedging instrument is a derivative and in equity in other cases. If the entity is disposed of, then the cumulative changes of fair value of the hedging instrument that have been recorded in equity are reclassified to income.

Debt

Debt instruments are initially recorded at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortized cost. Any discount between the net proceeds received and the principal value due on redemption is amortized over the duration of the debt instrument and is recognized as part of financing costs using the effective interest rate method. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Certain debt instruments have been designated as 'fair-value-through-profit-or-loss' where doing so results in more relevant information as it eliminates or significantly reduces measurement or recognition inconsistencies. Such debt instruments were reported at fair value, based on quoted prices in an active market, with movements in fair value reported within financial income. The Group's last such instrument was redeemed on July 6, 2009 as disclosed in Note 26.

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 recognized where it is probable that such earnings will be remitted in the foreseeable future.

Deferred income tax assets and liabilities are recognized on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax assets relating to the carry-forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Current and deferred income 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 income taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the RHI Group operates.

Discontinued businesses and non-current assets held for sale

A discontinued business is a component of the RHI Group's business that represents a separate major line of business or is a subsidiary acquired exclusively with a view to resale. Reclassification as a discontinued business occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier.

A disposal group is a group of assets that are to be disposed of as a group in a single transaction, together with the liabilities directly associated with those assets that will be transferred in the transaction. The assets and liabilities in a disposal group are reclassified as held for sale if their value will be recovered principally through a sale rather than through continuing use. The disposal group must be available for sale in its current condition and the sale must be highly probable.

Immediately before classification as held for sale, the measurement of all assets and liabilities in a disposal group is updated in accordance with applicable accounting policies. Then, on initial classification as held for sale, disposal groups are recognized at the lower of carrying value and fair value less costs to sell. Impairment losses on initial classification as held for sale are included in the income statement.

Management judgments made in applying accounting policies

The application of RHI's accounting policies may require management to make judgments, apart from those involving estimates, that can have a significant effect on the amounts recognized in the consolidated financial statements. Management judgment is particularly required when assessing the substance of transactions that have a complicated structure or legal form. These include, but are not limited to, the following areas:

Revenue recognition: The nature of RHI's business is such that many sales transactions do not have a simple structure. Sales agreements may consist of multiple components occurring at different times. RHI is also party to various out-licensing agreements, which can involve upfront and milestone payments that may occur over several years. These agreements may also involve certain future obligations. Revenue is only recognized when, in management's judgment, 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 recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

Consolidation of subsidiaries and associates: The RHI Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the acquisition of all or part of the equity of other companies, the purchase of certain assets and assumption of certain liabilities and contingent liabilities of other companies, and entering into alliance agreements with other companies. Also included are transactions involving Special Purpose Entities and similar vehicles. In all such cases management makes an assessment as to whether the RHI Group has the right to control or significantly influence the other company's operations, and based on this assessment the other company is consolidated as a subsidiary or associated

company. In making this assessment management considers the underlying economic substance of the transaction and not only the contractual terms.

Business combinations: Where the RHI Group acquires control of another business, the consideration transferred has to be allocated to the identifiable assets acquired, the liabilities assumed and any non-controlling interest the acquired business, with any residual recorded as goodwill. This process involves management making an assessment of the fair value of these items. Management judgment is particularly involved in the recognition and measurement of the following items:

- Intellectual property. This may include patents, licenses, trademarks and similar rights for currently marketed products and also the rights and scientific knowledge associated with projects that are currently in research or development phases.
- Contingencies such as legal and environmental matters.
- Contingent consideration arrangements.
- The recoverability of any accumulated tax losses previously incurred by the acquired company.

In all cases management makes an assessment based on the underlying economic substance of items concerned, and not only on the contractual terms, in order to fairly present these items.

Leases: The RHI Group is party to leasing arrangements, both as a lessee and as a lessor. The treatment of leasing transactions in the financial statements 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 judgment 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.

Key assumptions and sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognized in the period in which the estimate is revised.

The key assumptions about the future and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next twelve months are described below.

Revenue recognition: If the circumstances are such that the level of sales returns, and hence revenues, cannot be reliably measured, then sales are only recognized 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.

Sales allowances: The RHI Group has provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the United States, which at December 31, 2009 was \$842 million. Such estimates are based on analyses of existing contractual or legislatively-mandated obligations, historical trends and RHI's experience. Management believes that the total provisions and accruals for these items are adequate, based upon currently available information. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions and accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods.

Property, plant and equipment and intangible assets, including goodwill: The RHI Group has property, plant and equipment with a carrying value of \$6,274 million as disclosed in Note 11. Goodwill has a carrying value of \$5,537 million (see Note 12) and intangible assets have a carrying value of \$3,106 million (see Note 13). All of these assets are reviewed annually for impairment as described above. To assess whether any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary

significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower than anticipated sales of products with capitalized rights could result in shortened useful lives or impairment. Changes in the discount rates used could also lead to impairments.

Pensions and other post-employment benefits: Many of RHI's employees participate in post-employment defined benefit plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, RHI's independent actuaries use statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At December 31, 2009 the present value of RHI's defined benefit obligation is \$3,590 million for funded plans and \$391 million for unfunded plans (see Note 9). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact the assets or liabilities recognized in the balance sheet in future periods.

Legal provisions: The RHI Group is party to various legal proceedings including claims arising from trade, and the most significant matters are described in Note 24. Legal provisions at December 31, 2009 total \$461 million. Management believes that the total provisions for legal proceedings are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued. Additional claims could be made which might not be covered by existing provisions or by insurance. There can be no assurance that there will not be an increase in the scope of these matters or that any future lawsuits, claims, proceedings or investigations will not be material. Such changes that arise could impact the provisions recognized in the balance sheet in future periods.

Environmental provisions: The RHI Group has provisions for environmental remediation costs, which at December 31, 2009 total \$139 million, as disclosed in Note 24. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at certain other sites. Future remediation expenses are affected by a number of uncertainties that include, but are not limited to, the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of waste material attributable to the RHI Group at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties. Management believes that the total provisions for environmental matters are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued. The effect of the resolution of environmental matters on the results of operations cannot be predicted due to uncertainty concerning both the amount and the timing of future expenditures. Such changes that arise could impact the provisions recognized in the balance sheet in future periods.

Income taxes: At December 31, 2009 the net liability for current income taxes is \$773 million and the net asset for deferred income taxes is \$1,604 million, as disclosed in Note 5. Significant estimates are required to determine the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in overall levels of pre-tax earnings. Such changes that arise could impact the assets and liabilities recognized in the balance sheet in future periods.

Changes in accounting policies

In 2007 the RHI Group early adopted IFRS 8 'Operating Segments' and IAS 23 (revised) 'Borrowing Costs' which were required to be implemented from January 1, 2009 at the latest. In 2008 the RHI Group has early adopted the revised versions of IFRS 3 'Business Combinations', IAS 27 'Consolidated and Separate Financial Statements' which are required to be implemented from January 1, 2010 at the latest.

In 2009 the RHI Group has implemented revisions to IAS 1 'Presentation of Financial Statements' the effects of which are described below. The RHI Group has also implemented various other amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

IAS 1 (revised) 'Presentation of Financial Statements': Amongst other matters, the revised standard requires some changes to the format of the statement of comprehensive income, the statement of changes in equity and requires some additional disclosures in the Notes to the Financial Statements, notably disclosing the pre-tax and tax impact of items of other comprehensive income (see Note 5). The balance sheet also includes the opening balances as at the beginning of the comparative period, and this is also reflected in the relevant Notes to the Financial Statements. The changes from the implementation of the revised standard are purely presentational and have no impact on the RHI Group's overall results and financial position.

The RHI Group is currently assessing the potential impacts of the other new and revised standards and interpretations that will be effective from January 1, 2010 and beyond, and which the RHI Group has not early adopted. The RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position.

2. Operating segment information

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues from external customers and related parties								
Sales	14,221	14,088	2,793	2,709	-	-	17,014	16,797
Royalties and other operating income	3,236	3,053	221	65	-	-	3,457	3,118
Total	17,457	17,141	3,014	2,774	-	-	20,471	19,915
Segment results								
Operating profit before exceptional items	5,872	5,950	143	(86)	(23)	(4)	5,992	5,860
Major legal cases	(295)	250	-	-	-	-	(295)	250
Changes in RHI Group organization	(1,850)	(225)	-	-	-	-	(1,850)	(225)
Operating profit	3,727	5,975	143	(86)	(23)	(4)	3,847	5,885
Capital expenditure								
Business combinations	54	152	-	2,930	-	-	54	3,082
Additions to property, plant and equipment	595	912	203	213	-	-	798	1,125
Additions to intangible assets	164	475	-	-	-	-	164	475
Total capital expenditure	813	1,539	203	3,143	-	-	1,016	4,682
Research and development								
Research and development costs	4,174	3,571	119	50	-	-	4,293	3,621
Other segment information								
Depreciation of property, plant and equipment	599	454	129	110	-	-	728	564
Amortization of intangible assets	123	190	181	115	-	-	304	305
Impairment of property, plant and equipment	858	9	3	8	-	-	861	17
Impairment of goodwill	-	-	-	-	-	-	-	-
Impairment of intangible assets	427	39	36	-	-	-	463	39
Equity compensation plan expenses	409	377	24	14	3	2	436	393

Net operating assets *in millions of USD*

	Assets			Liabilities			Net assets		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Pharmaceuticals	13,004	15,212	15,267	(5,423)	(3,969)	(4,771)	7,581	11,243	10,496
Diagnostics	7,449	6,147	3,134	(766)	(853)	(753)	6,683	5,294	2,381
Corporate	170	409	118	(203)	(347)	(25)	(33)	62	93
Total operating	20,623	21,768	18,519	(6,392)	(5,169)	(5,549)	14,231	16,599	12,970
Non-operating	8,316	11,226	8,240	(52,844)	(13,634)	(9,356)	(44,528)	(2,408)	(1,116)
RHI Group	28,939	32,994	26,759	(59,236)	(18,803)	(14,905)	(30,297)	14,191	11,854

Supplementary information on sales for major products is given on page 2 of the Management Report.

Major customers

Substantially all of the RHI Group's third party sales are to customers in the United States. The U.S. national wholesale distributors, AmerisourceBergen Corp., Cardinal Health, Inc. and McKesson Corp. each contributed more than 10% of the RHI Group's revenues. The total amounts of revenues are approximately \$6 billion (2008: \$6 billion), \$3 billion (2008: \$3 billion) and \$4 billion (2008: \$4 billion), respectively. These revenues arose primarily in the Pharmaceuticals and Diagnostics segments.

3. Genentech

Effective September 7, 1990 the RHI Group acquired a majority interest of approximately 60% of Genentech, Inc., a biotechnology company in the United States. On June 13, 1999 RHI exercised its option to acquire the remaining shares of Genentech on June 30, 1999, at which point Genentech became a 100% owned subsidiary RHI. On July 23, 1999, October 26, 1999 and March 29, 2000 RHI completed public offerings of Genentech's common stock, which reduced RHI's majority interest to 60%. The common stock of Genentech became publicly traded and was listed on the New York Stock Exchange, under the symbol 'DNA'. During 2004 RHI's ownership of Genentech decreased by 2.45% due to the conversion and redemption of the 'LYONs IV' U.S. dollar exchangeable notes. At December 31, 2008 RHI's interest in Genentech was 55.8%.

Genentech transaction

On July 21, 2008 the Group announced a proposal to purchase all of the outstanding shares of Genentech common stock not owned by Roche at a price of \$89.00 in cash per share, equivalent to a total cash payment of approximately \$43.7 billion (the 'Roche Proposal'). On July 24, 2008 Genentech announced that a special committee of its Board of Directors composed of its independent directors (the 'Special Committee') had been formed to review, evaluate, and, in the Special Committee's discretion, negotiate and recommend or not recommend the acceptance of the Roche Proposal. On August 13, 2008 Genentech announced that the Special Committee did not support the proposal.

On February 9, 2009 Roche Investments USA Inc., a wholly owned subsidiary of the RHI Group, commenced a cash tender offer for the publicly-held Genentech shares at \$86.50 per share. On March 12, 2009, Roche entered into a merger agreement with Genentech pursuant to which the Group made a successful tender offer to purchase all of the shares of Genentech not already owned by the Group for \$95.00 per share in cash (the 'Genentech transaction'). As a result, Genentech became a wholly-owned subsidiary of the RHI Group, effective March 26, 2009.

The cash consideration for the purchase of all public shares, including shares issuable under Genentech's outstanding employee stock options and payment of related fees and expenses, amounted to approximately \$47 billion, as set out in the table below. These amounts have been recorded to equity as a change in ownership interest in subsidiaries.

Genentech transaction *in millions of USD*

Purchase of publicly held shares	44,400
Settlement of outstanding employee stock options	2,412
Directly attributable transaction costs	205
Total cash consideration	47,017
Income tax effects	(417)
Change in ownership interest in subsidiaries	46,600

The RHI Group financed the Genentech transaction by a combination of the RHI Group's own funds, bonds, notes and commercial paper. The RHI Group raised net proceeds of \$40.3 billion through a series of debt offerings, as described in Note 26. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd., the parent of the RHI Group.

The impacts of the Genentech transaction and the related reorganization of the Roche's Pharmaceuticals business on the RHI Group's results are described in Note 7.

Genentech share repurchases

On April 15, 2008 Genentech's Board of Directors approved an extension of the existing stock repurchase program authorizing Genentech to repurchase up to 150 million shares of Genentech's common stock for a total of \$10 billion through June 30, 2009. Since the program's inception, Genentech has repurchased approximately 89 million shares for a total of approximately \$6.5 billion. During 2008 the net cash outflow from repurchases of Genentech common stock was \$780 million. No repurchases were made during 2009.

4. Financial income and financing costs

Financial income *in millions of USD*

	Year ended December 31,	
	2009	2008
Gains on sale of equity securities	29	109
(Losses) on sale of equity securities	(1)	-
Gains (losses) on equity security derivatives, net	-	-
Write-downs and impairments of equity securities	(4)	(84)
Net income from equity securities	24	25
Interest income	58	253
Gains on sale of debt securities	-	22
(Losses) on sale of debt securities	-	(63)
Gains (losses) on debt security derivatives, net	-	-
Gains (losses) on financial assets at fair-value-through-profit-or-loss, net	-	(51)
Write-downs and impairments of long-term loans	-	-
Net interest income and income from debt securities	58	161
Expected return on plan assets of defined benefit plans ⁹	184	260
Foreign exchange gains (losses), net	(966)	(6)
Gains (losses) on foreign currency derivatives, net	-	-
Net foreign exchange (losses)	(966)	(6)
Net other financial income (expense)	6	(18)
Total financial income	(694)	422

Net foreign exchange losses of \$966 million were largely offset by a net gain of \$942 made on foreign exchange forward contracts with related parties (see Note 31).

Financing costs *in millions of USD*

	Year ended December 31,	
	2009	2008
Interest expense	(1,485)	(118)
Amortization of debt discount	(41)	-
Gains (losses) on debt derivatives, net	2	(2)
Gains (losses) on redemption and repurchase of bonds and notes, net ²⁶	(8)	-
Gains (losses) on financial liabilities at fair-value-through-profit-or-loss, net	6	11
Time cost of provisions ²⁴	(17)	(18)
Interest cost of defined benefit plans ⁹	(217)	(214)
Total financing costs	(1,760)	(341)

Net financial income *in millions of USD*

	Year ended December 31,	
	2009	2008
Financial income	(694)	422
Financing costs	(1,760)	(341)
Net financial income	(2,454)	81
Financial result from Treasury management	(2,421)	35
Financial result from Pension management	(33)	46
Net financial income	(2,454)	81

Exceptional financing costs: As described in Note 3, effective March 26, 2009 the RHI Group purchased all publicly owned shares of Genentech for \$95.00 per share in cash, with the total cash consideration of the transaction, including

shares issuable under Genentech's outstanding employee stock option plans and payment of related fees and expenses, being approximately \$47.0 billion.

In order to execute this transaction, Roche's Treasury operations liquidated certain debt securities into cash. This resulted in a net loss on these transactions of \$30 million. Furthermore, due to the prevailing financial conditions, the RHI Group issued bonds and notes in advance of the transaction totaling \$40.3 billion through a series of debt offerings, as described in Note 26. The interest expense on these instruments for the bridging period between their issue and the completion of the Genentech transaction on March 26, 2009 was \$124 million.

These amounts are disclosed separately in the income statement in order to fairly present the RHI Group's results in the overall context of the Genentech transaction and related reorganizations in the Roche's Pharmaceuticals Division. The total income tax benefit recorded in respect of exceptional financing costs was \$56 million.

