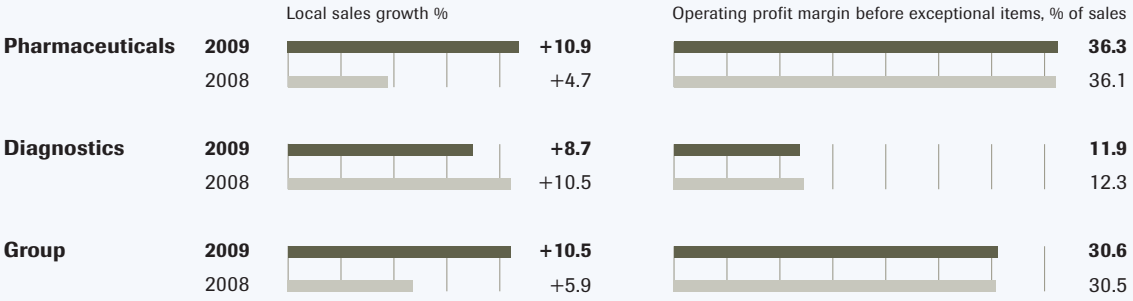
09 Roche Finance Report

Table of Contents

Finance in brief

Key results



	2009 (mCHF)	2008 (mCHF)	% change (CHF)	% change (LC)	2009	% of sales 2008
Sales	49,051	45,617	+8	+10		
Research and development	9,874	8,845	+12	+12	20.1	19.4
Operating profit before exceptional items	15,012	13,896	+8	+14	30.6	30.5
Operating free cash flow	15,722	12,378	+27	+34	32.1	27.1
Net income	8,510	10,844	–22		17.3	23.8
Net income attributable to Roche shareholders	7,784	8,969	–13			
Free cash flow	8,893	4,979	+79		18.1	10.9
Core EPS (CHF) [1]	12.19	11.04	+10	+20		
Dividend per share [2] in CHF	6.00	5.00	+20			

	31 December 2009	31 December 2008	% change (CHF)
Net cash (debt)	(23,867)	16,682	–
Capitalisation	51,830	57,911	–11
– Debt	42,416	4,089	+937
– Equity	9,414	53,822	–83

1) See page 134 for definition of Core EPS.
2) Proposed by the Board of Directors.
LC = local currencies

Finance Executive Committee

Erich Hunziker	Chief Financial Officer
Peter Eisenring	Tax and Insurance
Marco Frei	Pension Asset Management
Andreas Knierzinger	Treasury
Karl Mahler	Investor Relations
Carole Nuechterlein	Venture Funds
Erwin Schneider	Accounting and Controlling
Nigel Sheail	Corporate Development

Finance – 2009 in brief

Sales

- Group sales increased by 10% in local currencies to 49.1 billion Swiss francs. Excluding Tamiflu sales the increase was 5% in local currencies.
- Pharmaceuticals sales increased by 11% in local currencies or 3.0 billion Swiss francs, almost twice the global market growth thanks to virology, in particular Tamiflu, the key oncology products and Lucentis in ophthalmology. This was achieved in spite of the reduction in CellCept sales due to the patent expiry in the United States.
- Tamiflu sales grew sharply by 2.6 billion Swiss francs to 3.2 billion Swiss francs driven by the current pandemic A (H1N1) 2009 influenza virus ('swine flu') outbreak.
- Diagnostics sales increased by 9% in local currencies to 10.1 billion Swiss francs, driven by sales growth in Professional Diagnostics and Diabetes Care. This was more than twice the estimated IVD market growth rate.

Operating results

- Operating profit before exceptional items increased by 14% in local currencies to 15.0 billion Swiss francs thanks to strong sales growth and continuing productivity improvements, which more than covered increased investments in research and development.
- Operating profit margin before exceptional items and at constant exchange rates increased by 1.0 percentage points, with increases of 1.2 percentage points in the Pharmaceuticals Division and 0.4 percentage points in the Diagnostics Division. Exchange rates had an unfavourable impact of approximately 1 percentage point on Group, Pharmaceuticals and Diagnostics margins.
- Research and development expenditure increased 12% in local currencies to 9.9 billion Swiss francs, representing 20.1% of Group sales, due mainly to continued investment in the strong late-stage pipeline.
- Effective 26 March 2009 Roche obtained full ownership of Genentech for a total cash consideration of 47.0 billion US dollars or 52.7 billion Swiss francs. Exceptional restructuring costs of 2.4 billion Swiss francs were incurred in respect of the integration of Genentech and related restructuring in the Pharmaceuticals Division, notably of manufacturing operations.

Treasury

- As a consequence of the Genentech transaction, the Group's treasury results changed significantly during 2009, with the net financial result being an expense of 1.7 billion Swiss francs, primarily driven by the higher interest expenses.
- Of the 48.2 billion Swiss francs bond and notes issued in early 2009 to finance the Genentech transaction, 6.9 billion Swiss francs already repaid in the second half of 2009.

Financial condition

- Strong financial condition with free cash flow of 8.9 billion Swiss francs, up 79% from 2008.
- Swing of 40.6 billion Swiss francs from a net cash position of 16.7 billion Swiss francs at 31 December 2008 to a net debt position of 23.9 billion Swiss francs at 31 December 2009 to finance the Genentech transaction.
- Following the Genentech transaction Moody's lowered Roche's rating to A2 from Aa1 and Standard & Poor's lowered Roche's rating to AA– from AA+.

