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# **Genentech transaction – Impact on Roche Group equity**

*Investor Update 12 June 2009*



# Transactions in controlled subsidiaries

*Revised IAS 27 implemented already in 2008*

## Accounting under IAS 27 revised

- Where control does not change, all entries are directly to equity.
- There is no “acquisition accounting”, because there is no acquisition. The transaction is treated as a transaction with equity holders (i.e. the minority interests in equity).

## Implications for Roche reporting

- Already applied to squeeze out minorities, post-acquisition after control is obtained in the first stage (2008: Ventana, 2009: Memory).
- Already applied in 2008 for Chugai Tender Offer for additional 10% of shares.
- Applied in 2009 for purchase of additional shares at Genentech.

# Genentech transaction

## *Illustrative pro-forma impact on Group balance sheet*

	<b>As published 31/12/08</b> CHF m	<b>Debt 1)</b> CHF m	<b>Genentech transaction 2)</b> CHF m	<b>Adjusted</b> CHF m
Property, plant and equipment	18,190			18,190
Goodwill and intangibles	15,474			15,474
Other assets	21,654			21,654
Cash and marketable securities	20,771	48,000	-50,000	18,771
<b>Total assets</b>	<b>76,089</b>	<b>48,000</b>	<b>-50,000</b>	<b>74,089</b>
Debt	-4,089	-48,000		-52,089
Other liabilities	-18,178			-18,178
<b>Total liabilities</b>	<b>-22,267</b>	<b>-48,000</b>	<b>0</b>	<b>-70,267</b>
<b>Total net assets</b>	<b>53,822</b>	<b>0</b>	<b>-50,000</b>	<b>3,822</b>
<b>Total equity</b>	<b>53,822</b>	<b>0</b>	<b>-50,000</b>	<b>3,822</b>
Capitalisation (debt + equity)	57,911	48,000	-50,000	55,911

1) Net proceeds from new Bonds and Notes. Does not include Commercial Paper or other short-term borrowings.

2) Cash consideration for outstanding shares. Does not include settlement of stock options, transaction costs and tax impacts.

## **Impact on consolidated equity**

*Has strong visual impact but little business impact*

### **Visual impact**

- Balance sheet impact, with book value of Group equity significantly reduced.
- Impact for certain key ratios (e.g. equity ratio, debt/equity ratio).
- Similar accounting impacts in past at other companies from major transactions.

### **Business impact**

- No impact on cash generation and profitability of underlying business.
- No impact on dividend policy or ability to pay dividends.
- The Genentech non-controlling interest is eliminated, so Genentech post-transaction profits are 100% attributable to Roche shareholders.
- No acquisition accounting, so no additional goodwill or intangible assets, and hence no additional amortisation expenses and no additional impairment risk.



# **Appendix**

## *Update from 2008 Accounting Workshop*

## **Intangible assets amortisation for 2009-2011**

*Estimates based on status at 31 December 2008*

	<b>2009</b>	<b>2010</b>	<b>2011</b>
Amortisation	748	655	583
Income taxes	(262)	(229)	(204)
Non-controlling interests	(13)	-	-

### **Assumptions**

- Does not include impairments.
- Does not include acquisitions and purchases from 2009 onwards.
- Does not include transfers to 'in use' from 2009 onwards.
- Tax rate assumed at 35%.
- Foreign exchange rates assumed: USD 1.15, EUR 1.50, JPY 120.



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