Exceptional financing costs *in millions of USD*

	2009	2008
Gain (loss) on liquidation of debt securities	(30)	-
Interest expense incurred on newly issued bonds and notes during bridging period	(124)	-
Total income (expense)	(154)	-

5. Income taxes

Income tax expenses *in millions of USD*

	2009	2008
Current income taxes	(1,837)	(2,033)
Adjustments recognized for current tax of prior periods	114	(22)
Deferred income taxes	569	(86)
Total income (expense)	(1,154)	(2,141)

Income taxes on exceptional items: As described in Note 7, the RHI Group incurred exceptional expenses totaling \$1,850 million in connection with the Genentech transaction and the related reorganizations in the Roche's pharmaceuticals business. Furthermore, as described in Note 4, the RHI Group incurred exceptional financing costs totaling \$154 million in connection with the financing of the Genentech transaction. As disclosed in Note 24, expenses incurred in respect of major legal cases were \$295 million (2008: income of \$250 million). The income tax effects of these items in 2009, as shown in the table below, are disclosed separately in the income statement in order to fairly present the RHI Group's results in the overall context of the Genentech transaction and related reorganizations in the Roche Pharmaceuticals Division.

An income tax benefit of \$183 million was recorded in respect of Genentech's stock options plans in 2009 following the increase in Genentech's share price in 2009 prior to the completion of the Genentech transaction. Of this income tax benefit, approximately \$130 million are clearly attributable to the Genentech transaction, and therefore have been allocated as part of exceptional income taxes. This amount has been calculated as the difference between the income tax benefit calculated at a share price of \$86.50, being the price per share of Roche's tender offer of February 9, 2009, and the income tax benefit calculated at the final agreed tender offer price in the merger agreement at \$95.00 per share.

Income taxes on exceptional items *in millions of USD*

	2009	2008
Current income taxes	161	-
Deferred income taxes	814	(12)
Total income tax (expense) benefit on exceptional items	975	(12)

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

	2009	2008
Average expected tax rate	35.0%	35.0%
Tax effect of		
- Adjustments recognized for current tax of prior periods	-3.1%	+0.4%
- Non-taxable income/non-deductible expenses	0.0%	+0.4%
- Genentech equity compensation plans	0.0%	+1.1%
- Other differences	-0.4%	+1.8%
RHI's effective tax rate before exceptional items	31.5%	38.7%

	Profit before tax (mUSD)	Income taxes (mUSD)	2009 Tax rate (%)	Profit before tax (mUSD)	Income taxes (mUSD)	2008 Tax rate (%)
RHI's effective tax rate before exceptional items	3,669	(1,154)	31.5	5,530	(2,141)	38.7
Major legal cases ²⁴	(295)	113	38.3	250	(98)	39.2
Changes in RHI Group organization ⁷	(1,850)	806	43.6	(225)	86	38.2
Exceptional financing costs ⁴	(154)	56	36.4	-	-	-
RHI's effective tax rate	1,370	(179)	13.1	5,555	(2,153)	38.8

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

	Pre-tax amount	Tax benefit	2009 After-tax amount	Pre-tax amount	Tax benefit	2008 After-tax amount
Available-for-sale investments	34	(9)	25	(159)	69	(90)
Cash flow hedges	107	(38)	69	25	(10)	15
Defined benefit post-employment plans	(43)	38	(5)	(956)	345	(611)
Other comprehensive income	98	(9)	89	(1,090)	404	(686)

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

	2009	2008	2007
Current income taxes			
- Assets	101	103	7
- Liabilities	(874)	(584)	(411)
Net current income tax assets (liabilities)	(773)	(481)	(404)
Deferred income taxes			
- Assets	2,079	1,224	857
- Liabilities	(475)	(401)	(106)
Net deferred income tax assets (liabilities)	1,604	823	751

Deferred income tax assets are recognized for tax loss carry forwards only to the extent that realization of the related tax benefit is probable. The RHI Group has unrecognized tax losses, including valuation allowances, as follows:

Unrecognized tax losses: expiry

	Amount (mUSD)	2009 Applicable tax rate	Amount (mUSD)	2008 Applicable tax rate
Within one year	-	-	-	-
Between one and five years	-	-	-	-
More than five years	115	35%	39	35%
Total unrecognized tax losses	115	35%	39	35%

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings, as such amounts are currently regarded as permanently reinvested. There were no net unremitted earnings at December 31, 2009 (2008: none).

The deferred income tax assets and liabilities and the deferred income tax charges (credits) are attributable to the following items:

Deferred income taxes: movements in recognized net assets (liabilities) in millions of USD

	Property, plant and equipment, and intangible assets	Other temporary differences	Total
Year ended December 31, 2008			
Net deferred income tax asset (liability) at January 1, 2008	(754)	1,505	751
Ventana acquisition ⁶	(494)	112	(382)
Mirus acquisition ⁶	(34)	2	(32)
(Charged) credited to the income statement	(48)	(50)	(98)
(Charged) credited to equity from other comprehensive income ²⁷	-	404	404
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	-	115	115
Other	9	56	65
Net deferred income tax asset (liability) at December 31, 2008	(1,321)	2,144	823
Year ended December 31, 2009			
Net deferred income tax asset (liability) at January 1, 2009	(1,321)	2,144	823
Memory acquisition ⁶	(16)	21	5
(Charged) credited to the income statement	328	1,055	1,383
(Charged) credited to equity from other comprehensive income ²⁷	-	(9)	(9)
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	-	(460)	(460)
Other	(153)	15	(138)
Net deferred income tax asset (liability) at December 31, 2009	(1,162)	2,766	1,604

6. Business combinations

Acquisitions – 2009

Effective January 1, 2009 the RHI Group acquired an 89.6% controlling interest in Memory Pharmaceuticals Corp. ('Memory'), a publicly owned U.S. company based in Montvale, New Jersey, that had been listed on the NASDAQ under the symbol 'MEMY'. Memory develops innovative drug candidates for the treatment of debilitating central nervous system (CNS) disorders such as Alzheimer's disease and schizophrenia. Memory is reported as part of the Pharmaceuticals operating segment. The acquisition will further strengthen the RHI Group's research and development pipeline in areas such as Alzheimer's disease. The purchase consideration was \$45 million, paid in cash.

The purchase consideration has been allocated as follows:

Memory acquisition: net assets acquired in millions of USD

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Intangible assets			
- Product intangibles: not available for use	-	44	44
Deferred income taxes ⁵	1	4	5
Cash	15	-	15
Provisions ²⁴	(3)	-	(3)
Other net assets (liabilities)	(22)	-	(22)
Net identifiable assets (liabilities)	(9)	48	39
Non-controlling interests			(4)
Goodwill			10
Purchase consideration			45

Subsequent to the effective date of the acquisition on January 1, 2009, the RHI Group purchased the remaining shares in Memory held by third parties to give the RHI Group a 100% interest in Memory. The cash consideration was \$5 million, which has been recorded to equity as a change in ownership interest in subsidiaries.

Goodwill represents a control premium and synergies that can be obtained from the RHI Group's existing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of other net assets (liabilities) includes receivables with a fair value of \$1 million which is expected to be fully collectable.

Directly attributable acquisition-related costs of \$1 million were incurred in this acquisition. These are reported within the operating result of the Pharmaceuticals operating segment.

Acquisitions – 2009: impact on results *in millions of USD*

	Revenues from external customers	Inventory fair value adjustment	Amortization of intangible assets	Operating profit	Net income
Impact on reported results					
Memory ^{a)}	-	-	-	(12)	(8)
Estimated impact on results if acquisition assumed effective 1 January 2009					
Memory ^{a)}	-	-	-	(12)	(8)

The above figures exclude directly attributable acquisition-related costs of \$1 million related to the acquisition of Memory by the Pharmaceutical Division. Corresponding tax impacts are also excluded.

a) The above figures exclude integration costs of \$20 million related to Memory. Corresponding tax impacts are also excluded.

Memory Acquisition – 2009: net cash outflow *in millions of USD*

	Cash consideration paid	Cash in acquired company	Net cash outflow
Memory	(45)	15	(30)

The above cash consideration paid does not include the subsequent payment of \$5 million to purchase the remaining shares in Memory held by third parties to give the RHI Group a 100% interest in Memory. This is reported as financing cash flow in the statement of cash flows within the heading 'Change in ownership interest in subsidiaries'.

Acquisitions – 2008

Ventana: Ventana Medical Systems, Inc. ("Ventana") was a publicly owned U.S. company based in Tucson, Arizona that had been listed on the NASDAQ under the symbol 'VMSI'. Prior to February 8, 2008, the RHI Group owned shares in Ventana representing 0.4% of the outstanding shares of Ventana. Effective February 8, 2008 the RHI Group acquired a further 70.5% of the outstanding shares of Ventana and obtained control of Ventana. Ventana develops, manufactures and markets instrument/reagent systems that automate slide preparation and staining in clinical histology and drug discovery laboratories. Ventana's clinical systems are used in the diagnosis and treatment of cancer and infectious diseases and their drug discovery systems are used by pharmaceutical and biotechnology companies to accelerate the discovery of new drug targets and to evaluate the safety of new drug compounds. Ventana is now reported as part of the Diagnostics operating segment. The acquisition of Ventana, a leader in the fast-growing histopathology (tissue-based diagnostics) business segment, will allow the Roche Group to broaden its diagnostic offerings and complement its world leadership in both in-vitro diagnostic systems and oncology therapies.

The purchase consideration was \$2,294 million in cash. This has been allocated as follows:

Ventana acquisition: net assets acquired *in millions of USD*

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	79	7	86
Goodwill	15	(15)	-
Intangible assets			
- Product intangibles: in use	15	727	742
- Product intangibles: not available for use	0	516	516
Inventories	23	31	54
Deferred income taxes ⁵	109	(491)	(382)
Cash	41	-	41
Other net assets (liabilities)	(43)	(15)	(58)
Net identifiable assets	239	760	999
Non-controlling interests			(291)
Goodwill			1,586
Purchase consideration			2,294

Goodwill represents the strategic value to the Roche Group of entering the tissue diagnostics business area. It also represents the premium paid over the traded market price to obtain control of the business. None of the goodwill recognized is expected to be deductible for income tax purposes. The non-controlling interests in Ventana were measured at their proportionate share (29.1%) of Ventana's identifiable net assets.

The fair value of other net assets (liabilities) includes receivables with a fair value of \$106 million. Included within this fair value is an allowance for doubtful trade accounts receivable of \$2 million. Finance lease receivables totaling \$8 million are also included in this total and the gross amount due under these contracts is \$8 million.

Directly attributable acquisition-related costs of \$38 million were incurred in the transaction. These are reported within general and administration expenses in the current period as part of the operating result of the Diagnostics operating segment.

Subsequent to the effective date of the acquisition on February 8, 2008, the RHI Group purchased the remaining shares in Ventana held by third parties to give the RHI Group a 100% interest in Ventana. The cash consideration was \$1,170 million, which has been recorded to equity as a change in ownership interest in subsidiaries.

Mirus acquisition: Effective September 30, 2008 the Group acquired a 100% controlling interest in Mirus Bio Corporation ('Mirus'), a privately owned US biotechnology company based in Madison, Wisconsin. Mirus (now renamed Roche Madison Inc.) focuses on the discovery and development of innovative nucleic acid based technologies, including a proprietary RNAi (ribonucleic acid interference) delivery platform. Mirus is reported as part of the Pharmaceuticals operating segment. The acquisition will further strengthen the Group's research and development pipeline in RNAi therapeutics, which provides the capabilities to target complex diseases such as cancer, respiratory or metabolic disorders. The purchase consideration was \$125 million, paid in cash.

The combined purchase consideration for the acquisition of Mirus has been allocated as shown below.

Mirus acquisition: net assets acquired *in millions of USD*

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	-	-	-
Intangible assets			
- Product intangibles: not available for use	-	-	-
- Technology intangibles: in use	-	84	84
Deferred income taxes ⁵	-	(32)	(32)
Cash	5	-	5
Other net assets (liabilities)	-	-	-
Net identifiable assets	5	52	57
Goodwill			68
Purchase consideration			125

Goodwill represents a control premium and synergies that can be obtained from the Group's existing business. None of the goodwill recognized is expected to be deductible for income tax purposes.

Acquisitions – 2008: net cash outflow *in millions of USD*

	Cash consideration paid	Cash in acquired company	Net cash outflow
Ventana	(2,294)	41	(2,253)
Mirus	(125)	5	(120)
Total	(2,419)	46	(2,373)

The above cash consideration paid for Ventana does not include the subsequent payment of \$1,170 million to purchase the remaining shares in Ventana held by third parties to give the RHI Group a 100% interest in Ventana. This is reported as financing cash flow in the statement of cash flows within the heading 'Change in ownership in subsidiaries'.

7. Changes in RHI Group organization

As described in Note 3, on July 21, 2008 the Group announced an offer to purchase all outstanding shares of Genentech. Following the closing of a transaction, Genentech's South San Francisco site would become the headquarters of the Group's combined pharmaceuticals operations in the United States. On July 21, 2008 the Group also announced that the Roche Pharmaceuticals business in the U.S. would close manufacturing operations at its site in Nutley, New Jersey, and commercial operations would be moved to Genentech. The research site at Palo Alto, California, would be closed with the research activities being transferred to Nutley and to Genentech. Subsequent to these announcements, initial restructuring activities started at the Nutley and Palo Alto sites in 2008.

The Genentech transaction was completed effective March 26, 2009. Following this the Pharmaceuticals Division initiated a detailed integration program to align the Genentech business and the rest of the Roche's pharmaceuticals business. Genentech's South San Francisco site is being established as the headquarters of the pharmaceuticals business in the U.S., including commercial operations for the U.S. market. Genentech Research and Early Development is being set up as an autonomous unit while Genentech's late-stage development activities are being integrated with the global Pharmaceuticals Division network. The integration program includes prioritizing projects within the shared portfolio and eliminating activities that are either duplicated or no longer required, notably in the administration function.

Following the completion of the transaction, the Pharmaceuticals Division carried out a detailed reassessment of its global manufacturing network, with particular emphasis on its biotech manufacturing facilities. As a result several manufacturing facilities and construction projects are being discontinued, notably a bulk drug production unit on part of the site at Vacaville in California.

The RHI Group currently anticipates that these restructuring activities will be substantially completed by the end of 2010. The carrying value of property, plant and equipment was reduced by \$0.9 billion by the end of 2009, and is anticipated to be reduced by approximately \$1.1 billion in total by the end of 2010, mostly relating to manufacturing facilities.

Significant costs were incurred as described below. These are disclosed separately in the income statement due to the materiality of the amounts and in order to fairly present the RHI Group's results. Costs of other restructuring programs that are less material and do not fundamentally change the RHI Group's organization are expensed in the current period and reported within the respective functional expense.

Changes in RHI Group organization *in millions of USD*

	2009	2008
Employee-related costs		
- Termination costs	179	91
- Pensions and other post-employment benefits	(30)	(11)
- Genentech Employee Retention Program expenses	-	87
- Genentech stock options: accelerated vesting expenses	209	-
- Other retention plans and other employee benefits	37	14
- Other employee-related costs	88	6
Total employee-related costs	483	187
Site closure costs		
- Impairment of property, plant and equipment	839	9
- Accelerated depreciation of property, plant and equipment	63	25
- Other site closure costs	151	4
Total site closure costs	1,053	38
Impairment of intangible assets	214	-
Other reorganization expenses	100	-
Total	1,850	225

The total income tax benefit recorded in respect of changes in RHI Group organization was \$806 million (see Note 5).

Genentech Employee Retention Program: On August 18, 2008 Genentech announced a broad-based employee retention program, consisting of two retention plans that together cover substantially all employees of the company. The program was estimated to cost approximately \$375 million payable in cash and has been implemented in lieu of Genentech's 2008 annual stock option grant. Total expenses for the retention program in 2009 were \$177 million (2008: \$135 million). If Genentech had granted an annual stock option award, as in previous years, with the same total value as the retention program then the costs would have been expensed over the four-year vesting period and the amount expensed in 2009 would have been approximately \$177 million (2008: \$48 million). Accordingly the additional incremental costs incurred for the retention plan are reported as part of changes in the RHI Group organization, since these are directly attributable to the Genentech transaction.

Genentech Employee Retention Program expenses *in millions of USD*

	2009	2008
Cost of sales	9	-
Marketing and distribution	44	13
Research and development	85	24
General and administration	39	11
Total included in operating profit before exceptional items	177	48
Changes in RHI Group organization	-	87
Total Genentech Employee Retention Program expenses	177	135

Genentech stock options: As part of the merger agreement of March 12, 2009 between Roche and Genentech, upon the successful completion of the tender offer on March 26, 2009, the remaining outstanding Genentech employee stock options were fully redeemed for cash. For accounting purposes the remaining fair value was expensed for the options that were not fully vested at that time.