Net income and Core EPS

- Net income decreased by 22% to 8.5 billion Swiss francs, primarily driven by the exceptional items relating to the Genentech transaction and the restructuring of the Pharmaceuticals manufacturing operations. Diluted EPS decreased by 12%, less than the decrease in net income due to the positive impact of 100% ownership of Genentech.
- The Genentech transaction was accretive with net income attributable to Roche shareholders (before exceptional items) increasing 9% to 9.8 billion Swiss francs.
- Core EPS was 20% higher at constant exchange rates and 10% higher in Swiss francs.

Shareholder return

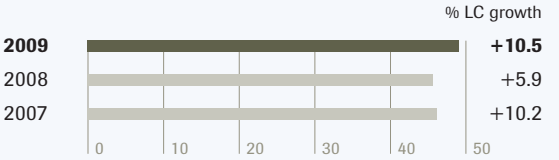
- Increase in Total Shareholder Return (TSR), i.e. share price growth plus dividends, of +12% combined performance of share and non-voting equity security.
- Increase in proposed dividend of 20% to 6.00 Swiss francs, representing the 23rd consecutive year of dividend growth.
- If approved by shareholders, this will result in an increased payout ratio of 53% and a higher dividend yield on Roche shares of 3.3% and on non-voting equity securities of 3.4%, based on year-end prices.

Roche Group

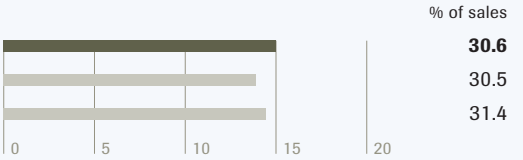
Financial Review

Group operating results

Sales | in billions of CHF



Operating profit before exceptional items | in billions of CHF



In 2009 the Group continued its strong operating performance from previous years with a significant positive contribution from increased Tamiflu sales. The Group maintained the planned investments in research and development and completed the transaction to take full ownership at Genentech while making significant progress on the related integration and restructuring activities. Total sales grew by 10% in local currencies (8% in Swiss francs; 7% in US dollars) to 49.1 billion Swiss francs, with the Pharmaceuticals Division representing 80% of Group sales and the Diagnostics Division contributing 20%. Demand for medicines from the Group's oncology franchise remained strong with Avastin, Herceptin, MabThera/Rituxan, Tarceva and Xeloda all contributing to an overall 8% growth. Additional major growth drivers in the Pharmaceuticals Division were Tamiflu in virology and Lucentis in ophthalmology. Mircera showed steady sales development in Western Europe and Actemra/RoActemra continued with strong growth in Japan and was launched in several countries in Western Europe and in other markets. These positive factors offset the reduction in sales following expiry of the US patent for CellCept. In the Diagnostics Division the main growth areas were Professional Diagnostics and Diabetes Care. Tissue Diagnostics continued to show strong sales increases. Sales growth in both divisions exceeded market growth.

The Group's operating profit before exceptional items increased by 14% in local currencies (8% in Swiss francs), well above sales growth of 10%, reflecting the Group's focus on cost management as well as top line growth. The Pharmaceuticals Division increased its operating profit before exceptional items by 15% in local currencies, driven by strong sales growth of 11% combined with overall under-proportionate growth in costs. Research and development expenses grew by 13% in local currencies, reflecting investment in the Group's strong late-stage pipeline, including promising compounds such as dalcetrapib, taspoglutide, pertuzumab and T-DM1. The rise in R&D expenses was also driven by higher impairments of intangible assets. At 302 million Swiss francs, these were 203 million Swiss francs higher than in 2008, primarily as a result of recent clinical data, technology assessments and portfolio prioritisation decisions. Operating profit growth in the Diagnostics Division was 12% in local currencies, with the main factors being sales growth, tight cost management and the absence of the accounting impact of last year's acquisition of Ventana. At constant exchange rates, the Group's operating profit margin before exceptional items increased by 1.0 percentage points, with the Pharmaceuticals Division improving by 1.2 percentage points and the Diagnostics Division by 0.4 percentage points. When translated into Swiss francs however, the Group's operating profit margin before exceptional items increased only slightly by 0.1 percentage points to 30.6%, due to a particularly unfavourable combination of exchange rate movements (see tables and further analysis on pages 18–19).

The Group's operating free cash flow increased strongly by 34% in local currencies (27% in Swiss francs) to 15.7 billion Swiss francs following the improved results of the business and the absence in 2009 of the net cash outflows associated with Genentech's stock option plans in 2008.

The Pharmaceuticals Division incurred exceptional operating expenses of 2.4 billion Swiss francs relating to the Genentech transaction and the restructuring of the Pharmaceuticals Division, notably in manufacturing operations. There was also an increase in provisions for major legal cases. The comparative period contained exceptional operating income of 271 million Swiss francs from litigation settlement at Genentech and expenses of 243 million Swiss francs from the initial stages of Pharmaceuticals Division reorganisation. This swing of 2.8 billion Swiss francs in exceptional items in total led to a decline of the Group's operating profit of 12% in Swiss francs and 5% in local currencies. Non-cash items account for 1.8 billion Swiss francs of the exceptional operating expenses, relating mainly to the impairments of manufacturing sites announced in the first half of 2009.