Genentech stock options: accelerated vesting expenses *in millions of USD*

	2009	2008
Genentech Stock Option Plan	192	-
Genentech Employee Stock Purchase Program	17	-
Total Genentech stock options: accelerated vesting expenses	209	-

8. Employee benefits

Employee remuneration *in millions of USD*

	2009	2008
Wages and salaries	3,208	3,046
Social security costs	190	206
Defined contribution post-employment plans	165	132
Operating expenses for defined benefit post-employment plans ⁹	68	85
Equity compensation plans ¹⁰	227	393
Changes in RHI Group organization		
- Genentech Employee Retention Program ⁷	177	135
- Genentech stock options accelerated vesting expenses ⁷	209	-
- Termination costs ⁷	179	91
Other employee benefits	333	312
Employees' remuneration included in operating results	4,756	4,400
Expected return on plan assets for defined benefit post-employment plans ⁹	(184)	(260)
Interest cost for defined benefit post-employment plans ⁹	217	214
Total employees' remuneration	4,789	4,354

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. The charges for employee benefits in the operating results are included in the relevant expenditure line by function. The expected return on plan assets and interest costs from defined benefit plans are included as part of financial income and financing costs, respectively (see Note 4).

9. Pensions and other post-employment benefits

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 pension plans sponsored by RHI Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and economic conditions of the countries in which the employees are employed. Other post-employment benefits consist mostly of post-retirement healthcare and life insurance schemes. 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', even if RHI's potential obligation is relatively minor or has a relatively remote possibility of arising. Consequently most of RHI's post-employment benefit plans are classified as 'defined benefit plans' for the purpose of these financial statements.

Defined contribution plans

Defined contribution plans typically consist of payments by employees and by the RHI Group to funds administered by third parties. Payments by the RHI Group were \$165 million (2008: \$132 million). No assets or liabilities are recognized 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.

Defined benefit plans

RHI's plans are usually established as trusts independent of the RHI Group and are funded by payments from the RHI Group 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.

Current and past service costs are charged to the appropriate income statement heading within the operating results. Pension plan administration and funding is overseen at a Roche Group corporate level, and any settlement gains and losses resulting from changes in funding arrangements are reported as general and administration expenses within the Corporate segment. The expected returns on plan assets and interest costs are charged to financial income and financing costs, respectively. Actuarial gains and losses are recorded directly in equity. The recognition of pension assets is limited to the total of the present value of any future refunds from the plans or reductions in future

contributions to the plans and any cumulative unrecognized past service costs. Adjustments arising from the limit on the recognition of assets for defined benefit plans are recorded directly in equity.

Defined benefit plans: expenses *in millions of USD*

	2009			2008		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
Current service cost	82	16	98	82	15	97
Past service cost	5	7	12	3	7	10
(Gain) loss on curtailments	(41)	(1)	(42)	(19)	(3)	(22)
(Gain) loss on settlement	-	-	-	-	-	-
Total operating expenses	46	22	68	66	19	85
Expected return on plan assets	(155)	(29)	(184)	(222)	(38)	(260)
Interest cost	164	53	217	163	51	214
Total financial (income) expense	9	24	33	(59)	13	(46)
Total expense recognized in income statement	55	46	101	7	32	39

The funding of RHI's various defined benefit plans is overseen at a Roche Group corporate level. Qualified independent actuaries carry out valuations on a regular basis and for major plans annually as at the balance sheet date. For funded plans, which are usually trusts independent of the Roche Group's finances, the net asset/liability recognized on RHI's balance sheet corresponds to the over/under funding of the plan, adjusted for unrecognized past service costs. For unfunded plans, where the RHI Group meets the pension obligations directly from its own financial resources, a liability for the defined benefit obligation is recorded in RHI's balance sheet. 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. Amounts recognized in the balance sheet for post-employment benefits are predominantly non-current and are reported in non-current assets and liabilities.

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

	2009			2008		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Fair value of plan assets	2,641	-	2,641	2,259	-	2,259
Defined benefit obligation	(3,590)	(391)	(3,981)	(3,276)	(315)	(3,591)
Over (under) funding	(949)	(391)	(1,340)	(1,017)	(315)	(1,332)
Unrecognized past service costs	-	-	-	-	-	-
Reimbursement rights	101	15	116	72	12	84
Net recognized asset (liability)	(848)	(376)	(1,224)	(945)	(303)	(1,248)
Reported as						
- Defined benefit plans	-	-	-	-	-	-
- Reimbursement rights	101	15	116	72	12	84
Post-employment benefit assets	101	15	116	72	12	84
Post-employment benefit liabilities	(949)	(391)	(1,340)	(1,017)	(315)	(1,332)
Net recognized asset (liability)	(848)	(376)	(1,224)	(945)	(303)	(1,248)

Further detailed information on plan assets and the defined benefit obligation is given below.

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

	2009			2008		
	Fair value of plan assets	Reimbursement rights	Total	Fair value of plan assets	Reimbursement rights	Total
At January 1	2,259	84	2,343	3,107	102	3,209
Expected return on plan assets	178	6	184	253	7	260
Actuarial gains (losses)	213	31	244	(990)	(20)	(1,010)
Employer contributions	155	(5)	150	45	(6)	39
Employee contributions	-	-	-	-	-	-
Benefits paid - funded plans	(164)	-	(164)	(156)	-	(156)
Past service cost	-	-	-	-	-	-
Curtailments	-	-	-	-	-	-
Settlements	-	-	-	-	-	-
Other	-	-	-	-	1	1
At December 31	2,641	116	2,757	2,259	84	2,343
Invested as			2009			2008
- Shares and other equity instruments			1,724			1,437
- Bonds, debentures and other debt instruments			688			628
- Property			229			194
- Other assets			116			84
Total			2,757			2,343

Defined benefit plans: defined benefit obligation *in millions of USD*

	2009			2008		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At January 1	2,749	842	3,591	2,656	861	3,517
Current service cost	82	16	98	82	15	97
Interest cost	164	53	217	163	51	214
Employee contributions	-	-	-	-	-	-
Actuarial (gains) losses	128	159	287	(11)	(43)	(54)
Benefits paid - funded plans	(121)	(43)	(164)	(118)	(38)	(156)
Benefits paid - unfunded plans	(8)	(10)	(18)	(7)	(8)	(15)
Past service cost	5	7	12	3	7	10
Curtailments	(41)	(1)	(42)	(19)	(3)	(22)
Settlements	-	-	-	-	-	-
Other	-	-	-	-	-	-
At December 31	2,958	1,023	3,981	2,749	842	3,591
Of which						
- Funded plans	2,803	787	3,590	2,618	658	3,276
- Unfunded plans	155	236	391	131	184	315

Actuarial assumptions

Actuarial assumptions 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 and 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 salary and benefit levels, interest rates, return on investments and costs of medical benefits. The RHI Group operates defined benefit plans in many countries and the actuarial assumptions vary based upon local economic and social conditions.

Demographic assumptions: The most significant demographic assumptions relate to mortality rates. The Roche Group's actuaries use mortality tables which take into account historic patterns and expected changes, such as further increases in longevity. The mortality table used for the U.S. was RP2000 projected to 2010.

Rates of employee turnover, disability and early retirement are based on historical behavior within RHI Group companies.

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

Defined benefit plans: financial actuarial assumptions

	2009		2008	
	Weighted average	Range	Weighted average	Range
Discount rates	5.79%	5.79%	6.12%	6.12%
Expected rates of return on plan assets	7.93%	7.50%-8.00%	8.33%	7.50%-8.50%
Expected rates of salary increases	6.21%	4.50%-6.53%	6.22%	4.50%-6.53%
Medical cost trend rate	8.20%	8.20%	8.78%	8.00%-8.80%

Discount rates, which are used to calculate the discounted present value of the defined benefit obligation, are determined with reference to market yields on high quality corporate bonds, or government bonds in countries where there is not a deep market in corporate bonds. The currency and term of the bonds is consistent with the obligation being discounted. The interest cost included in the income statement is calculated by multiplying the discount rate by the defined benefit obligation.

Expected returns on plan assets are based on market expectations of expected returns on the assets in funded plans over the duration of the related obligation. This takes into account the split of the plan assets between equities, bonds, property and other investments. The calculation includes assumptions concerning expected dividend and interest income, realized and unrealized gains on plan assets and taxes and administration costs borne by the plan. These are based on long-term market expectations and the actual performance is continually monitored by Roche Group corporate management. Due to the long-term nature of the obligations, the assumptions used for matters such as returns on investments may not necessarily be consistent with recent historical patterns. The expected return on plan assets included in the income statement is calculated by multiplying the expected rate of return by the fair value of plan assets. The difference between the expected return and the actual return in any twelve month period is an actuarial gain/loss and is recorded directly to equity. The actual return on plan assets was a gain of \$391 million (2008 loss of \$737 million).

Expected rates of salary increases, which are used to calculate the defined benefit obligation and the current service cost included in the income statement, are based on the latest expectation and historical behavior within RHI Group companies.

Medical cost trend rates are used to calculate the defined benefit obligation and the current service cost included in the income statement of post-employment medical plans. These take into account the benefits set out in the plan terms and expected future changes in medical costs. The effect of one percentage point increase or decrease in the medical cost trend rate is shown below.

Defined benefit plans: sensitivity of medical cost trend rate *in millions of USD*

	2009		2008	
	+1%	-1%	+1%	-1%
Current service cost and interest cost	7	(6)	7	(7)
Defined benefit obligation	105	(88)	79	(68)

Funding summary

A five-year summary of the funding status of RHI's defined benefit plans is shown in the table below.

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

	2009	2008	2007	2006	2005
Funded plans					
- Fair value of plan assets	2,641	2,259	3,107	2,890	2,564
- Defined benefit obligation	(3,590)	(3,276)	(3,169)	(3,115)	(3,044)
- Over (under) funding	(949)	(1,017)	(62)	(225)	(480)
Unfunded plans					
- Defined benefit obligation	(391)	(315)	(348)	(352)	(311)
Increase (decrease) in funding status arising from experience adjustments					
- Fair value of plan assets	213	(990)	67	201	148
- Defined benefit obligation	7	63	(86)	(84)	31
Increase (decrease) in funding status arising from changes in actuarial assumptions					
- Fair value of plan assets	-	-	-	-	-
- Defined benefit obligation	(294)	(9)	158	92	(157)

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*

	2009	2008
Employer contributions – funded plans	(150)	(39)
Benefits paid – unfunded plans	(18)	(15)
Total cash inflow (outflow)	(168)	(54)

Based on the most recent actuarial valuations, the RHI Group expects that employer contributions for unfunded plans in 2010 will be approximately \$25 million,

Amounts recorded in equity

The actuarial gains and losses recognized in the statement of comprehensive income were losses of \$43 million (2008: losses of \$956 million), pre-tax. The total amount at December 31, 2009 was an accumulated loss of \$626 million (2008: accumulated loss of \$583 million).

10. Employee stock options and other equity compensation benefits

The Roche Group operates several equity compensation plans, including separate plans at Genentech (prior to the Genentech transaction). Effective January 1, 2005 RHI adopted IFRS 2: 'Share-based Payment'. Amongst other matters, the standard 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. The expense is charged against the appropriate income statement heading.

Expenses for equity compensation plans *in millions of USD*

	2009	2008
Cost of sales	74	62
Marketing and distribution	53	91
Research and development	57	159
General and administration	43	81
Total operating expenses	227	393
Changes in RHI Group organization ⁷	209	-
Total operating expenses	436	393
Share option plans		
Genentech Stock Option Plan	296	310
Other equity compensation plans		
Genentech Employee Stock Purchase Program	34	31
Roche Stock-settled Stock Appreciation Rights	82	61
Restricted Stock Unit Plan	14	-
Roche Performance Share Plan	2	2
Roche Stock Appreciation Rights	8	(11)
Total other equity compensation plans	140	83
Total operating expenses	436	393
of which		
- Equity-settled	428	404
- Cash-settled	8	(11)

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

	2009	2008
Genentech equity compensation plans		
Genentech Stock Option Plan	74	573
Genentech Employee Stock Purchase Program	25	107
Total cash inflow from Genentech equity compensation plans	99	680
Cash outflow from Genentech share repurchases ³	-	(780)
Other equity-settled plans		
Recharges and prepayments to related parties for other equity compensation plans	(178)	(27)
Cash-settled plans		
- reported in statement of cash flows as part of movements in net working capital (accrued liabilities)		
Roche Stock Appreciation Rights	(15)	(32)

In addition to the above cash flows, upon the completion of the Genentech transaction the remaining outstanding Genentech employee stock options were fully redeemed for cash. The resulting cash outflow was \$2,412 million, which was reported as a change in ownership interest in subsidiaries (see Note 3).

Roche Long-Term: During 2005 the Roche Group implemented a new global long-term incentive program which is available to certain directors, management and employees selected at the discretion of the Roche Group. The program consists of Stock-settled Stock Appreciation Rights (S-SARs). In 2009, following the integration of Genentech, the Group also established a Restricted Stock Units (RSUs) plan. The first awards of this plan were made in September 2009 to employees at Genentech. The S-SARs are issued in accordance with the Roche S-SAR Plan (the Regulations of January 1, 2005 including amendments effective as of January 1, 2007 and the addenda, including the Roche S-SAR Plan's 2009 Addendum United States as of September 1, 2009). The Remuneration Committee determines the number of non-voting equity securities (Genussscheine) that will be available under the plan each year. The above regulations collectively provide that 60 million non-voting equity securities (Genussscheine) will be available for issuance under the Roche S-SAR Plan over a ten-year period. The RSUs are issued in accordance with the Roche Restricted Stock Unit Plan (the Regulations effective September 1, 2009), under which 10 million non-voting equity securities

(Genussscheine) will be available for issuance over a ten-year period. Further details of both plans are given in the relevant sections below.

Share option plans

Genentech Stock Option Plan: The Genentech Stock Option Plan was adopted in 1999 and amended thereafter. In April 2004 Genentech's shareholders approved an equity incentive plan. The plans allow for the granting of various stock options, incentive stock options and stock purchase rights to employees, directors and consultants of Genentech. No incentive stock options and stock purchase rights have been granted under this plan to date. The options granted, which are non-tradable equity-settled awards, had a duration of 10 years and vested on a phased basis over four years, subject to continued employment. Upon the completion of the Genentech transaction (see Notes 3 and 7) the remaining outstanding options were fully redeemed for cash. For accounting purposes the remaining fair value was expensed for the options that were not fully vested at that time, as described in Note 7.

Genentech Stock Option Plan - movement in number of options outstanding

	Number of options (millions)	2009 Weighted average exercise price (USD)	Number of options (millions)	2008 Weighted average exercise price (USD)
Outstanding at January 1	77	63.06	92	60.94
Granted	-	-	1	79.23
Forfeited	-	-	(3)	80.52
Exercised	(1)	52.66	(13)	44.83
Expired	-	-	-	-
Genentech transaction ³	(76)	63.14	-	-
Outstanding at December 31	-	-	77	63.06
- of which exercisable	-	-	56	56.51

Other equity compensation plans

Genentech Employee Stock Purchase Program (ESPP): Genentech had an employee stock purchase program that allowed employees to purchase Genentech's common stock at 85% of the lower of market value at the grant date or purchase date. In 2009 a total of 0.4 million shares of Genentech common stock were purchased (2008: 1.8 million shares) resulting in a cash inflow of \$25 million (2008: \$107 million). During the year the cost of the plan was \$34 million (2008: \$31 million), which was reported within the relevant expenditure line by function. Upon the completion of the Genentech transaction (see Notes 3 and 7) the remaining outstanding awards were fully redeemed for cash. For accounting purposes the remaining fair value was expensed for the awards that were not fully vested at that time, as described in Note 7.

Roche Stock-settled Stock Appreciation Rights: With the introduction of Roche Long-Term in 2005, the Roche Group offers 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 (Genussscheine) 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 rights, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years, subject to continued employment.

Roche S-SARs - movement in number of rights outstanding

	Number of rights (thousands)	2009 Weighted average exercise price (CHF)	Number of rights (thousands)	2008 Weighted average exercise price (CHF)
Outstanding at January 1	7,376	191.33	4,681	185.14
Granted	11,223	158.75	3,579	193.18
Forfeited	(622)	190.79	(345)	207.42
Exercised	(333)	131.97	(454)	133.07
Expired	-	-	-	-
Transfer of expatriate employees	68	184.25	(85)	173.61
Outstanding at December 31	17,712	171.80	7,376	191.33
- of which exercisable	4,293	187.50	2,408	171.52

Roche S-SARs – terms of rights outstanding at December 31, 2009

Year of grant	Number outstanding (thousands)	Rights outstanding		Rights exercisable	
		Weighted average years remaining contractual life	Weighted average exercise price (CHF)	Number exercisable (thousands)	Weighted average exercise price (CHF)
2005	865	2.17	123.63	865	123.63
2006	1,192	3.17	195.14	1,192	195.14
2007	1,481	4.18	229.35	1,008	229.33
2008	3,229	5.12	193.14	1,161	193.34
2009	10,945	6.55	158.98	67	145.48
Total	17,712	5.65	171.80	4,293	187.50

The weighted average fair value of the rights granted in 2009 was calculated using a binomial model. The resulting weighted average fair value per right is CHF 17.73, giving a total fair value of 199 million Swiss francs which is charged over the vesting period of three years.

Roche Restricted Stock Unit Plan: For the first time in September 2009 the Roche Group issued Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Roche Group. These first awards were made only to employees at Genentech. The RSUs, which are non-tradable, represent the right to receive non-voting equity securities (*Genussscheine*) which vest only after a three year period. The weighted average fair value of the awards granted in 2009 was 147.22 CHF calculated on the basis of the market value of Roche non-voting equity securities at the date of issue, discounted to take into account that the awards would not accrue for any dividends during the vesting period.

Roche RSUs - movement in number of awards outstanding

	2009 Number of awards (thousands)
Outstanding at January 1	-
Granted	1,257
Forfeited	(10)
Transferred to participants	-
Outstanding at December 31	1,247
- of which exercisable	-

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. The program was established at the beginning of 2002 and currently operates in annual three-year cycles. The terms of the currently outstanding awards are set out in the table below. 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. These are non-

tradable equity-settled awards. Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets.

Roche Performance Share Plan – terms of outstanding awards at December 31, 2009

	2007-2009	2008-2010	2009-2011
Number of awards (thousands)	9	14	20
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2010	Feb. 2011	Feb. 2012
Fair value per unit (CHF)	239.49	201.22	156.06

The weighted average fair value of the awards granted in 2009 was calculated using a Monte Carlo simulation. The input parameters to the model were the covariance matrix between Roche and the other individual companies of the peer group based on a three-year history and a risk-free rate of 1.44%. The valuation also takes into account the defined rank and performance structure which determines the payout of the PSP.

Roche Stock Appreciation Rights: Some employees of the RHI Group receive Stock Appreciation Rights (SARs) as part of their compensation. The SARs, which are non-tradable cash-settled awards, may be exercised after a vesting period of between one and three years for a cash payment, based upon the amount by which the market price of the Roche Group's American Depositary Receipts (ADRs) at the point of exercise exceeds the strike price (grant price at issuance). Following the implementation of Roche Long-Term (see above), the Roche Group does not plan to award any further cash-settled SARs and no awards have been made since 2004. On January 9, 2009 the ratio of ADRs to Roche Holding Ltd. non-voting equity securities (*Genussscheine*) was changed from 2:1 to 4:1. The information below has been restated for this change.

Roche Stock Appreciation Rights *in millions of USD*

	2009	2008
Liability at December 31	32	40
Intrinsic value of vested rights at December 31	32	40

Roche Stock Appreciation Rights- terms of rights outstanding at December 31, 2009

Year of grant	Number outstanding and exercisable (thousands)	Rights outstanding and exercisable	
		Expiry	Weighted average exercise price (USD)
2003	338	Feb. 25, 2010	14.41
2004	1,398	Feb. 03, 2011	26.04
Total	1,736		23.78

The fair value at December 31, 2009 was calculated using a binomial model. The inputs to the model were the ADR price at December 31, 2009 (\$42.20), the exercise prices given in the above table, and other inputs consistent with those used for the Roche S-SAR awards 2009 given in the table below.

Issues of share options/rights in 2009: Issues of share options/rights in 2009, including the methodology used to calculate fair value and the main inputs to the valuation models, are described below.

Issues of equity compensation plans in 2009

	Genentech Stock Option Plan	Roche S-SAR
Number of options/rights granted	0.2 million	11,223 thousand
Underlying equity	Genentech common stock	Roche non-voting equity securities
Currency	US dollars	Swiss francs
Vesting period	Progressively over 4 years	Progressively over 3 years
Contractual life	10 years	7 years
Weighted average fair value of options/rights issued	22.68	17.73
Option pricing model used	Binomial	Binomial
Inputs to option pricing model		
- Share price at grant date	85.36	158.75
- Exercise price	85.36	158.75
- Expected volatility	25%	25%
- Expected dividend yield	0%	6.5%
- Early exercise factor	1.484	1.309
- Expected exit rate	8.6	7.5%

Volatility for Roche S-SAR was determined primarily by reference to historically observed prices of the underlying equity. Volatility for Genentech options was determined primarily by reference to the implied volatility of Genentech's traded options. Risk-free interest rates are derived from zero coupon swap rates at the grant date taken from Datastream. 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 behavior.

11. 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, 2008					
Cost	481	3,747	4,193	1,841	10,262
Accumulated depreciation and impairment	-	(843)	(2,401)	-	(3,244)
Net book value	481	2,904	1,792	1,841	7,018
Year ended December 31, 2008					
At January 1, 2008	481	2,904	1,792	1,841	7,018
Additions	10	67	131	917	1,125
Disposals	-	(3)	(20)	(10)	(33)
Ventana acquisition ⁶	14	22	23	27	86
Transfers	-	1,225	576	(1,801)	-
Depreciation charge	-	(267)	(297)	-	(564)
Impairment charge	-	(9)	(8)	-	(17)
At December 31, 2008	505	3,939	2,197	974	7,615
Cost	505	5,054	4,799	974	11,332
Accumulated depreciation and impairment	-	(1,115)	(2,602)	-	(3,717)
Net book value	505	3,939	2,197	974	7,615
Year ended December 31, 2009					
At January 1, 2009	505	3,939	2,197	974	7,615
Additions	-	28	249	521	798
Disposals	-	(13)	(19)	(43)	(75)
Divestment of subsidiary ³³	-	(58)	(117)	(315)	(490)
Transfers	-	479	306	(785)	-
Depreciation charge	-	(267)	(461)	-	(728)
Impairment charge	-	(568)	(289)	(4)	(861)
Other	-	(1)	-	16	15
At December 31, 2009	505	3,539	1,866	364	6,274
Cost	505	5,484	4,939	368	11,296
Accumulated depreciation and impairment	-	(1,945)	(3,073)	(4)	(5,022)
Net book value	505	3,539	1,866	364	6,274

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 changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition and technical obsolescence could result in shortened useful lives or impairment. Impairment charges of \$25 million (2008: \$8 million) were reported as part of 'Cost of sales', impairment reversals of \$3 million (2008: zero) were reported in 'Research and development' and impairment charges of \$839 million (2008: \$9 million) were reported as part of 'Changes in RHI Group organization' (see Note 7). The major part of the impairment reported in 'Changes in RHI Group organization' relates to the discontinuation of a bulk drug production unit on part of the site at Vacaville in California, which was fully written-down.

Borrowing costs totaling \$8 million using a rate of 4.79% (2008: \$38 million using a rate of 4.79%) were capitalized as property, plant and equipment.

Leasing arrangements where the RHI Group is the lessee

Finance leases: As at December 31, 2009 Genentech had leasing arrangements which are described below. There was no other capitalized cost of property, plant and equipment under finance leases (2008: none).

Genentech leasing arrangements: In December 2004 Genentech entered into a Master Lease Agreement with Slough SSF, LLC, which was subsequently acquired by Health Care Properties ('HCP'), for the development of property adjacent to Genentech's South San Francisco site. The development includes a total of eight buildings, which are subject to separate agreements as contemplated by the Master Lease Agreement. HCP as the developer will construct the building shell for each building and Genentech will finish the interior of each building as laboratory or office space, as applicable. The construction of the first buildings was completed in 2006, at which point the lease term for those buildings was deemed to begin. Construction of the final buildings was completed during 2008. The lease term expires twelve years from the occupation of the final building. Genentech has two five-year renewal options for each building and has an option to purchase the various buildings at different dates between 2016 and 2020. Genentech also has a right of first refusal with respect to each building or the entire development should HCP consider selling part or all of the development.

As at December 31, 2009 the total carrying value of property, plant and equipment from this agreement was \$205 million (2008: \$226 million) and the carrying value of the leasing obligation was \$264 million (2008: \$274 million). Estimates of the total future minimum lease payments anticipated by the entire Master Lease Agreement are shown below.

Estimated total future minimum lease payments under HCP leases *in millions of USD*

	Principal	Ground lease	Interest	Total minimum lease payments
Within one year	13	8	16	37
Between one and five years	73	33	56	162
More than five years	174	48	35	257
Total	260	89	107	456

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 \$87 million (2008: \$86 million).

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

	2009	2008
Within one year	67	59
Between one and five years	155	114
More than five years	91	73
Total minimum payments	313	246

Leasing arrangements where the RHI Group is the lessor

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

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

	Gross investment in lease		Present value of future minimum lease payments	
	2009	2008	2009	2008
Within one year	17	17	15	13
Between one and five years	35	23	31	19
More than five years	-	-	-	-
Total	52	40	46	32
Unearned finance income	(4)	(4)	n/a	n/a
Unguaranteed residual value	n/a	n/a	2	4
Net investment in lease	48	36	48	36

The accumulated allowance for uncollectible minimum lease payments was \$2 million (2008: \$1 million). There were no contingent rents recognized in income.

Operating leases: Certain assets, mainly some 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 recognized over the lease term on a straight line basis.

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

	2009	2008
Within one year	68	60
Between one and five years	147	132
More than five years	2	-
Total minimum payments	217	192

At December 31, 2009, machinery and equipment with an original cost of \$300 million (2008: \$220 million) and a net book value of \$171 million (2008: \$121 million) was being leased to third parties. There was no contingent rent recognized as income.

Capital commitments

The RHI Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totaling \$140 million (2008: \$1,393 million).

12. Goodwill

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

	2009	2008
At January 1	4,096	2,442
Ventana acquisition ⁶	-	1,586
Mirus acquisition ⁶	-	68
Memory acquisition ⁶	10	-
IGEN capital contribution ²⁷	1,431	-
Impairment charge	-	-
At December 31	5,537	4,096
Allocated to the following cash-generating units		
Pharmaceuticals Division		
- Roche Pharmaceuticals	1,780	1,770
Total Pharmaceuticals Division	1,780	1,770
Diagnostics Division		
- Diabetes Care	2	2
- Professional Diagnostics	1,465	34
- Molecular Diagnostics	-	-
- Applied Science	233	233
- Tissue Diagnostics	755	755
- Strategic goodwill (held at divisional level and not allocated to business areas)	1,302	1,302
Total Diagnostics Division	3,757	2,326
Total RHI Group	5,537	4,096

There are no accumulated impairment losses in goodwill.

Goodwill impairment testing

Pharmaceuticals Division: The division's sub-divisions are the cash-generating units used for the testing of goodwill. For Roche Pharmaceuticals, the recoverable amount used in the impairment testing is based on value in use. The cash flow projections used are based on the most recent business plans approved by management. These assume no significant changes in the organization of the division and include management's latest estimates on sales volume and pricing, and production and other operating costs. These reflect past experience and are projected over five years. The cash flow projections used do not extend beyond management's most recent business plans. The discount rate used is based on a rate of 7.7%, which is derived from a capital asset pricing model using data from Swiss capital markets,

including Swiss Federal Government ten-year bonds and the Swiss Market Index. Cost of debt is calculated based on the weighted average effective interest rate of the bonds and notes issued. A weighted average tax rate of 25.5% is used in the calculations. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

Diagnostics Division: The division's business areas are the cash-generating units used for the testing of goodwill. The goodwill arising from the Corange/Boehringer Mannheim acquisition and part of the goodwill from the Ventana acquisition is recorded and monitored at a divisional level as it relates to the strategic development of the whole division and cannot be meaningfully allocated to the division's business areas. Therefore the cash-generating unit for this goodwill is the entire division. The recoverable amount used in the impairment testing is based on value in use. The cash flow projections used are based on the most recent business plans approved by management. These assume no significant changes in the organization of the division and include management's latest estimates on sales volume and pricing, and production and other operating costs. These reflect past experience and are projected over five years. The estimates for the Tissue Diagnostics business area are projected over ten years, which management believes reflects the long-term nature of this business. The cash flow projections used do not extend beyond management's most recent business plans. The discount rate used is based on a rate of 7.7%, which is derived from a capital asset pricing model using data from Swiss capital markets, including Swiss Federal Government ten-year bonds and the Swiss Market Index. Cost of debt is calculated based on the weighted average effective interest rate of the bonds and notes issued. A weighted average tax rate of 25.5% is used in the calculations. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

13. 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, 2008					
Cost	3,772	660	-	571	5,003
Accumulated amortization and impairment	(2,542)	-	-	(507)	(3,049)
Net book value	1,230	660	-	64	1,954
Year ended December 31, 2008					
At January 1, 2008	1,230	660	-	64	1,954
Ventana acquisition ⁶	742	516	-	-	1,258
Mirus acquisition ⁶	-	-	-	84	84
Additions	43	432	-	-	475
Disposals	(25)	(58)	-	-	(83)
Amortization charge	(278)	-	-	(27)	(305)
Impairment charge	-	(39)	-	-	(39)
At December 31, 2008	1,712	1,511	-	121	3,344
Cost	4,534	1,540	-	655	6,729
Accumulated amortization and impairment	(2,822)	(29)	-	(534)	(3,385)
Net book value	1,712	1,511	-	121	3,344
Allocation by operating segment					
- Roche Pharmaceuticals	6	447	-	88	541
- Genentech	732	544	-	10	1,286
- Diagnostics	974	520	-	23	1,517
Total RHI Group	1,712	1,511	-	121	3,344
Year ended December 31, 2009					
At January 1, 2009	1,712	1,511	-	121	3,344
Memory acquisition ⁶	-	44	-	-	44
IGEN capital contribution ²⁷	444	-	-	-	444
Additions	6	146	-	12	164
Disposals	-	(73)	-	(50)	(123)
Amortization charge	(286)	-	-	(18)	(304)
Impairment charge	(169)	(267)	-	(27)	(463)
At December 31, 2009	1,707	1,361	-	38	3,106
Cost	4,962	1,644	-	616	7,222
Accumulated amortization and impairment	(3,255)	(283)	-	(578)	(4,116)
Net book value	1,707	1,361	-	38	3,106
Allocation by operating segment					
- Pharmaceuticals	484	841	-	38	1,363
- Diagnostics	1,223	520	-	-	1,743
Total RHI Group	1,707	1,361	-	38	3,106

Significant intangible assets as at December 31, 2009 *in millions of USD*

	Operating segment	Net book value	Remaining amortization period
Product intangibles in use			
Tanox acquisition	Pharmaceuticals	407	10 years
Ventana acquisition	Diagnostics	600	8 years
IGEN capital contribution ²⁷	Diagnostics	320	7 years
Product intangibles not available for use			
Ventana acquisition	Diagnostics	516	n/a

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

	2009		2008	
	Amortization	Impairment	Amortization	Impairment
Cost of sales				
- Pharmaceuticals	105	-	166	-
- Diagnostics	179	15	112	-
Marketing and distribution				
- Diagnostics	-	-	-	-
Research and development				
- Pharmaceuticals	18	213	24	39
- Diagnostics	2	21	3	-
Changes in RHI Group organization				
- Pharmaceuticals	-	214		
Total	304	463	305	39

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.

Impairment of intangible assets

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 capitalized rights could result in shortened useful lives or impairment.

2009: In 2009 the Pharmaceuticals operating segment recorded an impairment charge of \$427 million and the Diagnostics operating segment recorded an impairment charge of \$36 million.

In the Pharmaceuticals operating segment an impairment charge of \$214 million was recorded related to the Pharmaceuticals Division reorganization (see Note 7). The integration program includes prioritizing projects within the shared portfolio. The assets concerned were fully written down by these charges. An impairment charge of \$207 million was recorded in respect of product intangibles not available for use and follows from recent clinical data and portfolio prioritization decisions relating to certain projects either with alliance partners or acquired from business combinations. The assets concerned, which were not yet being amortized, were written down to their recoverable amount of \$127 million, based on a value in use calculation using a discount rate of 7.7%. In addition an impairment charge of \$6 million was recorded relating to intangible assets in use. These followed the regular updating of the division's business plans and technology assessments in the second half of 2009. The assets were written down to their recoverable amount of \$27 million, based on a value in use calculation using a discount rate of 7.7%.

The Diagnostics operating segment recorded an impairment charge of \$36 million. This was in respect of intangible assets in use and followed the regular updating of the division's business plans and technology assessments in the second half of 2009. The assets were written down to their recoverable amount of \$32 million, based on a value in use calculation using a discount rate of 7.7%.

2008: In the Pharmaceuticals operating segment an impairment charge of \$10 million was recorded in the first half of 2008 and a further \$29 million were recorded in the second half of 2008. These relate to product intangibles not available for use and follow from decisions to terminate development of three compounds with alliance partners. The assets concerned, which were not yet being amortized, were fully written-down by these charges.

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 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 as at December 31, 2009 in millions of USD

	Pharmaceuticals	Diagnostics	RHI Group
Within one year	69	6	75
Between one and two years	106	1	107
Between two and three years	76	-	76
Total	251	7	258

14. Associates

The RHI Group has no investments in associates (2008: none).