Group operating results for 2009

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	38,996	10,055	–	49,051
Operating profit before exceptional items	14,154	1,198	(340)	15,012
– margin, % of sales	36.3	11.9	–	30.6
Operating free cash flow	14,923	1,152	(353)	15,722
– margin, % of sales	38.3	11.5	–	32.1

Group operating results – Development of results compared to 2008

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase in local currencies	+11	+9	–	+10
Operating profit before exceptional items				
– % increase in local currencies	+15	+12	+30	+14
– margin: percentage point increase	+0.2	–0.4	–	+0.1
Operating free cash flow				
– % increase in local currencies	+30	+102	+31	+34
– margin: percentage point increase	+4.8	+5.3	–	+5.0

Pharmaceuticals operating results

The Pharmaceuticals Division increased its sales by 11% in local currencies (8% in Swiss francs; 8% in US dollars) to 39.0 billion Swiss francs, almost double the global market growth. Operating profit before exceptional items was 14.2 billion Swiss francs. At constant exchange rates, the operating profit margin increased by 1.2 percentage points due to sales growth and overall lower cost growth, in spite of significantly increased research and development expenses, including impairment charges, and lower gains from product disposals. When translated in Swiss francs however, the margin increased only by 0.2 percentage points to 36.3%, due to a particularly unfavourable combination of exchange rate movements (see tables and further analysis on pages 18–19). At constant exchange rates, in the first half of 2009 the margin increased by 2.9 percentage points year-on-year, followed by a reduction of 0.3 percentage points in the second half of 2009. This reduction was primarily driven by accelerated R&D growth including impairments of intangible assets in the second half, which accounted for a negative swing of 1.5 percentage points.

Marketing costs increased only moderately in local currencies while still promoting the growing oncology and rheumatoid arthritis portfolios. Investments were made in broader indications, particularly for Avastin, as well as for the launch of Actemra/RoActemra in Western Europe and some other countries. The strong increase in research and development expenses, significantly above the increase in sales, was due to continued high investments in the strong pipeline and expanded portfolio, the large number of late-stage clinical trials and impairment of intangible assets.

For more information on the divisional business and its pipeline, see the Business Report (Part 1 of this Annual Report).

Pharmaceuticals Division results

	2009 (mCHF)	2008 (mCHF)	% change (CHF)	% change (local currencies)
Sales	38,996	35,961	+8	+11
Royalties and other operating income	1,948	2,148	–9	–10
Cost of sales	(9,535)	(8,963)	+6	+6
Marketing and distribution	(6,964)	(6,696)	+4	+6
Research and development	(8,896)	(7,904)	+13	+13
General and administration	(1,395)	(1,572)	–11	–11
Operating profit before exceptional items	**14,154**	**12,974**	**+9**	**+15**
– margin, % of sales	36.3	36.1	+0.2	+1.2
Operating free cash flow	**14,923**	**12,053**	**+24**	**+30**
– margin, % of sales	38.3	33.5	+4.8	+5.7

Sales

The major growth drivers were strong Tamiflu sales in the virology therapeutic area, key products in oncology and Lucentis in ophthalmology. Sales in the renal anemia therapeutic area remained stable in an increasingly competitive, cost-sensitive market. Sales in inflammation/autoimmune/transplantation declined by 6% due to the expected negative impact of the CellCept patent expiry in the United States. This was partly offset by the continued success of MabThera/Rituxan in rheumatoid arthritis and also by continued strong growth of Actemra/RoActemra in Japan and, post-launch, in several markets of Western Europe and elsewhere. Sales in the metabolism/bone portfolio declined by 4%, mainly due to lower Bonviva/Boniva sales in the US following generic competition and a decline in the bisphosphonate market.

Pharmaceuticals Division – Sales by therapeutic area for 2009

Therapeutic area	Sales (mCHF)	% of sales	% change (local currencies)
Oncology	20,740	53	+8
Virology	5,932	15	+79
Inflammation/Autoimmune/Transplantation	2,955	8	–6
Metabolism/Bone	2,666	7	–4
Renal anemia	1,318	3	0
Others	5,385	14	–1
Total	**38,996**	**100**	**+11**

In 2009 the Top 20 Pharmaceuticals products, which represented 88% of the Pharmaceuticals portfolio, grew 14% with the majority of products showing sales growth. Besides Tamiflu, the local sales growth of the Pharmaceuticals Division was primarily came from eight products: Avastin, Herceptin, MabThera/Rituxan, Lucentis, Mircera, Tarceva, Activase/TNKase and Actemra/RoActemra. These eight products represent 53% of the portfolio (2008: 52%; 2007: 46%) and together generated over 2.0 billion Swiss francs of additional sales compared to 2008. Sales of CellCept declined due to the patent expiry in the United States in May 2009. Other sales declines were primarily due to generic erosion following patent expiry, strong competition in certain franchises and product disposals as well as the voluntary withdrawal of Raptiva in the US. These were partly compensated for by steady growth and launch impacts of Mircera and Actemra/RoActemra.

Pharmaceuticals Division – Sales of Top 20 products for 2009

Product	Sales (mCHF)	% of sales	% change (local currencies)	Franchise
Avastin	6,222	16	+21	Oncology
MabThera/Rituxan	6,087	16	+6	Oncology/IAT [1]
Herceptin	5,266	14	+8	Oncology
Tamiflu	3,200	8	+435	Virology
Pegasys	1,655	4	+5	Virology
CellCept	1,576	4	–22	IAT [1]
NeoRecormon/Epogin	1,560	4	–11	Renal anemia, Oncology
Tarceva	1,304	3	+10	Oncology
Xeloda	1,260	3	+7	Oncology
Lucentis	1,198	3	+24	Ophthalmology
Bonviva/Boniva	1,058	3	–2	Metabolism/Bone
Xolair	620	2	+10	Respiratory diseases
Valcyte/Cymevene	564	1	+6	Virology
Pulmozyme	501	1	+5	Respiratory diseases
Activase/TNKase	455	1	+34	Cardiovascular diseases
Nutropin	400	1	–3	Metabolism/Bone
Xenical	397	1	–13	Metabolism/Bone
Neutrogin	385	1	–14	Oncology
Rocephin	307	1	–9	Infectious diseases
Madopar	286	1	–2	Nervous System
Total Top 20 products	**34,301**	**88**	**+14**	
Other products	4,695	12	–9	
Total	**38,996**	**100**	**+11**	

1) Inflammation/Autoimmune/Transplantation.

Avastin | Sales rose 21% to 6.2 billion Swiss francs in 2009. Sustained growth in all regions was driven primarily by continued uptake in colorectal, breast and lung cancer. In the United States sales growth came mainly from use in advanced breast cancer and the new indications in glioblastoma and kidney cancer, while high penetration rates were maintained in established indications such as lung and colorectal cancer. Sales in Japan (+74%), where Avastin is approved for advanced colorectal and non-small cell lung cancer, remain particularly strong.

MabThera/Rituxan | Overall sales rose 6% to 6.1 billion Swiss francs. Growth in the oncology segment was driven by the uptake in chronic lymphocytic leukemia following approvals in the EU during the year. Lower sales growth in the US (3%) reflects the high levels of adoption in the product's cancer indications. Increased sales in the rheumatoid arthritis (RA) segment are due to increasing and earlier use of MabThera/Rituxan in patients with an inadequate response to one or more tumour necrosis factor (TNF) inhibitors. MabThera/Rituxan is well established as the medicine of choice following the inadequate response to TNF inhibitor treatment and is currently the market leader in that segment in the EU. An estimated 900 million Swiss francs of sales were generated in the RA indication, representing 15% of overall product sales.

Herceptin | Sales of Herceptin increased 8% to 5.3 billion Swiss francs in 2009, driven by continued uptake in early breast cancer, especially in Japan (+25%) and a number of emerging markets as well as increasing market penetration in Eastern Europe. Moderate sales growth in the US and Western Europe reflects the high market penetration achieved in both early and advanced breast cancer in these regions.

Tamiflu | Global sales of the anti-influenza medicine Tamiflu totalled 3.2 billion Swiss francs in 2009, an increase of 2.6 billion Swiss francs, or over 400%, on last year. This very high growth was driven by unprecedented demand from governments and in the retail pharmacy sector following the pandemic A (H1N1) 2009 influenza virus ('swine flu') outbreak, which began in April 2009 and spread rapidly across the world. Sales for pandemic stockpiling amounted to 1.9 billion Swiss francs. Roche is co-operating closely with the World Health Organization and governments worldwide to support pandemic preparedness and supply Tamiflu to all patients in need.

Pegasys | In 2009 sales of Pegasys rose 5% to 1.7 billion Swiss francs. Growth was driven by market-share gains in major markets.

CellCept | Sales of CellCept for the prevention of solid organ transplant rejection decreased 22% compared with 2008 to 1.6 billion Swiss francs. As expected, sales in the United States, the product's largest market, fell sharply year-on-year after the first quarter as a result of the expiry of the product's US patent in May 2009. The continuing erosion of US sales through generic competition is being offset to some extent by continued solid growth elsewhere, particularly in Latin America and Japan.

NeoRecormon/Epogin | Combined sales of Roche's NeoRecormon and Chugai's Epogin (epoetin beta) were down 11% compared to 2008. The decline in NeoRecormon sales of 14%, primarily driven by Western Europe, was mainly due to increased price pressure as new biosimilars enter the market. The slight decline in sales of Epogin in Japan (down 1%) reflects stabilisation of the product's market share in the dialysis segment and continued expansion in the predialysis setting.

Tarceva | Sales increased by 10% reflecting the growing use of the medicine in second-line non-small cell lung cancer outside the US and in metastatic pancreatic cancer, with the main sales contributions coming from the United States and Western Europe. The more modest growth in US sales reflects stable penetration in NSCLC and pancreatic cancer, the competitive environment and reserve adjustments taken during the year for government programmes involving discounts.

Xeloda | Overall sales rose 7% to 1.3 billion Swiss francs coming primarily from growth in the United States, Japan and China. Growth came from the use of the medicine in metastatic breast cancer, adjuvant colon cancer and metastatic colorectal cancer.

Lucentis | US sales of Lucentis, for wet age-related macular degeneration (AMD), increased 24% to 1.2 billion Swiss francs compared to 2008. Strong growth was driven primarily by an increase in the number of injections administered to patients in the first and second years of treatment, growth in the number of patients treated for wet AMD and easier reimbursement.

Bonviva/Boniva | In a highly competitive market, sales of Bonviva/Boniva (ibandronic acid) for the treatment of postmenopausal osteoporosis declined by 2% compared to 2008. The decline was driven by the US, down 16% due to generic competition and a decline in the bisphosphonate market. Sales in the Western Europe and International (Asia–Pacific, CEMAI, Latin America, Canada and Others) regions increased by 12% and 33% respectively.

Mircera | In a highly competitive, price-sensitive market, sales of the renal anemia medication Mircera showed consistent growth throughout 2009, rising 252% to 179 million Swiss francs. Sales growth was due primarily to the success of the product in the predialysis segment.

Actemra/RoActemra | Following EU marketing approval in January 2009 of the novel rheumatoid arthritis (RA) medicine RoActemra (known as Actemra outside Europe), by the end of the year the medicine had been launched in ten EU countries, including Germany, France, Spain and the United Kingdom. Sales uptake in the initial European launch markets has been strong. Launches also took place in additional markets, including Switzerland, India and Brazil. Global sales rose 289% to 146 million Swiss francs. In Japan, where Actemra has been approved for RA in adults and for related pediatric indications since April 2008, adoption and market penetration are progressing well, with doctors already prescribing the medicine as a first-line biologic treatment for many patients. Sales in Japan amounted to 98 million Swiss francs, an increase of 146%.