15. Financial and other long-term assets

Financial and other long-term assets in millions of USD

	2009	2008	2007
Available-for-sale investments	92	331	458
Held-to-maturity investments	4	15	17
Loans receivable	-	3	-
Long-term trade receivables	2	1	67
Restricted cash	-	-	-
Other	32	21	22
Total financial long-term assets	130	371	564
Long-term employee benefits	214	212	241
Other	103	110	139
Total other long-term assets	317	322	380

Financial long-term assets are held for strategic purposes and are classified as non-current. The available-for-sale investments are mainly equity investments. Unquoted equity investments classified as available-for-sale are generally measured at cost, as their fair value cannot be measured reliably. These are primarily investments in private biotechnology companies, which are kept as part of RHI's strategic alliance efforts. The carrying value of equity investments held at cost is \$32 million (2008: \$24 million, 2007: \$23 million). The average effective interest rate of held-to-maturity investments is 0.2% (2008: 2.5%). Loans receivable comprise all loans to third parties with a term of over one year.

16. Inventories

Inventories *in millions of USD*

	2009	2008	2007
Raw materials and supplies	271	240	233
Work in process	619	889	1,005
Finished goods and intermediates	998	970	1,004
Less: provision for slow-moving and obsolete inventory	(162)	(93)	(35)
Total inventories	1,726	2,006	2,207

In 2009 expenses relating to inventories expensed through cost of sales totaled \$3,405 million (2008: \$3,578 million).

17. Accounts receivable

Accounts receivable *in millions of USD*

	2009	2008	2007
Trade accounts receivable	1,927	1,892	2,057
Notes receivable	7	-	-
Other	15	14	13
Allowances for doubtful accounts	(21)	(28)	(35)
Charge-backs and other allowances	(66)	(53)	(50)
Total accounts receivable	1,862	1,825	1,985

Bad debt expense was \$4 million (2008: \$6 million) and \$5 million (2008: \$3 million) was released to income. Significant concentrations within trade receivables of counterparty credit risk are described in Note 30.

The movements in allowances are shown below.

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

	2009	2008
At January 1	(28)	(35)
Additional allowances created	(4)	(6)
Unused amounts reversed	5	3
Utilized during the year	-	5
Other	6	5
At December 31	(21)	(28)

18. Other current assets

Other current assets *in millions of USD*

	2009	2008	2007
Accrued interest income	-	1	1
Derivative financial instruments ²³	29	79	33
Restricted cash	-	-	788
Other	324	353	339
Total financial current assets	353	433	1,161
Prepaid expenses	197	177	122
Other	10	17	17
Total non-financial current assets	207	194	139
Total other current assets	560	627	1,300

Restricted cash in 2007 includes \$788 million of the surety bond posted by Genentech in connection with the City of Hope litigation (see Note 24). Following the settlement of this litigation the entirety of the pledged amount became unrestricted cash and available for use in Genentech's operations during the third quarter of 2008.

19. Marketable securities

Marketable securities *in millions of USD*

	2009	2008	2007
Financial assets at fair-value-through-profit-or-loss			
Held-for-trading investments			
- Bonds and debentures	-	971	1,002
Total financial assets at fair-value-through-profit-or-loss	-	971	1,002
Held-to-maturity financial assets			
- Money market instruments and time accounts over three months	11	-	-
Total held-to-maturity financial assets	11	-	-
Available-for-sale financial assets			
- Shares	240	33	150
- Bonds and debentures	18	3,732	1,993
- Money market instruments and time accounts over three months	-	1,646	1,492
Total available-for-sale financial assets	258	5,411	3,635
Total marketable securities	269	6,382	4,637

Marketable securities are held for fund management purposes and are classified as current. Other investments held for strategic purposes are classified as non-current (see Note 15). During 2009 all held-for-trading investments, which had been held at Genentech, were sold.

Shares: These consist primarily of readily saleable equity securities.

Bonds and debentures: The carrying values, contract maturity and average effective interest rate of debt securities is shown below.

Bonds and debentures *in millions of USD*

Contracted maturity	Amount	2009	Amount	2008
		Average effective interest rate		Average effective interest rate
Within one year	-	-	1,643	5.11%
Between one and five years	-	-	2,443	5.00%
More than five years	18	1.34	617	5.00%
Total bonds and debentures	18	1.34	4,703	5.03%

Money market instruments: These generally have fixed interest rates ranging from 1.21% to 2.87% (2008: 0.05% to 4.53%). They are contracted to mature within one year of December 31, 2009.

20. Cash and cash equivalents

Cash and cash equivalents *in millions of USD*

	2009	2008	2007
Cash			
- Cash in hand and in current or call accounts	10	262	239
Cash equivalents			
- Time accounts with a maturity of three months or less	-	2,648	803
Total cash and cash equivalents	10	2,910	1,042

21. Accounts payable

Accounts payable *in millions of USD*

	2009	2008	2007
Trade accounts payable	528	385	550
Other taxes payable	37	76	40
Other accounts payable	57	65	64
Total accounts payable	622	526	654

22. Accrued and other current liabilities

Accrued and other current liabilities *in millions of USD*

	2009	2008	2007
Deferred income	405	67	111
Accrued payroll and related items	924	875	632
Interest payable	1,031	60	60
Derivative financial instruments ²³	-	31	19
Other accrued liabilities	2,087	2,099	2,007
Total accrued and other current liabilities	4,447	3,132	2,829

23. Derivative financial instruments

The RHI Group uses derivative financial instruments as part of its risk management activities. This is discussed in Note 30. Derivative financial instruments are carried at fair value. The methods used for determining fair value are described in Note 1.

Derivative financial instruments *in millions of USD*

	Assets			Liabilities		
	2009	2008	2007	2009	2008	2007
Foreign currency derivatives						
- Forward exchange contracts	-	-	-	-	-	(15)
- Cross-currency swaps	-	-	-	-	-	-
- Other	-	20	-	-	(31)	-
Interest rate derivatives						
- Swaps	10	19	7	-	-	-
- Other	-	-	-	-	-	-
Other derivatives	19	40	26	-	-	(4)
Total derivative financial instruments ^{18, 22}	29	79	33	-	(31)	(19)

Derivative financial instruments related parties ^{a)} *in millions of USD*

	Assets			Liabilities		
	2009	2008	2007	2009	2008	2007
Foreign currency derivatives						
- Forward exchange contracts	-	-	-	(204)	-	-
- Cross-currency swaps	1,637	-	-	-	-	-
Total derivative financial instruments related parties	1,637	-	-	(204)	-	-

a) Derivative financial assets with related parties are included in 'accounts receivable – related parties'. Derivative financial liabilities with related parties are included in 'accounts payable – related parties'.

Hedge accounting

The RHI Group's accounting policy on hedge accounting, which is described in Note 1, requires that to qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement.

As described in Note 30, the RHI Group has financial risk management policies for foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. When deemed appropriate, certain of the above risks are managed by using derivatives. 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.

The RHI Group generally limits the use of hedge accounting to certain significant transactions. Consequently as at December 31, 2009 the RHI Group has no fair value hedges, cash flow hedges or hedges of net investment in a foreign entity that meet the strict requirements to qualify for hedge accounting, apart from those described below.

Cash flow hedges

The RHI Group has issued bonds and notes to finance the Genentech transaction (see Note 26). On some of the bonds and notes which are denominated in euros and sterling, the RHI Group has entered into cross-currency swaps with related parties to hedge foreign exchange and interest rate risk. These cash flow hedges qualify for hedge accounting. As at December 31, 2009 such instruments, which are designated and qualify for hedge accounting, are recorded as assets with a fair value of \$1,637 million. There was no ineffective portion.

In 2008 the RHI Group had partly hedged non-U.S. dollar cash flows from future royalty income and development expenses expected over the next one to five years. The RHI Group entered into zero-cost collar option contracts. As at December 31, 2008, none of the options were in-the-money, hence no cash flows were expected from these derivatives. The options, which are designated and qualify for hedge accounting, were recorded as a net liability with a fair value of \$11 million. Those hedges were unwound during 2009. There was no material 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*

	Total	0-3 months	4-6 months	7-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Year ended December 31, 2009									
Cash inflows	20,159	786	-	-	786	786	8,311	438	9,052
Cash outflows	(18,503)	(801)	-	-	(801)	(803)	(7,485)	(431)	(8,182)
Total	1,656	(15)	-	-	(15)	(17)	826	7	870
Year ended December 31, 2008									
Cash inflows	-	-	-	-	-	-	-	-	-
Cash outflows	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

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*

	Total	0-3 months	4-6 months	7-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Year ended December 31, 2009									
Cash inflows	5,220	786	-	-	786	786	786	438	1,638
Cash outflows	(5,225)	(801)	-	-	(801)	(803)	(798)	(431)	(1,591)
Total	(5)	(15)	-	-	(15)	(17)	(12)	7	47
Year ended December 31, 2008									
Cash inflows	-	-	-	-	-	-	-	-	-
Cash outflows	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-

The changes in the hedging reserve within equity are shown in Note 27.

Fair value hedges

The RHI Group has hedged some of its fixed-term debt instruments with interest rate swaps. As at December 31, 2009 such instruments, which have been designated and qualify as fair value hedges, are recorded in the balance sheet as an asset with a fair value of \$10 million (2008: asset of \$19 million). During 2009 a loss of \$9 million was recorded on these interest rate swaps (2008: gain of \$13 million). As the fair value hedge has been highly effective since inception, the result of the interest rate swaps is largely offset by changes in the fair value of the hedged debt instrument.

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. As at December 31, 2009 such instruments are recorded as assets with a fair value of \$19 million (2008: assets \$40 million). During 2009 a loss of \$21 million was recorded on these forward contracts (2008: gain of \$14 million). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

The RHI Group uses other derivatives, not designated in a qualifying hedge relationship, 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, options.

24. Provisions and contingent liabilities

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

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended December 31, 2008						
At January 1, 2008	921	96	26	121	159	1,323
Additional provisions created	57	2	119	69	229	476
Unused amounts reversed	(315)	(3)	(6)	(8)	(7)	(339)
Utilized during the year	(552)	(5)	(22)	(40)	(161)	(780)
Unwinding of discount ⁴	15	3	-	-	-	18
Other	-	-	4	-	-	4
At December 31, 2008	126	93	121	142	220	702
Of which						
- Current portion	53	14	104	50	206	427
- Non-current portion	73	79	17	92	14	275
Total provisions	126	93	121	142	220	702
Year ended December 31, 2009						
At January 1, 2009	126	93	121	142	220	702
Memory acquisition ⁶	-	-	2	-	1	3
IGEN capital contribution ²⁷	-	-	8	-	-	8
Additional provisions created	450	42	308	86	289	1,175
Unused amounts reversed	(79)	(2)	(17)	(11)	(31)	(140)
Utilized during the year	(41)	(6)	(84)	(92)	(163)	(386)
Unwinding of discount ⁴	5	12	-	-	-	17
Other	-	-	-	6	-	6
At December 31, 2009	461	139	338	131	316	1,385
Of which						
- Current portion	446	16	317	46	311	1,136
- Non-current portion	15	123	21	85	5	249
Total provisions	461	139	338	131	316	1,385
Expected outflow of resources						
- Within one year	446	16	317	46	311	1,136
- Between one to two years	4	10	20	21	5	60
- Between two to three years	3	10	1	15	-	29
- More than three years	8	103	-	49	-	160
Total provisions	461	139	338	131	316	1,385

Major legal cases

Income (expense) from major legal cases is disclosed separately in the income statement due to the materiality of the amounts and in order to fairly present the Group's results. In 2009 provisions for major legal cases were increased by \$295 million, based on management's current estimates of the ultimate liabilities that are expected to arise, taking into account the development of the various litigation and arbitration processes and any negotiations to resolve these cases. In 2008 income of \$250 million was recorded following the April 24, 2008 California Supreme Court decision in the City of Hope litigation (see below). This consists of the \$310 million released to income as a favorable litigation settlement, net of amounts recorded in respect of final settlement negotiations with the City of Hope National Medical Center. Costs of other litigation matters that are less material are expensed in the current period and reported within general and administration expenses. The total income tax benefit recorded in respect of major legal cases was \$113 million (2008: expense of \$98 million).

Legal provisions

Legal provisions consist of a number of separate legal matters, including claims arising from trade, in various RHI Group companies. The majority of any cash outflows for these other matters are expected to occur within the next one to three years, although these are dependent on the development of the various litigations. Significant provisions are discounted between 4% and 5% where the time value of money is material.

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. The estimated timings of these cash outflows are shown in the table above. Significant provisions are discounted by between 5% and 6% where the time value of money is material.

Restructuring provisions

These arise from planned programs 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 and are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

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 and are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

Other provisions

Other provisions consist mostly of claims arising from trade, sales returns, certain employee benefit obligations and various other provisions from RHI Group companies that do not fit into the above categories. The timings of cash outflows are by their nature uncertain and the best estimates are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

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 utilize 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's best estimate for future commitment payments are given in Note 13.

Pharmaceuticals legal cases

On June 10, 2002 Genentech announced that a Los Angeles County Superior Court jury voted to award the City of Hope National Medical Center ('City of Hope') approximately \$300 million in compensatory damages based on a finding of a breach of a 1976 agreement between Genentech and the City of Hope. On June 24, 2002 the jury voted to award the City of Hope \$200 million in punitive damages in the same case. On September 13, 2002 Genentech filed a notice of appeal of the jury verdict and damages awards with the California Court of Appeal. On October 21, 2004 the Court of Appeal affirmed the verdict and damages awards in all respects. Also, on October 21, 2004 Genentech announced that it would seek review by the California Supreme Court, which has discretion over which cases it will review. On November 24, 2004 Genentech filed its petition for review by the California Supreme Court and on February 2, 2005 the California Supreme Court granted this petition. The appeal to the California Supreme Court was heard on February 5, 2008 and on April 24, 2008 overturned the award of \$200 million in punitive damages to the City of Hope, but upheld the award of \$300 million in compensatory damages. On May 9, 2008 Genentech paid \$476 million to the City of Hope, reflecting the amount of compensatory damages awarded, plus interest thereon from the date of the original decision on June 10, 2002. On March 31, 2009 Genentech and the City of Hope National Medical Center resolved all remaining issues regarding additional royalties and other amounts that Genentech owes to City of Hope under the 1976 agreement for third-party product sales and settlement of a third-party patent litigation, including those that occurred after the 2002 judgment by a Los Angeles County Superior Court jury.

During the appeals process interest had accrued on the total amount of the damages at a simple annual rate of 10%. During 2008 interest of \$11 million was recorded as the time cost of provisions within financing costs.

A full provision, totaling \$776 million as at December 31, 2007, had been recorded for these awards. As a result of the April 24, 2008 California Supreme Court decision, provisions totaling \$310 million were released to income in 2008 as a

favorable litigation settlement, of which \$200 million relates to the original award recorded in 2002 as an exceptional major legal case expense and \$110 million relates to interest accrued as a charge to financing costs in the intervening periods.

On October 3, 2002 Genentech entered into an arrangement with third-party insurance companies to post a surety bond in connection with this judgment. As part of this arrangement Genentech had pledged \$788 million in cash and investments to secure this bond. This amount was recorded as restricted cash within other current assets in the Annual Financial Statements 2007. During the third quarter of 2008 the court completed certain administrative procedures to dismiss the case. As a result the restrictions were lifted from the restricted cash and investments and the funds became available for use in Genentech's operations

On October 4, 2004 Genentech received a subpoena from the United States Department of Justice, requesting documents related to the promotion of Rituxan. Genentech co-operated with the government's associated investigation. Previously the investigation had been both civil and criminal in nature. Genentech was informed in August 2008 by the criminal prosecutor who handled this matter that the government has declined to prosecute Genentech criminally in connection with this investigation. The civil matter was still ongoing. Through counsel Genentech continued to have discussions with government representatives about the status of their investigation and Genentech's views on this matter, including potential resolution. On October 20, 2009 the government notified Genentech that it had decided not to make any civil claim against Genentech. The government's investigation was initiated by a complaint that was filed under seal in the US District Court for the Eastern District of Pennsylvania in 2003 by an individual plaintiff. The complaint was unsealed on December 31, 2009 and is currently the basis of civil litigation by the plaintiff against Roche Holdings, Inc. and Genentech. The Group intends to vigorously defend itself. The outcome of this civil litigation cannot be determined at this time.