See the Business Report (Part 1 of this Annual Report) for more information on Roche's pharmaceutical products.

Sales by region | Sales continued to grow across all regions. Growth in the United States was 5%, in line with local market growth, with the success of the oncology products, Tamiflu and Lucentis, covering for the patent expiry of CellCept, the voluntary withdrawal of Raptiva, and reductions in sales of Bonviva/Boniva due to pricing pressure caused by increased competition. The Pharmaceuticals Division continued to gain market share in the Western Europe, CEMAI and Asia–Pacific regions, driven by further strong sales growth of Tamiflu, Avastin, Herceptin, MabThera/Rituxan, Mircera, Tarceva, Bonviva/Boniva and Pegasys. Sales in Japan increased strongly due to high Tamiflu sales, as well as the success of Avastin, Herceptin and Actemra which more than compensated for lower Neutrogin sales. Total Tamiflu sales increased strongly, particularly in Western Europe, Japan and other markets, due to government and corporate pandemic stockpiling. There were also higher seasonal sales resulting from increased demand following pandemic A (H1N1) 2009 influenza virus cases in many countries.

Pharmaceuticals Division – Sales by region for 2009

Region	Sales (mCHF)	% of sales	% change (local currencies)
United States	14,805	38	+5
Western Europe	10,827	28	+12
Japan	4,765	12	+29
CEMAI [1)]	3,270	8	+13
Latin America	2,331	6	+7
Asia–Pacific	1,944	5	+20
Other regions	1,054	3	+12
International	**8,599**	**22**	**+13**
Total	**38,996**	**100**	**+11**

1) Central and Eastern Europe, Middle East, Africa, Central Asia, Indian Subcontinent.

Operating results

Royalties and other operating income | The decline of 200 million Swiss francs or 10% in local currencies was in particular due to 268 million Swiss francs lower gains on disposal of products, which were only partly offset by higher royalty income and income from out-licensing agreements. The decline in gains from disposal of products was mainly due to some significant product disposals in 2008 totalling 494 million Swiss francs, notably for Meda and Actavis. Gains from disposal of products in 2009 of 226 million Swiss francs are all part of the continuous realignment of the product portfolio and mainly relate to the divestment of some tail products in Latin America. The increase in out-licensing income was mainly driven by two significant milestone payments from GlaxoSmithKline, one for 84 million Swiss francs related to orlistat OTC approval by the EU and the other one for 81 million Swiss francs for Bonviva/Boniva. Royalties and other operating income as percentage of sales decreased by 1.0 percentage points to 5.0%.

Pharmaceuticals Division – Royalties and other operating income

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Royalty income	1,280	1,234	+3
Income from out-licensing agreements	442	420	+3
Income from disposal of products and other	226	494	–53
Total	**1,948**	**2,148**	**–10**

Cost of sales | Costs increased by 6% in local currencies driven by a 11% rise in manufacturing cost of goods sold and period costs. This increase was in line with sales growth, with efficiency gains in production offsetting unfavourable product mix impacts and an inventory write-off of 141 million Swiss francs following the voluntary withdrawal of Raptiva from the US market. Royalty expenses increased by 13% to 2,331 million Swiss francs (2008: 2,105 million Swiss francs) mainly due to royalty expenses on higher Tamiflu sales. Expenses for collaboration and profit-sharing agreements increased by 2% in local currencies mainly due to Genentech's payments of 1,417 million Swiss francs (2008: 1,330 million Swiss francs) to Biogen Idec, Novartis and OSI in respect of MabThera/Rituxan, Xolair and Tarceva. The expenses for the profit-sharing arrangement with GlaxoSmithKline decreased by 12% in local currencies due to lower Bonviva/Boniva sales in the United States and reached 407 million Swiss francs (2008: 462 million Swiss francs). Amortisation of intangible assets decreased by 55% in local currencies as some intangible assets became fully amortised during 2009. As a percentage of sales, cost of sales decreased by 0.5 percentage points to 24.4% (2008: 24.9%).

Pharmaceuticals Division – Cost of sales

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(5,008)	(4,463)	+11
Royalty expenses	(2,331)	(2,105)	+13
Collaboration and profit-sharing agreements	(1,948)	(1,908)	+2
Restructuring expenses	(1)	–	–
Amortisation of intangible assets	(221)	(477)	–55
Impairment of property, plant and equipment	(26)	(10)	+150
Impairment of intangible assets	–	–	–
Total	**(9,535)**	**(8,963)**	**+6**

Marketing and distribution | Costs increased moderately by 6% in local currencies and reached 7.0 billion Swiss francs (2008: 6.7 billion Swiss francs) with the focus on the oncology portfolio and the rollout of additional approved indications of Avastin. High levels of investment continued in Pegasys and there were launches of Actemra/RoActemra in rheumatoid arthritis. Additionally further investments were focussed on emerging markets. Marketing and distribution costs as a percentage of sales decreased by 0.7 percentage points to 17.9% (2008: 18.6%).

Research and development | The significant increase of 13% in local currencies to 8.9 billion Swiss francs reflects investment in Roche's strong later-stage pipeline, including promising compounds such as dalcetrapib (CETP inhibitor for dyslipidemia), taspoglutide (GLP-1 analogue for type 2 diabetes), pertuzumab and T-DM1 (both for HER2-positive breast cancer). Moreover impairments of intangible assets increased by 203 million Swiss francs compared to the comparative period. The 302 million Swiss francs impairment of intangible assets, 0.8 percent of sales, relates primarily to decisions to discontinue projects due to recent clinical data, technology assessments and portfolio prioritisation. Research and development costs as a percentage of sales were 22.8% compared to 22.0% in 2008 and 21.2% in the first half of 2009. The division spent 196 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets as required by IFRS. Excluding impairment and amortisation charges, the division spent 8.8 billion Swiss francs on internal and purchased R&D from in-licensing and other alliance deals, representing 22.5% of sales. In addition a further 48 million Swiss francs was spent on the acquisition of Memory Pharmaceuticals.

Pharmaceuticals Division – Investments in research and development

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Research and development expenses	8,896	7,904	+13
Less non-cash items			
– Amortisation of intangible assets	(32)	(34)	–8
– Impairment of intangible assets	(302)	(99)	+206
Research and development expenses excluding non-cash items	**8,562**	**7,771**	**+11**
Product intangibles – not available for use	183	363	–50
Technology intangibles	13	–	–
Research and development related capital expenditure	**196**	**363**	**–46**
Total investments in research and development	**8,758**	**8,134**	**+8**

General and administration | Overall costs decreased by 11% in local currencies, driven by lower administration costs and the one-time effects of divestments in 2009 and 2008. Restructuring expenses and provisions for legal and environmental matters increased. Overall general and administration expenses as a percentage of sales decreased to 3.6% from 4.4%.

Pharmaceuticals Division – General and administration

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Administration	(1,294)	(1,497)	–13
Legal and environmental settlements	(96)	(1)	over 1,000
Business combinations	(8)	(8)	+8
Gains (losses) on divestment of businesses	11	(46)	–
Restructuring expenses	(43)	(32)	+29
Gains (losses) on disposal of property, plant and equipment	(1)	(7)	–87
Other general items	36	19	+65
Total	**(1,395)**	**(1,572)**	**–11**

Exceptional items

Major legal cases | Provisions for major legal cases increased by 320 million Swiss francs, 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 271 million Swiss francs was recorded from the release of a provision following the 24 April 2008 California Supreme Court decision in the City of Hope litigation. Additional information is given in Note 25 to the Consolidated Financial Statements.

Changes in Group organisation | Effective 26 March 2009 the Group obtained full-ownership of Genentech and further continued the implementation of the reorganisation of the Group's US Pharmaceuticals business announced on 21 July 2008. Subsequently, the Group commenced a restructuring of its Pharmaceuticals manufacturing operations, particularly in the biotech network. During 2009 expenses of 2,415 million Swiss francs were incurred, mainly in connection with the discontinuation of a construction project at the manufacturing site at Vacaville, California, termination costs for the closure of manufacturing operations at Nutley, New Jersey, and the research and development site at Palo Alto, California. In addition costs were incurred following the reorganisation including the transfer of the research operations from Palo Alto to Nutley and the transfer of commercial operations from Nutley to South San Francisco. Approximately 1.8 billion Swiss francs of the exceptional operating expenses are non-cash items which relate mainly to impairments of manufacturing sites. Additional information is given in Note 8 to the Consolidated Financial Statements.

The Group currently anticipates that these restructuring activities will be substantially completed by the end of 2010. The total cost is expected to be in the order of 3.4 billion Swiss francs, which includes 243 million Swiss francs that were incurred in 2008. Approximately 2.2 billion Swiss francs of this total is non-cash. The carrying value of property, plant and equipment was reduced by 1.2 billion Swiss francs by the end of 2009, and is anticipated to be reduced by approximately 1.5 billion Swiss francs in total by the end of 2010, mostly relating to manufacturing facilities.

Pharmaceuticals Division – Total operating results

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Operating profit before exceptional items	**14,154**	**12,974**	**+15**
Major legal cases	(320)	271	–
Changes in Group organisation	(2,415)	(243)	+876
Operating profit	**11,419**	**13,002**	**–6**

Operating free cash flow

The Pharmaceuticals Division continued to generate a strong cash flow. Operating free cash flow increased by 30% in local currencies driven by the excellent operating performance. Operating profit cash adjustments increased mainly due to the 1.8 billion Swiss francs non-cash element of changes in Group organisation. Furthermore, non-cash provision expenses exceeded provision payments by 781 million Swiss francs in 2009, while in 2008 provision payments exceeded non-cash provision expenses by 542 million Swiss francs, mainly as 476 million US dollars were paid by Genentech from existing provisions to settle litigation. Net working capital decreased by 669 million Swiss francs in 2009. The main factor was higher accounts payable due primarily to deferred income from prepaid Tamiflu consignment deliveries and increased royalty payables to Gilead with respect to Tamiflu. Overall inventory levels decreased slightly in absolute terms, and as a percentage of sales inventories decreased by 2 percentage points in constant currencies to 10.5%, with operational initiatives reducing average product inventory on hand, especially for the biologic products. Accounts receivable increased by 6% in local currencies, which was under-proportional to sales growth. As a percentage of sales, accounts receivable dropped by 1 percentage point in constant currencies to 20.0%. Overall capital expenditure was lower than in 2008. As a percentage of sales, operating free cash flow of the Pharmaceuticals Division increased to 38.3% compared to 33.5% in 2008.

Pharmaceuticals Division – Operating free cash flow

	2009 (mCHF)	2008 (mCHF)
Operating profit	11,419	13,002
– Depreciation, amortisation and impairment	3,214	1,652
– Provisions	781	(542)
– Equity compensation plans	587	302
– Other	269	84
Operating profit cash adjustments [1]	**4,851**	**1,496**
(Increase) decrease in net working capital		
– Accounts receivable	(575)	(587)
– Inventories	157	38
– Accounts payable	1,120	530
– Other	(33)	4
Total (increase) decrease in net working capital	**669**	**(15)**
Investments in property, plant and equipment	(1,789)	(2,021)
Investments in intangible assets	(227)	(409)
Operating free cash flow	**14,923**	**12,053**
– as % of sales	38.3	33.5

1) Operating profit cash adjustments include the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of property, plant and equipment and intangible assets with their cash equivalents. A detailed breakdown is provided on page 135.