On May 13, 2005 a request was filed by a third party for re-examination of U.S. Patent No. 6,331,415 ('the Cabilly patent') that is co-owned by Genentech and the City of Hope National Medical Center and under which other companies have been licensed and are paying royalties. On July 7, 2005 the U.S. Patent and Trademark Office ('The Patent Office') ordered a re-examination of this patent. On February 25, 2008 the Patent Office mailed a final Patent Office action rejecting all the claims of the Cabilly patent. Genentech filed a notice of appeal challenging the rejection on August 22, 2008. Genentech's opening appeal brief was filed on December 9, 2008. Subsequent to the filing of the appeal brief, the Patent Office continued with the re-examination. On February 12, and 13, 2009 Genentech filed further responses with the Patent Office that included proposed amendments to three claims of the patent (claims 21, 27, and 32) and the claims that depend on these three claims. On February 23, 2009 the Patent Office issued a Notice of Intent to Issue a Re-examination Certificate ('NIRC'), confirming the patentability of all claims of the Cabilly patent as amended. None of the amendments have a commercial impact on the Cabilly patent. The NIRC is final and non-appealable. A re-examination certificate was issued on May 19, 2009 reflecting the formal termination of these proceedings in Genentech's favor.

On May 30, 2008 Centocor, Inc. filed a patent lawsuit against Genentech and City of Hope in the U.S. District Court for the Central District of California. The lawsuit relates to the Cabilly patent and seeks a declaratory judgment of patent invalidity and unenforceability with regard to the Cabilly patent and of patent non-infringement with regard to certain of Centocor's products. Centocor filed an amended complaint on September 3, 2008. Genentech answered the complaint on September 19, 2008 and also filed counterclaims against Centocor alleging that four Centocor products infringe certain Genentech patents. Genentech filed an amendment to those counterclaims on October 10, 2008 and Centocor answered these counterclaims on November 26, 2008. Discovery is ongoing in the lawsuit. The Cabilly patent, which expires in 2018, relates to methods used by Genentech and others to make certain antibodies or antibody fragments, as well as cells and DNA used in these methods. Genentech has licensed the Cabilly patent to other companies and derives significant royalties from these licenses. The outcome of this matter cannot be determined at this time.

On October 8, 2009, Glaxo Group Limited, SmithKline Beecham Corporation, and GlaxoSmithKline LLC (collectively "GSK") filed a patent lawsuit against Genentech and City of Hope in the US District Court for the Southern District of Florida. The lawsuit relates to the Cabilly patent and seeks a declaratory judgment of patent invalidity and unenforceability with regard to the Cabilly patent and of patent non-infringement with regard to a certain GSK product. On 16 December 2009 Genentech filed a motion to dismiss, or in the alternative to transfer to the Central District of California. The outcome of this matter cannot be determined at this time.

In 2006 Genentech made development decisions involving its humanized anti-CD20 program, and its collaborator, Biogen Idec Inc., disagreed with certain of Genentech's development decisions related to humanized anti-CD20 products. The disputed issues were submitted to arbitration. On June 15, 2009 Genentech received the decision from the arbitrators, which included certain favorable and certain adverse rulings relating to some of Genentech's development decisions and programs. The decision denied all monetary damages sought by both parties and did not change the collaboration profit split arrangement.

Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the United States 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. As of December 31, 2009 HLR is defending approximately 714 actions brought in various federal and state courts throughout the United States for personal injuries allegedly resulting from their use of Accutane. Most of the actions allege IBD as a result of Accutane use. On June 26, 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 United States.

All of the actions pending in federal court alleging IBD were consolidated for pre-trial proceedings in a Multi-District Litigation in the United States District Court for the Middle District of Florida, Tampa Division. In July 2007 the District Court granted summary judgment in favor of HLR in the lead federal IBD cases. The plaintiffs appealed and in August 2008 these rulings were affirmed by the United States Court of Appeals for the Eleventh Circuit. In October 2009 the District court granted summary judgment in favor of HLR in the next five federal IBD cases. The plaintiffs appealed in November 2009. One recently filed matter remains.

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. As of December 31, 2009 juries in the Superior Court have ruled in favor of the plaintiff in five cases, assessing total compensatory damages totaling \$26 million. The first verdict was reversed on appeal; the re-trial is scheduled for January 2010. HLR has appealed the second verdict to the Superior Court of New Jersey, Appellate Division and is currently in the process of post-trial briefing for the remaining trial, which involved three plaintiffs.

In October 2007 a jury in the Circuit Court of Escambia County, Florida, returned a verdict in favor of the plaintiff, assessing total compensatory damages of \$7 million, subsequently reduced to \$6.8 million by the court, against the Company. In October 2009, the District Court of Appeal, State of Florida reversed and entered judgment as to HLR. The plaintiff has sought to review in the Supreme Court of Florida

Additional trials are scheduled for 2010. 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.

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 United States 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 1991-2005. As of December 31, 2009, HLR and RLI are defending 10 actions brought in seven States, including four matters in New York, and one in each of the following states: Alabama, Mississippi, New Jersey, Kansas, Hawaii, and Iowa. Discovery is currently pending in each of these cases. HLR and RLI intend to vigorously defend themselves in these matters. The outcome of these matters cannot be determined at this time.

HLR, along with various other branded pharmaceutical companies, has been named as a defendant in several legal actions in the United States brought by retail pharmacies relating to the discounting practices for Brand Name Prescription Drugs ('BNPD'). In these BNPD litigations, the plaintiffs allege that they were denied discounts for certain prescription drugs that were offered to other mail order and managed care entities, which denial is claimed to be a violation of the Robinson-Patman Act ('RPA'). The RPA is a Federal law that prohibits unlawful price discrimination. In addition, the plaintiffs alleged that the defendants conspired in their refusal to offer them certain discounts. The

conspiracy claims against all defendants were previously settled, with only the RPA claims remaining to be litigated. As of December 31, 2009 HLR is defending approximately 120 BNPD actions brought by approximately 3,000 retail pharmacies in various federal and state courts throughout the United States. Discovery is currently pending in each of these cases. HLR is not currently scheduled for a trial in any of these BNPD matters in 2010. HLR intends to vigorously defend itself. The outcome of these matters cannot be determined at this time

On November 19, 2007 Novartis Vaccines & Diagnostics, Inc. (the former Chiron affiliate of Novartis) filed a lawsuit against Trimeris, Inc. and four Roche Group companies: Hoffmann-La Roche Inc., F. Hoffmann-La Roche Ltd, Roche Laboratories Inc. and Roche Colorado Corp., in the U.S. District Court for the Eastern District of Texas. The complaint seeks an injunction and damages for the manufacture and sale of Roche's anti-AIDS drug Fuzeon in the United States. Novartis alleges these activities infringe the claims of U.S. Patent No. 7,285,271. At Roche and Trimeris's request the case has been transferred to the U.S. District Court for North Carolina. The outcome of this matter cannot be determined at this time.

On June 28, 2003 Mr Ubaldo Bao Martinez filed a lawsuit against the Porriño Town Council and Genentech España S.L. in the Contentious Administrative Court Number One of Pontevedra, Spain. The lawsuit challenges the Town Council's decision to grant licenses to Genentech España S.L. for the construction and operation of a warehouse and biopharmaceutical manufacturing facility in Porriño, Spain. On January 16, 2008 the Administrative Court ruled in favor of Mr Bao on one of the claims in the lawsuit and ordered the closing and demolition of the facility, subject to certain further legal proceedings. On February 12, 2008, Genentech España S.L and the Town Council filed appeals of the Administrative Court decision at the High Court in Galicia, Spain. In addition, through legal counsel in Spain, Genentech is co-operating with the Lonza Group Ltd ('Lonza') to pursue administrative remedies, including seeking additional permits for the facility. Genentech sold the assets of Genentech España S.L., including the Porriño facility, to Lonza Group Ltd. ('Lonza') in December 2006, and Lonza has operated the facility since that time. Under the terms of that sale, Genentech retained control of the defense of this lawsuit and agreed to indemnify Lonza against certain contractually defined liabilities up to a specified limit, which is currently estimated to be approximately \$100 million. Genentech's indemnification obligation to Lonza, if any, cannot be determined at this time.

On May 8, June 11, August 8, and September 29, of 2008, Genentech was named as a defendant, along with InterMune, Inc. and its former chief executive officer, W. Scott Harkonen, in four separate class-action complaints filed in the U.S. District Court for the Northern District of California on behalf of plaintiffs who allegedly paid part or all of the purchase price for a product that was licensed by Genentech to Connecticut Corporation and was subsequently assigned to InterMune. Genentech's responded to these complaints with a motion to dismiss these matters, which was granted on April 28, 2009. Plaintiffs filed amended complaints including only State law claims on May 28, 2009. Genentech responded to these complaints with another motion to dismiss, which was held on September 11, 2009. The Court again granted Genentech's motion to dismiss with respect to all claims, but with leave for plaintiffs to replead specific claims under California unfair competition law. Plaintiffs filed an amended class action complaint on December 23, 2009 naming Genentech as a defendant in claims for unfair competition law, false advertising law, consumer remedies law, consumer protection law, and unjust enrichment. Genentech intends to seek dismissal of this amended complaint. The outcome of this matters cannot be determined at this time.

Subsequent to the announcement of the Roche Proposal to purchase all of the outstanding shares of Genentech common stock not owned by Roche (see Note 3), more than thirty shareholder lawsuits have been filed against Genentech and/or the members of its Board of Directors, and various Roche entities including Roche Holdings, Inc. (RHI) and Roche Holding Ltd (Roche Holding AG). The cases have been settled in principle and on July 9, 2009 the settlement was approved by the Delaware Court of Chancery.

On October 27, 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis U.S. LLC and Sanofi-Aventis U.S. Inc. in the Northern District of California seeking a declaratory judgment that certain Genentech products, including Rituxan, do not infringe Sanofi's U.S. Patents 5,849,522 ('the '522 patent') and 6,218,140 ('the '140 patent') and a declaratory judgment that the '522 and '140 patents are invalid. Also on October 27, 2008 Sanofi filed suit against Genentech and Biogen Idec in the Eastern District of Texas, Lufkin Division, claiming that Rituxan and at least eight other Genentech products infringe the '522 and '140 patents. Sanofi brought claims for preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. The hearing for the arbitration has been set for August 2010. Genentech challenged the venue of the Texas case and, after an opinion by the Federal Circuit Court of Appeals, the Texas and California cases have been consolidated in the Northern District of California. Discovery in these consolidated matters is ongoing. In addition on October 24, 2008 Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech,

relating to a terminated agreement between Hoechst's predecessors and Genentech that pertained to the above patents and related patents outside the United States. Hoechst is seeking payments on royalties on sales of Genentech products, damages for breach of contract, and other relief. The hearing for the arbitration has been set for August 2010. Genentech intends to vigorously defend itself. The outcome of these matters cannot be determined at this time.

25. Other non-current liabilities

Other non-current liabilities *in millions of USD*

	2009	2008	2007
Deferred income	70	100	280
Other long-term liabilities	46	51	166
Total other non-current liabilities	116	151	446

26. Debt

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

	2009	2008
At January 1	11,228	8,145
Proceeds from issue of bonds and notes	40,304	-
Redemption and repurchase of bonds and notes	(7,222)	-
Increase (decrease) in commercial paper	(240)	(100)
Increase (decrease) in amounts due to related parties	573	3,153
Increase (decrease) in other debt	(91)	(252)
Settlement of Genentech's financing obligations with Lonza ³³	225	-
Divestment of subsidiary ³³	(284)	-
(Gains) losses on redemption and repurchase of bonds and notes, net	8	-
Amortization of debt discount ⁴	41	-
(Gains) losses on financial liabilities at fair-value-through-profit-or-loss, net ⁴	(6)	(11)
IGEN capital contribution ²⁷	1,425	-
Foreign exchange losses and other	2,795	293
At December 31	48,756	11,228
Consisting of		
- Bonds and notes	38,407	2,512
- Commercial paper	260	500
- Amounts due to related parties	9,815	7,817
- Amounts due to banks and other financial institutions	10	-
- Genentech leasing obligations ¹¹	264	319
- Finance lease obligations ¹¹	-	-
- Other borrowings	-	80
Total debt	48,756	11,228
Reported as		
- Long-term debt	41,412	10,030
- Short-term debt	7,344	1,198
Total debt	48,756	11,228

The fair value of the bonds and notes is \$45.4 billion (2008: \$3 billion, 2007: \$3.1 billion) and the fair value of total debt is \$55.7 billion (2008: \$11.2 billion, 2007: \$8.1 billion). This 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.

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

Bonds and notes

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

	Effective interest rate		2009	2008	2007
	Underlying instrument	Including hedging			
U.S. dollar-denominated notes – floating rate	3 months LIBOR				
Notes due February 25, 2010, principal 3 billion U.S. dollars	+1.13%	n/a	2,999	-	-
Notes due February 25, 2011, principal 931 million U.S. dollars	+2.10%	n/a	930	-	-
U.S. dollar-denominated notes – fixed rate					
4.50% notes due March 1, 2012, principal 2.5 billion U.S. dollars	4.84%	n/a	2,486	-	-
5.00% notes due March 1, 2014, principal 2.75 billion U.S. dollars	5.31%	n/a	2,725	-	-
6.00% notes due March 1, 2019, principal 4.5 billion U.S. dollars	6.37%	n/a	4,415	-	-
7.00% notes due March 1, 2039, principal 2.5 billion U.S. dollars	7.43%	n/a	2,411	-	-
European Medium Term Note programme – floating rate	3 months EURIBOR				
Notes due March 4, 2010, principal 1.5 billion euros	+1.05%	+0.92%	2,150	-	-
European Medium Term Note programme – fixed rate					
4.625% notes due March 4, 2013, principal 5.25 billion euros	4.82%	5.53%	7,484	-	-
5.5% notes due March 4, 2015, principal 1.25 billion pounds sterling	5.70%	5.83%	1,992	-	-
5.625% notes due March 4, 2016, principal 2.75 billion euros	5.70%	6.37%	3,927	-	-
6.5% notes due March 4, 2021, principal 1.75 billion euros	6.66%	6.99%	2,477	-	-
Swiss franc bonds					
2.5% bonds due March 23, 2012, principal amount 2.5 billion Swiss francs	2.68%	3.10%	2,402	-	-
U.S. dollar bonds					
'Chameleon' 6.75% due July 6, 2009, principal 487 million U.S. dollars	6.77%	n/a	-	493	504
Genentech Senior Notes					
4.40% Senior Notes due July 15, 2010, principal 500 million U.S. dollars	4.53%	n/a	509	519	505
4.75% Senior Notes due July 15, 2015, principal 1 billion U.S. dollars	4.87%	n/a	1,000	1,000	1,000
5.25% Senior Notes due July 15, 2035, principal 500 million U.S. dollars	5.39%	n/a	500	500	500
Total			38,407	2,512	2,509

Bonds and notes: maturity *in millions of USD*

	2009	2008	2007
Within one year	5,658	493	-
Between one and two years	930	519	504
Between two and three years	4,888	-	505
Between three and four years	7,484	-	-
Between four and five years	2,725	-	-
More than five years	16,722	1,500	1,500
Total debt	38,407	2,512	2,509

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

	2009	2008	2007
U.S. dollar notes	215	-	-
Sterling notes	17	-	-
Euro notes	88	-	-
Swiss franc bonds	9	-	-
Total unamortized discount	329	-	-

Fair Value Option

In 2005 the RHI Group applied the Fair Value Option on one of its outstanding debt instruments on which RHI had been applying fair value hedge accounting in the past. This debt instrument was the 'Chameleon' U.S. dollar bonds. This instrument was fully redeemed at its due date in 2009. The Fair Value Option treatment is based on the elimination of an accounting mismatch which had been recognized between the hedging swaps (reported at fair value) and the hedged bonds (reported at amortized cost). The difference between the carrying value and the principal amount for these debt instruments at December 31, 2008 totaled \$6 million.

Issuance of new bonds and notes – 2009

The RHI Group financed the Genentech transaction (see Note 3) by a combination of the RHI Group's own funds, bonds, notes and commercial paper. The RHI Group raised net proceeds of \$40.3 billion through a series of debt offerings, as described below. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd., the parent company of the Roche Group.