Diagnostics operating results

The Diagnostics Division increased sales to 10.1 billion Swiss francs in 2009, growing 9% in local currencies (4% in Swiss francs; 4% in US dollars). This growth was more than twice the estimated *in-vitro* diagnostics market rate, thereby strengthening the division's leading market share of around 20%. The operating profit increased by 12% in local currencies and by 1% in Swiss francs to 1,198 million Swiss francs, driven by the sales growth, tight cost management and the significant one-off expense items in 2008 including those relating to the Ventana acquisition. At constant exchange rates, the operating profit margin increased by 0.4 percentage points. When translated in Swiss francs however, the margin decreased slightly by 0.4 percentage points to 11.9%, due to a particularly unfavourable combination of exchange rate movements (see tables and further analysis on pages 18–19). At constant exchange rates, the margin increased by 2.3 percentage points in the first half of 2009 compared to 2008, followed by a reduction of 1.3 percentage points in the second half of 2009 compared to 2008. Continual improvements in operational efficiency could not fully compensate the impact of impairment of intangible assets and additional royalty expenses, which accounted for a negative swing of 1.8 percentage points in the second half of 2009. Ongoing initiatives to improve operational efficiency include simplifying core processes, consolidation of service functions and the establishment of regional call centres, combined with the streamlining of product portfolios and intensified phase out of old and low-selling products.

For more information on the divisional business and its pipeline, see the Business Report (Part 1 of this Annual Report).

Diagnostics Division results

	2009 (mCHF)	2008 (mCHF)	% change (CHF)	% change (local currencies)
Sales	10,055	9,656	+4	+9
Royalties and other operating income	152	139	+9	+10
Cost of sales	(5,080)	(4,698)	+8	+12
Marketing and distribution	(2,511)	(2,474)	+1	+5
Research and development	(978)	(941)	+4	+5
General and administration	(440)	(495)	–11	–9
Operating profit	**1,198**	**1,187**	**+1**	**+12**
– margin, % of sales	11.9	12.3	–0.4	+0.4
Operating free cash flow	**1,152**	**600**	**+92**	**+102**
– margin, % of sales	11.5	6.2	+5.3	+5.6

Sales

The Diagnostics business continued to grow at more than twice the market rate with an increase of 9% in local currencies over 2008. Major drivers were Professional Diagnostics with 9% sales growth, leveraged by Immunodiagnostics, and Diabetes Care with 6% sales growth through sales of Accu-Chek blood glucose monitoring systems. Sales in Molecular Diagnostics increased by 5% driven by virology and blood screening products. Applied Science sales grew by 15% in particular due to sales of systems and reagents for nucleic acid purification and PCR analysis. Sales of Tissue Diagnostics totalled 480 million Swiss francs driven by sales in the advanced tissue staining market. On a comparable year-on-year basis, sales in Tissue Diagnostics rose 21% in local currencies.

Diagnostics Division – Sales by business area for 2009

Business area	Sales (mCHF)	% of sales	% change (local currencies)
Professional Diagnostics	4,553	45	+9
Diabetes Care	2,969	29	+6
Molecular Diagnostics	1,183	12	+5
Applied Science	870	9	+15
Tissue Diagnostics	480	5	+29
Total	**10,055**	**100**	**+9**

Professional Diagnostics | Sales grew at roughly twice the market rate, rising 9% to 4,553 million Swiss francs. The immunoassay business gained additional market share on sales growth of 19%, due mainly to new placements of the cobas modular analysers, especially the cobas 6000, and strong sales of assays for cardiac markers and hepatitis C virus. Clinical chemistry sales rose 4%, in line with growth in this more mature market. The cobas 8000 modular analyser series for high-throughput laboratories received CE Mark certification in August. The rollout of this new flagship serum work area platform commenced with the high-speed c701 and c502 clinical chemistry modules, now available in several configurations in the EU and other markets recognising CE Marking. Four cobas 8000 clinical chemistry and immunoassay modules will be available worldwide offering 38 customisable configurations by the end of 2010.

Diabetes Care | Sales rose 6% to 2,969 million Swiss francs. Sales of blood glucose (BG) monitoring systems continued to show growth that was significantly above the market, which has been impacted by the economic downturn, particularly in the US. Accu-Chek Aviva and Accu-Chek Performa remained the primary growth drivers, helped by the recently launched Accu-Chek Aviva and Performa Nano meters. The first strip-free monitoring system, the Accu-Chek Mobile, launched in nine markets, experienced excellent market uptake. Insulin delivery systems posted strong growth, helped by uptake of the new Accu-Chek Combo interactive insulin pump/BG meter combination which was launched in nine key markets in 2009. Promising preliminary results from the Accu-Chek 360° View Outcome study were presented at the recent European Diabetes Congress. They suggest that new diabetes management concepts employing structured BG testing can contribute to improved glycemic control and medical outcome in non-insulin-dependent patients with type 2 diabetes.