U.S. dollar-denominated notes: On February 25, 2009 the RHI Group completed an offering of U.S. dollar-denominated notes to qualified institutional buyers in the United States under Rule 144A and to persons other than U.S. persons outside the United States under Regulation S of the U.S. Securities Act of 1933. The RHI Group received approximately \$16.3 billion aggregate net proceeds from the issuance and sale of these fixed and floating rate notes. On March 20, 2009 the RHI Group completed a further offering of U.S. dollar-denominated notes under Rule 144A of the U.S. Securities Act of 1933. Roche received approximately \$2.5 billion in aggregate net proceeds from the issuance and sale of these fixed rate notes. The terms and proceeds of the notes were as follows:

Issuance of U.S. dollar-denominated notes

	Principal amount	Net proceeds
	USD millions	USD millions
Floating rate notes due 2010	3,000	2,996
Floating rate notes due 2011	1,250	1,248
Fixed rate 1.95% notes due 2009	2,500	2,500
Fixed rate 4.50% notes due 2012	2,500	2,481
Fixed rate 5.00% notes due 2014	2,750	2,720
Fixed rate 6.00% notes due 2019	4,500	4,409
Fixed rate 7.00% notes due 2039	2,500	2,410
Total	19,000	18,764

European Medium Term Note programme: On March 4, 2009 the RHI Group issued euro- and sterling-denominated fixed- and floating rate notes. The terms and proceeds of the notes were as follows:

Issuance of European Medium Term Notes

	Principal amount EUR millions	GBP millions	Net proceeds USD millions
Floating rate EUR notes due 2010	1,500	-	1,883
Fixed rate 4.625% EUR notes due 2013	5,250	-	6,551
Fixed rate 5.5% GBP notes due 2015	-	1,250	1,740
Fixed rate 5.625% EUR notes due 2016	2,750	-	3,441
Fixed rate 6.5% EUR notes due 2021	1,750	-	2,170
Total	11,250	1,250	15,785

Subsequent to the debt issuances, the proceeds of all notes were swapped into U.S. dollars by entering into derivative contracts with related parties. As a result, in these financial statements, the notes have economic characteristics equivalent to U.S. dollar-denominated notes.

Swiss franc-denominated bonds and notes: On March 23, 2009 the RHI Group completed an offering of Swiss franc-denominated fixed-rate bonds. The terms and proceeds of the bonds were as follows:

Issuance of Swiss franc-denominated bonds and notes

	Principal amount CHF millions	Net proceeds USD millions
Fixed rate 1.2% bonds due 2009	4,000	3,548
Fixed rate 2.5% bonds due 2012	2,500	2,207
Total	6,500	5,755

Subsequent to the debt issuances, the proceeds of all Swiss franc-denominated bonds were swapped into U.S. dollars by entering into derivative contracts with related parties. As a result, in these financial statements, the bonds have economic characteristics equivalent to U.S. dollar-denominated bonds.

Cash inflows from issuance of bonds and notes *in millions of USD*

	2009	2008
U.S. dollar-denominated notes	18,764	-
European Medium Term Note programme euro- and sterling-denominated notes	15,785	-
Swiss franc-denominated bonds	5,755	-
Total cash inflows from issuance of bonds and notes	40,304	-

Redemption and repurchase of bonds and notes - 2009

Redemption of 'Chameleon' U.S. dollar bonds: The RHI Group redeemed these bonds with a remaining outstanding principal value of \$487 million, which had a due date of July 6, 2009, at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 6.77%. The cash outflow was \$488 million. There was no gain or loss recorded in the income statement upon the redemption.

Redemption and repurchase of U.S. dollar-denominated notes: The RHI Group redeemed notes with a principal value of \$2,500 million, which had a due date of September 23, 2009, at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 1.98%. The cash outflow was \$2,500 million. There was no gain or loss recorded in the income statement upon the redemption.

In addition the RHI Group repurchased floating rate notes with a principal value of \$319 million and original due date of February 25, 2011, at various dates during 2009 in open market purchases. The effective interest rate of these bonds was 3 months LIBOR plus 2.10%. The cash outflow was \$327 million. A loss of \$8 million was recorded in the income statement upon the repurchase.

Redemption of Swiss franc-denominated notes: The RHI Group redeemed notes with a principal value of 4,000 million Swiss francs, which had a due date of September 23, 2009, at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 1.30%, or 2.20% including associated hedging instruments. The cash outflow was \$3,907 million. There was no gain or loss recorded in the income statement upon the redemption.

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

	2009	2008
'Chameleon' U.S. dollar bonds	(488)	-
European Medium Term Note program U.S. dollar bonds	(2,500)	-
U.S. dollar-denominated notes	(327)	-
Swiss franc-denominated notes	(3,907)	-
Total cash outflows from redemption and repurchase of bonds and notes	(7,222)	-

Commercial paper

Genentech commercial paper program: In October 2007 Genentech established a commercial paper program under which it can issue up to \$1 billion of unsecured commercial paper notes. Maturities under the program generally vary from overnight to five weeks and cannot exceed 397 days. As at December 31, 2008 unsecured commercial paper notes with a principal amount of \$500 million and an average interest rate of 0.80% were outstanding. These amounts were due at various dates until January 23, 2009. During the first six months of 2009 the Group fully redeemed these notes at maturity at their principal value. The effective interest rate of these notes was 0.80%. The cash outflow was \$500 million and there was no gain or loss recorded on the redemption. There have been no further issuances during 2009. Genentech has terminated its commercial paper program as of May 15, 2009 and there were no amounts outstanding at December 31, 2009.

Roche Holdings, Inc., commercial paper program: In March 2009 Roche Holdings, Inc. established a commercial paper program under which it can issue up to \$7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. Committed credit lines of 2.5 billion euro and \$950 million are available as back-stop lines. Maturity of the notes under the program cannot exceed 365 days from the date of issuance. The net cash inflow during 2009 was \$260 million. At December 31, 2009 unsecured commercial paper notes with a principal of \$260 million and an interest rate of 0.13% were outstanding.

Movements in commercial paper obligations *in millions of USD*

	2009	2008
At January 1	500	600
Net cash proceeds (payments)	(240)	(100)
At December 31	260	500
Of which		
- Genentech commercial paper program	-	500
- Roche Holdings, Inc. commercial paper program	260	-
Total	260	500

Recognized liabilities due to related parties

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

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

		2009	2008	2007
At January 1		7,817	4,664	2,300
Cash inflows from related parties		963	4,427	2,464
Cash outflows to related parties		(390)	(1,274)	(100)
IGEN capital contribution ²⁷		1,425	-	-
At December 31		9,815	7,817	4,664

	Effective interest rate	2009	2008	2007
Term note 5.00% due January 4, 2008, principal \$18 million	5.00%	-	-	18
Term note 5.00% due January 4, 2008, principal \$3 million	5.00%	-	-	3
Term note 5.30% due January 4, 2008, principal \$13 million	5.30%	-	-	13
Term note 5.05% due February 7, 2008, principal \$100 million	5.05%	-	-	100
Term note 6.25% due March 25, 2008, principal \$250 million	6.35%	-	-	250
Term note 5.05% due June 6, 2008, principal \$20 million	5.11%	-	-	20
Term note 3.79% due September 18, 2008, principal \$800 million	3.83%	-	-	800
Term note 5.95% due June 7, 2010, principal \$280 million	6.04%	280	280	350
Term note 5.95% due October 15, 2010, principal \$500 million	6.04%	500	500	500
Term note 6.15% due December 16, 2011, principal \$1.5 billion	6.24%	1,500	1,500	1,500
Term note 6.20% due September 17, 2012, principal \$250 million	6.35%	250	250	250
Term note 6.20% due September 17, 2012, principal \$250 million	6.30%	250	360	360
Term note 6.45% due July 17, 2014, principal \$500 million	6.55%	500	500	500
Term note 5.80% due February 12, 2018, principal \$1,4 billion	5.88%	1,400	1,400	-
Term note 5.80% due February 12, 2018, principal \$2,0 billion	5.88%	2,000	2,000	-
Term note 4.50% due September 19, 2011, principal \$800 million	4.55%	800	800	-
Term note 1.75% due January 19, 2009, principal \$150 million	1.75%	-	150	-
Term note 2.10% due May 5, 2009, principal \$55 million	2.11%	-	55	-
Term note 2.25% due March 15, 2010, principal \$22 million	2.26%	22	22	-
Term note 2.25% due March 15, 2010, principal \$78 million	2.26%	78	-	-
Term note 2.25% due March 15, 2010, principal \$10 million	2.26%	10	-	-
Term note 5.52% due March 14, 2014, principal \$ 800 million	5.60%	800	-	-
Term note 6.3% due June 25, 2010, principal \$525 million ²⁷	6.40%	525	-	-
Term note 5.70% due November 13, 2012, principal \$900 million ²⁷	5.77%	900	-	-
Total amounts due to related parties		9,815	7,817	4,664

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*

	2009	2008
Term note 5.80% issued February 12, 2008	-	1,400
Term note 5.80% issued June 30, 2008	-	2,000
Term note 2.25% issued March 13, 2008	-	22
Term note 4.50% issued September 18, 2008	-	800
Term note 1.75% issued December 17, 2008	-	150
Term note 2.10% issued May 5, 2008	-	55
Term note 2.25% issued March 16, 2009	78	-
Term note 2.25% issued March 16, 2009	10	-
Term note 5.52% issued March 16, 2009	800	-
Term note 0.85% issued June 29, 2009	75	-
Total cash inflows from related party issues	963	4,427

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*

	2009	2008
Term note 5.00% due January 4, 2008, principal \$3 million	-	3
Term note 5.00% due January 4, 2008, principal \$18 million	-	18
Term note 5.30% due January 4, 2008, principal \$13 million	-	13
Term note 5.05% due February 7, 2008, principal \$100 million	-	100
Term note 6.25% due March 25, 2008, principal \$250 million	-	250
Term note 5.95% due June 7, 2010, principal \$350 million	-	70
Term note 5.05% due June 6, 2008, principal \$20 million	-	20
Term note 3.79% due September 18, 2008, principal \$800 million	-	800
Term note 6.20% due September 17, 2012, principal \$360 million	110	-
Term note 1.75% due January 19, 2009, principal \$ 150 million	150	-
Term note 2.10% due May 5, 2009, principal \$ 55 million	55	-
Term note 0.85% due September 29, 2009, principal \$75 million	75	-
Total cash outflows to related party issues	390	1,274

27. Equity attributable to RHI shareholder

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

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total
Year ended December 31, 2008					
At January 1, 2008	1	6,473	116	(1)	6,589
Net income recognized in income statement	-	1,870	-	-	1,870
Available-for-sale investments					
- Valuation gains (losses) taken to equity	-	-	(178)	-	(178)
- Transferred to income statement on sale or impairment	-	-	19	-	19
- Income taxes	-	-	69	-	69
- Non-controlling interests	-	-	39	-	39
Cash flow hedges					
- Gains (losses) taken to equity	-	-	-	(52)	(52)
- Transferred to income statement ^{a)}	-	-	-	77	77
- Transferred to the initial carrying value of hedged items	-	-	-	-	-
- Income taxes	-	-	-	(10)	(10)
- Non-controlling interests	-	-	-	(7)	(7)
Defined benefit post-employment plans					
- Actuarial gains (losses) ⁹	-	(956)	-	-	(956)
Income taxes	-	345	-	-	345
Non-controlling interests	-	-	-	-	-
Other comprehensive income, net of tax	-	(611)	(51)	8	(654)
Total comprehensive income	-	1,259	(51)	8	1,216
Dividends paid	-	-	-	-	-
Equity compensation plans	-	751	-	-	751
Genentech share repurchases ³	-	(436)	-	-	(436)
Changes in ownership interests in subsidiaries					
- Ventana ⁶	-	(879)	-	-	(879)
Changes in non-controlling interests	-	(41)	-	-	(41)
At December 31, 2008	1	7,127	65	7	7,200

a) Of amounts transferred to income statement losses of \$80 million were reported as 'Royalties and other operating income' and gains of \$3 million as 'Financial income'.

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

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total
Year ended December 31, 2009					
At January 1, 2009	1	7,127	65	7	7,200
Net income recognized in income statement	-	816	-	-	816
Available-for-sale investments					
- Valuation gains (losses) taken to equity	-	-	30	-	30
- Transferred to income statement on sale or impairment	-	-	4	-	4
- Income taxes	-	-	(9)	-	(9)
- Non-controlling interests	-	-	(2)	-	(2)
Cash flow hedges					
- Gains (losses) taken to equity	-	-	-	1,924	1,924
- Transferred to income statement ^{a)}	-	-	-	(1,817)	(1,817)
- Transferred to the initial carrying value of hedged items	-	-	-	-	-
- Income taxes	-	-	-	(38)	(38)
- Non-controlling interests	-	-	-	(13)	(13)
Defined benefit post-employment plans					
- Actuarial gains (losses) ⁹	-	(43)	-	-	(43)
Income taxes	-	38	-	-	38
Non-controlling interests	-	-	-	-	-
Other comprehensive income, net of tax	-	(5)	23	56	74
Total comprehensive income	-	811	23	56	890
Capital contribution related parties ²⁷	-	382	-	-	382
Dividends paid	-	-	-	-	-
Equity compensation plans	-	297	-	-	297
Changes in ownership interests in subsidiaries					
- Genentech ³	-	(39,050)	-	-	(39,050)
- Memory ⁶	-	(1)	-	-	(1)
Changes in non-controlling interests	-	(15)	-	-	(15)
At December 31, 2009	1	(30,449)	88	63	(30,297)

a) Of amounts transferred to income statement losses of \$11 million (2008: losses of \$80 million) were reported as 'Royalties and other operating income' and gains of \$1,828 million (2008: gains of \$3 million) as 'Financial income'.

The RHI Group completed the purchase of the non-controlling interests in Genentech effective March 26, 2009 (see Note 3). Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, 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 was reduced by approximately \$47 billion, of which \$7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests and at December 31, 2009 the RHI Group had a negative equity of \$30.3 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

As of December 31, 2009 the authorized 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.

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.

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.

Capital contributions related parties

IGEN: On January 1, 2009 the shareholder of Roche Holdings, Inc., contributed the Roche Group's investment in IGEN International, Inc. to RHI as a capital contribution. As a result, RHI obtained a 100% controlling interest in IGEN International, Inc. and its subsidiary BioVeris Corporation effective January 1, 2009. The contributed goodwill was \$1,431 million, intangible assets \$444 million, recognized liabilities due to related parties \$1,425 million and other net liabilities of \$158 million. Their combined recognized net assets at January 1, 2009 were \$384 million, which are reported as an addition of retained earnings in equity. These two companies are reported as part of the Diagnostics operating segment.

Innovatis Inc: Effective July 1, 2009, Innovatis AG, a subsidiary of the Roche Group, sold to RHI their 100% ownership of Innovatis Inc, at a nominal prize. Innovatis Inc. was subsequently merged into Roche Diagnostics Corporation, which is part of the Diagnostics operating segment. The fair value of the net liabilities was \$2 million, which is shown as a reduction of equity.

28. Non-controlling interests

Changes in equity attributable to non-controlling interests *in millions of USD*

	2009	2008
At January 1	6,991	5,265
Net income recognized in income statement		
- Genentech ³	375	1,532
Total net income recognized in income and expense	375	1,532
Available-for-sale investments	2	(39)
Cash flow hedges	13	7
Defined benefit post-employment plans	-	-
Other comprehensive income, net of tax	15	(32)
Total comprehensive income	390	1,500
Ventana acquisition ⁶	-	291
Memory acquisition ⁶	4	-
Equity compensation plans	154	529
Genentech share repurchases ³	-	(344)
Changes in ownership interests in subsidiaries		
- Genentech	(7,550)	-
- Ventana ⁶	-	(291)
- Memory ⁶	(4)	-
Changes in non-controlling interests	15	41
At December 31	-	6,991
Of which		
- Genentech ³	-	6,991
Total non-controlling interests	-	6,991

29. 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, amortization 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*

	2009	2008
Net income	1,191	3,402
Add back non-operating (income) expense		
- Financial income ⁴	694	(422)
- Financial income – related parties ³¹	(979)	(41)
- Financing costs ⁴	1,760	341
- Financing costs – related parties ³¹	848	452
- Exceptional financing costs ⁴	154	-
- Income taxes ⁵	1,154	2,142
- Income taxes on exceptional items ⁵	(975)	11
Operating profit	3,847	5,885
Depreciation of property, plant and equipment ¹¹	728	564
Amortization of intangible assets ¹³	304	305
Impairment of intangible assets ¹³	463	39
Impairment of property, plant and equipment ¹¹	861	17
Operating expenses for defined benefit post-employment plans ⁹	68	85
Operating expenses for equity-settled equity compensation plans ¹⁰	428	404
Net (income) expense for provisions ²⁴	1,035	137
Other adjustments	45	9
Cash generated from operations	7,779	7,445

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 divestments of subsidiaries. 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

In connection with the sale of the subsidiary Genentech Bermuda Ltd., together with its fully-controlled subsidiary, Genentech Singapore, Pte. Ltd. there was a non-cash decrease of \$284 million for the financing obligation for the Singapore Lonza facility and a similar non-cash decrease in the capitalized construction in progress. For further information see Note 33.

30. Risk management

RHI 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.

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 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 authorized 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.

Carrying value and fair value of financial assets *in millions of USD*

By line Items in Notes	Available-for-sale	FVtPL ^{a)} - designated	FVtPL ^{a)} - held for trading	Held to maturity	Carrying value by asset class		
					Loans and receivables	Total	Fair value
Year ended							
December 31, 2009							
Accounts receivable – third and related parties	-	-	1,637	-	6,813	8,450	8,450
Accrued interest income	-	-	-	-	-	-	-
Marketable securities:							
- Money market instruments and time accounts over 3 months	-	-	-	11	-	11	11
- Bonds and debentures	18	-	-	-	-	18	18
- Shares	240	-	-	-	-	240	240
Cash and cash equivalents	-	-	-	-	10	10	10
Derivative financial instruments	-	-	29	-	-	29	29
Available-for-sale investments	92	-	-	-	-	92	92
Held-to-maturity investments	-	-	-	4	-	4	4
Loans receivable – related parties	-	-	-	-	95	95	95
Long-term trade receivables	-	-	-	-	2	2	2
Other financial current assets	-	-	-	-	324	324	324
Other long-term assets – third and related parties	-	-	-	-	-	-	-
					201	201	201
Total	350	-	1,666	15	7,445	9,476	9,476

By line Items in Notes	Available-for-sale	FVtPL ^{a)} - designated	FVtPL ^{a)} - held for trading	Held to maturity	Carrying value by asset class		
					Loans and receivables	Total	Fair value
Year ended							
December 31, 2008							
Accounts receivable – third and related parties	-	-	-	-	3,815	3,815	3,815
Accrued interest income	-	-	-	-	1	1	1
Marketable securities:							
- Money market instruments and time accounts over 3 months	1,646	-	-	-	-	1,646	1,646
- Bonds and debentures	3,732	-	971	-	-	4,703	4,703
- Shares	33	-	-	-	-	33	33
Cash and cash equivalents	-	-	-	-	2,910	2,910	2,910
Derivative financial instruments	-	-	79	-	-	79	79
Available-for-sale investments	331	-	-	-	-	331	331
Held-to-maturity investments	-	-	-	15	-	15	15
Loans receivable – third and related parties	-	-	-	-	98	98	98
Long-term trade receivables	-	-	-	-	1	1	1
Other financial current assets	-	-	-	-	353	353	353
Other long-term assets – third and related parties	-	-	-	-	-	-	-
					21	21	21
Total	5,742	-	1,050	15	7,199	14,006	14,006

a) Fair-value-through-profit-or-loss

Following the implementation of amendments to IFRS 7 'Financial Instruments: Disclosures' that were published in March 2009 the RHI Group has established a fair value hierarchy that reflects the significance of inputs used in making the fair value measurements. The fair value hierarchy includes the following three levels:

- Level 1 – quoted prices 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 assets and liabilities at December 31, 2009 *in millions of USD*

	Level 1	Level 2	Level 3	Total
Financial assets recognized at fair value				
Marketable securities:				
- Bonds and debentures	-	-	18	18
- Shares	240	-	-	240
Derivative financial instruments – third and related parties	-	1,666	-	1,666
Available-for-sale investments	48	12	-	60
Total	288	1,678	18	1,984
Financial liabilities recognized at fair value				
Derivative financial instruments – third and related parties	-	(204)	-	(204)
Total	-	(204)	-	(204)

Available-for-sale investments exclude equity securities held at cost of \$32 million, as those are not carried at fair value (see Note 15).

As at December 31, 2009 Level 1 financial assets consist mainly of quoted shares. Level 2 financial assets consist primarily of derivative financial instruments and unquoted shares. Level 3 financial assets consist of auction-rate student loan securities. These securities were valued based on broker-provided valuation models, which approximate fair value. During 2009, there were no significant transfers between level 1 and level 2 and vice versa.

Changes in fair value of Level 3 financial assets *in millions of USD*

	2009
At January 1	145
Impairment charges	-
Valuation gains (losses) taken to equity	24
Gains (losses) recognized in the income statement	(42)
Sales	(109)
At December 31	18

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.

Trade receivables: 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 the management of trade receivables from third parties is to sustain the growth and profitability of the RHI Group by optimizing asset utilization whilst maintaining risks at an acceptable level. Except as noted below, there is no significant concentration of counterparty credit risk due to the RHI Group's large number of customers. Risk limits and exposures are continuously monitored. Additionally, the RHI Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. As at December 31, 2009 no collateral was held for loans and receivables at the end of 2009 (2008: none).

At December 31, 2009 the RHI Group's combined trade accounts receivable balance with three national wholesale distributors, AmerisourceBergen Corp., Cardinal Health Inc. and McKesson Corp., was \$1,299 million representing 70% of RHI's consolidated third party trade accounts receivables (2008: \$1,355 million representing 71%, 2007: \$1,365 million representing 71%).

Nature and geographical location of trade receivables (not overdue) counterparties *in millions of USD*

	2009				2008			
	Total	Public	Wholesale- sellers/dis- tributors	Private	Total	Public	Wholesale- sellers/dis- tributors	Private
Switzerland	-	-	-	-	1	-	1	-
European Union	1	-	1	-	7	2	5	-
North America	1,816	10	1,160	646	1,774	81	1,497	196
Japan	50	-	50	-	46	-	46	-
Rest of Asia	-	-	-	-	1	1	-	-
Total	1,867	10	1,211	646	1,829	84	1,549	196

In addition to third party trade receivable, the RHI Group had \$6.6 billion accounts receivable balances with related parties mainly in the European Union and Switzerland (2008: \$2.0 billion, 2007: \$1.9 billion).

Analysis of overdue but not impaired financial assets by class *in millions of USD*

	Total amount overdue	Under 1 month	1-3 months	4-6 months	6-12 months	more than 1 year
Year ended December 31, 2009						
Loans and receivables	29	17	4	6	2	-
Year ended December 31, 2008						
Loans and receivables	19	9	5	3	2	-

As at December 31, 2009 there were no financial assets whose terms have been renegotiated (2008: none).

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.

Roche 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. In addition, the RHI Group has unused committed credit lines with various financial institutions totaling \$4.5 billion (2008: \$4.5 billion).

Contractual maturity analysis of financial liabilities *in millions of USD*

	Total	0-3 months	4-6 months	7-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Year ended									
December 31, 2009									
Total debt ^{a)}	67,312	6,971	990	1,696	5,440	8,325	9,340	5,447	29,103
Trade payables	528	527	1	-	-	-	-	-	-
Accruals	2,979	2,677	130	155	17	-	-	-	-
Derivative financial instruments related parties	204	204	-	-	-	-	-	-	-
Other liabilities:									
current & non-current	140	58	28	1	49	1	1	1	1
Total financial liabilities	71,163	10,437	1,149	1,852	5,506	8,326	9,341	5,448	29,104
Year ended									
December 31, 2008									
Total debt ^{a)}	10,804	897	154	197	1,641	2,699	837	189	4,190
Trade payables	385	383	1	-	1	-	-	-	-
Accruals	2,934	2,104	60	755	15	-	-	-	-
Derivative financial instruments	31	31	-	-	-	-	-	-	-
Other liabilities:									
current & non-current	252	111	30	51	55	1	1	1	2
Total financial liabilities	14,406	3,526	245	1,003	1,712	2,700	838	190	4,192

a) Total debt in the above table shows undiscounted cash flows, whereas the carrying value in the consolidated balance sheet reflects discounted cash flows.

Market risk

Market risk arises from changing market prices of RHI's financial assets or financial liabilities. Market risk may affect RHI's financial result and the value of RHI's equity.

Roche uses Value-at-Risk (VaR) to measure the impact of market risk on its financial instruments. Roche has defined VaR limits to manage market risk. VaR data are reported on a monthly basis and indicate 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 a statistical measure which implicitly assumes that value changes of the recent past are indicative of value changes in the future. VaR figures do not represent actual or expected losses, or possible worst-case losses over the stated period. Also, VaR does not consider any effects of favorable market movements.

VaR figures are calculated using a historical simulation approach. For each scenario, all financial instruments are fully valued and the total change in value and earnings is determined. All 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. Longer holding periods increase the probability of higher value changes and lead to increased VaR figures.

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

Market risk of financial instruments *in millions of USD*

	December 31, 2009	December 31, 2008
VaR - Foreign exchange component	16	68
VaR - Interest rate component	801	68
VaR - Other price component	32	31
Diversification	(40)	(45)
VaR - Total market risk	809	122

At December 31, 2009, the total VaR of the financial assets and liabilities was \$809 million (2008: \$122 million). The interest rate VaR increased substantially to \$801 million driven by the \$40.3 billion of bonds and notes issued in the first quarter of 2009. As all newly issued debt is held at amortized cost, the interest rate VaR is a sole metric for economic fair value changes, but there is no impact on the carrying value or profit and loss of the Group. The foreign exchange VaR decreased as hedges of non-U.S. dollar cash flows from future royalty income at Genentech were unwound. Other price risk arises mainly from movements in the prices of equity securities and remained relatively stable. At December 31, 2009, the RHI Group held equity securities with a market value of \$0.3 billion (31 December 2008: 0.4 billion). This includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations.

Foreign exchange risk

The RHI Group is exposed to movements in foreign currencies affecting its financial result and the value of RHI's equity. Foreign exchange risk arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates (transaction exposures).

The objective of RHI's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimize 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 monitors transaction exposures on a daily basis. The net foreign exchange result and the corresponding VaR parameters are reported on a monthly basis. 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

Interest rate risk arises from movements in interest rates which could affect RHI's financial result or the value of RHI's equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments. The primary objective of RHI's interest rate management is to protect the net interest result.

Interest rate exposures and the corresponding VaR parameters are reported on a monthly basis. RHI uses 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 the appropriate mix of fixed and floating rate exposures.

Other price risk

Other price risk arises mainly from movements in the prices of equity securities held by RHI. In 2009, the RHI Group held equity securities with a market value of \$0.3 billion (2008: \$0.4 billion). This amount includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations. Due to the nature of their business, biotechnology companies are exposed to greater equity volatilities than general stock market fluctuations.

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.

Impairment of financial assets

During 2008 impairments of shares were triggered by a significant or prolonged price decline below cost value.

Impairment losses by asset classes *in millions of USD*

	2009	2008
Loans and receivables	1	(3)
Available-for-sale financial assets		
- Shares	-	(67)
- Investments	(4)	(17)
Total impairment losses	(3)	(87)

Capital

The RHI Group defines the capital that it manages as RHI's total capitalization, being the sum of debt plus equity, including non-controlling interests. 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.

Effective March 26, 2009, the purchase of the non-controlling interests in Genentech was completed (see Note 3). Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, 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 was reduced by approximately \$47 billion, of which \$7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests and at December 31, 2009 the RHI Group had a negative equity of \$30.3 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Capital is monitored on the basis of the capitalization, which is calculated as being debt plus equity (including non-controlling interests). This is reported to senior management as part of the RHI Group's regular internal management reporting. RHI's capitalization is shown in the table below.

Capital in millions of USD

	2009	2008	2007
Capital and reserves attributable to RHI shareholder ²⁷	(30,297)	7,200	6,589
Equity attributable to non-controlling interests ²⁸	-	6,991	5,265
Total equity	(30,297)	14,191	11,854
Total debt ²⁶	48,756	11,228	8,145
Capitalization	18,459	25,419	19,999

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

31. Related parties

Controlling shareholders

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 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,	
	2009	2008
Sales	1,110	1,602
Royalty income	1,806	1,708
Contract revenue	247	76
Purchases of inventory and other materials	(714)	(823)
Reimbursements received under research and development cost sharing and collaboration agreements	662	584
Payments issued under research and development cost sharing and collaboration agreements	(395)	(92)
Profit-sharing expense	(6)	(89)
Other revenue (expense), net	(15)	(43)
Financial income – related parties		
Gains (losses) on foreign currency derivatives, net	942	-
Other financial income	37	41
Total	979	41
Financing costs – related parties		
Interest expense	(586)	(421)
Guarantee fees	(258)	-
Other financial expense	(4)	(31)
Total	(848)	(452)

A net gain of \$942 million was made on foreign exchange forward contracts with related parties that were entered into to hedge some of the foreign currency transaction exposure arising from bonds and notes issued in euro and Swiss francs. No hedge accounting was applied on those foreign exchange forward contracts. The foreign exchange revaluation losses on the hedged bonds and notes are included in financial income (see Note 4).

Related party balances *in millions of USD*

	December 31,		
	2009	2008	2007
Accounts and loans receivable	6,852	2,085	2,059
Accounts and loans payable	(11,036)	(8,564)	(5,041)

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 \$3.9 billion are immediately available and bear variable interest referenced to one month LIBOR. In May 2009, after the completion of the purchase of the non-controlling interest of Genentech, Genentech also became a member of this cash pool.

Subsidiaries and associates

A listing of the major RHI Group subsidiaries is included in Note 33. 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 organized 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 Erich Hunziker	Vice-Chairman	September 1, 2001
Dr Severin Schwan	Member of the Board	April 29, 2008
Frank J. D'Angelo	Member of the Board	December 2, 2008
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 Hunziker and Dr Schwan did not receive remuneration or payment for their time and expenses related to their services from RHI during 2009 and 2008.

The RHI Group pays to the directors appointed on December 2, 2008 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 10.

Remuneration of members of the RHI Group Executive Committee ^{a)}

in thousands of USD

	2009	2008 a)
Salaries, including bonuses and expenses	1,928	135
Social security costs	79	7
Pensions and other post-employment benefits	135	11
Equity compensation plans	1,150	105
Other employee benefits	222	10
Total	3,514	268

a) The numbers indicated in the table above include remuneration for the period from December 2, 2008 to December 31, 2008 for the members of the RHI Group Board of Directors appointed on December 2, 2008.

Post-employment benefit plans

Transactions between the Group and the various post-employment defined benefit plans for the employees of the RHI Group are described in Note 9.

32. Subsequent events

Effective January 1, 2010, the Company's wholly-owned subsidiary, Roche Finance USA Inc., was merged into the Company, with the Company being the surviving entity. All the assets and liabilities of Roche Finance USA Inc. were assumed by the Company.

33. Subsidiaries and associates

Subsidiaries

Effective May 25, 2009, Genentech, Inc. sold Genentech Bermuda Ltd., together with its fully-controlled subsidiary, Genentech Singapore, Pte. Ltd., to F. Hoffmann-La Roche AG, Basel, a subsidiary of Roche Holding Ltd for \$35 million in cash. As a result of the sale these entities are no longer part of the RHI Group. A loss of \$4 million was recognized from this disposal and is included in 'other financial expense' in the related party transactions reported in Note 31. The net cash inflow from the sale was \$27 million. This transaction included the 2006 supply agreement between Genentech, Inc. and Lonza Group Ltd. (Lonza) for the manufacture of certain Genentech products at a facility under construction in Singapore by Lonza. It also included an option to purchase the Lonza Singapore facility. For accounting purposes, due

to the nature of the supply agreement and Genentech's involvement in the construction of the buildings, Genentech, Inc. was considered to be the owner of the assets during the construction period. The sale of the subsidiary Genentech Bermuda Ltd., together with its fully-controlled subsidiary, Genentech Singapore, Pte. Ltd. included construction in progress and the related finance lease obligation. The exclusive purchase option in the original agreement was also transferred.

Gain (loss) on divestment of subsidiaries *in millions of USD*

	2009
Consideration received	35
Net assets disposed	
- Property, plant and equipment ¹¹	(490)
- Cash	(8)
- Finance lease obligation ²⁶	284
- Other net assets	175
Gain (loss) on divestment	(4)

Subsidiary and associates	Country of Incorporation	Equity interest %	
		2009	2008
BioVeris Corporation	United States	100%	-
Hoffmann-La Roche Inc.	United States	100%	100%
Roche Palo Alto LLC	United States	100%	100%
Genentech, Inc.	United States	100%	55.8%
HLR Consumer Health Inc.	United States	100%	100%
IGEN International, Inc.	United States	100%	-
Roche Vitamins, Inc.	United States	100%	100%
Roche Diagnostics Corporation	United States	100%	100%
Roche Diagnostics Operations, Inc.	United States	100%	100%
Roche Finance USA, Inc.	United States	100%	100%
Memory Pharmaceuticals Corp.	United States	100%	-
Roche Molecular Systems, Inc.	United States	100%	100%
Roche Carolina, Inc.	United States	100%	100%
Roche Colorado Corporation	United States	100%	100%
Disetronic Medical Systems Inc.	United States	100%	100%
Disetronic Sterile Products	United States	100%	100%
454 Life Sciences Corporation	United States	100%	100%
Roche NimbleGen, Inc.	United States	100%	100%
Roche Madison, Inc.	United States	100%	100%
Spring Bioscience Corp.	United States	100%	100%
Therapeutics Human Polyclonals, Inc.	United States	100%	100%
Ventana Medical Systems, Inc.	United States	100%	100%

Report of the RHI Group Auditors

Independent Auditor's Report to the Board of Directors of Roche Holdings, Inc., Wilmington, Delaware

We have audited the consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 5 to 81) of Roche Holdings, Inc. for the year ended 31 December 2009.

Management's Responsibility for the Financial Statements: Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; 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 internal control 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 give a true and fair view of the financial position of Roche Holdings, Inc. as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG AG



John A. Morris



François Rouiller

Basel, January 26, 2010