Molecular Diagnostics | Sales rose 5% to 1,183 million Swiss francs. Blood screening was the primary growth driver, with sales up 8%, slightly ahead of the market for the period, due to new contracts in Spain, Portugal, Thailand and competitive gains in the UK. The unit maintained its leadership in virology with 4% sales growth. In December Molecular Diagnostics launched the new, fully automated cobas 4800 system in markets accepting CE Mark certification. The menu currently comprises tests for *Chlamydia trachomatis* (CT) and *Neisseria gonorrhoeae* (NG), and a screening test for human papillomavirus (HPV) that simultaneously identifies the high-risk genotypes 16 and 18.

Applied Science | Sales totalled 870 million Swiss francs, an above-market increase of 15% over last year. The MagNA Pure and LightCycler systems (nucleic acid purification and PCR analysis) were the largest contributors to growth (35%), helped by strong demand for instruments and reagents for pandemic influenza testing and surveillance. The RealTime pandemic A (H1N1) 2009 influenza virus test, launched for research use in May 2009, just weeks after the new virus was detected, has generated strong sales. The US Food and Drug Administration (FDA) granted Emergency Use Authorization (EUA) of the kit in November, making it available for clinical use in certified labs in the US. Sales of DNA sequencing reagents were up 26%, but overall sales of DNA sequencing systems were flat due to the economic downturn and the resulting decline in research funding, notably in the US.

Tissue Diagnostics | Sales totalled 480 million Swiss francs, a 29% increase over the eleven months' sales consolidated in 2008 following the Ventana acquisition in February of that year. On a comparable year-on-year basis, sales rose 21%, significantly outpacing the market, due to leveraging the existing Roche infrastructure to cover previously under-served markets. Advanced tissue staining remained the primary growth driver, with reagents for immunohistochemistry (IHC) testing and advanced staining instruments like the BenchMark Ultra fuelling robust 27% growth in this segment. In the high-volume primary staining market sales were up 39%, driven by the automated Symphony system and reagents for hematoxylin/eosin staining. During 2009 the business area launched 17 new IHC reagents for use in helping to diagnose various cancers, including leukemia, lymphoma and cancers of the colon, prostate, lung and stomach.

See the Business Report (Part 1 of this Annual Report) for more information on Roche's diagnostics products and business areas.

Sales by regions | Divisional sales grew ahead of the market in all regions except Japan, where price cuts offset volume growth. The EMEA (Europe, Middle East and Africa) and Asia–Pacific regions contributed most to growth, with all five business areas recording solid gains in these markets. In North America, in tough market conditions, the main growth-driver was Tissue Diagnostics. In Japan, growth in Professional Diagnostics, Tissue Diagnostics and Applied Science was offset by sales declines in Molecular Diagnostics, which was affected by weak market growth and price cuts, and in Diabetes Care where sales were impacted by competitive and pricing pressures. Sales in the emerging seven (E7) markets (Brazil, Russia, India, China, South Korea, Mexico and Turkey) grew 24% and accounted for over 10% of divisional sales. Growth came from increased investments in these markets with sales force and sales support, combined with a strong demand for immunoassays and other leading-edge products in the Roche portfolio.

Diagnostics Division – Sales by region for 2009

Region	Sales (mCHF)	% of sales	% change (local currencies)
EMEA [1]	5,314	53	+9
North America	2,639	26	+4
Asia–Pacific	987	10	+25
Latin America	584	6	+15
Japan	499	5	0
Other regions	32	0	–14
Total	**10,055**	**100**	**+9**

1) Europe, Middle East and Africa.

Operating results

Royalties and other operating income | Income of 152 million Swiss francs was 10% higher in local currencies compared to 2008. Royalty income increased by 27% in local currencies, mainly as a result of higher pro-BNP and HCV royalty income. Out-licensing income can vary significantly from period to period due to being more of a one-off nature, and in 2009 declined by 54% in local currencies.

Diagnostics Division – Royalties and other operating income

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Royalty income	129	102	+27
Income from out-licensing agreements	15	33	–54
Income from disposal of products and other	8	4	+106
Total	**152**	**139**	**+10**

Cost of sales | The overall increase of 12% in local currencies was higher than sales growth due to an increase in manufacturing cost of goods sold and period costs. In addition the comparative period included an acquisition accounting effect of 33 million Swiss francs of expenses relating to the fair-value write-up of Ventana's inventory. Excluding this acquisition accounting effect, manufacturing cost of goods sold and period costs grew by 13% in local currencies, due to continued investments to expand market share through placements of the new Accu-Chek meters, start-up costs for the Accu-Chek Mobile production and an increased installed instrument base in Professional Diagnostics, with related higher depreciation. Impairments of product intangibles amounted to 57 million Swiss francs due to reduced revenue expectations for some acquired products. Total cost of sales as a percentage of sales increased to 50.5% (50.0% excluding impairments of intangible assets) in 2009 compared to 48.7% in 2008.

Diagnostics Division – Cost of sales

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(4,255)	(3,956)	+12
Royalty expenses	(315)	(278)	+15
Collaboration and profit-sharing agreements	(1)	(1)	–44
Restructuring expenses	–	–	–
Amortisation of product intangibles	(448)	(450)	+1
Impairment of property, plant and equipment	(4)	(8)	–51
Impairment of product intangibles	(57)	(5)	+933
Total	**(5,080)**	**(4,698)**	**+12**

Marketing and distribution | The increase of 5% in local currencies was mainly due to investments to competitively fund the sequencing, array and cellular analysis businesses in Applied Science and to further increase global market share of the recently acquired Tissue Diagnostics business. Marketing and distribution as a percentage of sales was 25.0% compared to 25.6% in 2008.

Research and development | Costs increased by 5% in local currencies reflecting investments into Tissue Diagnostics to develop new products and Molecular Diagnostics for the ATHENA trial for a HPV claim in the US. In addition, there was an intangible asset impairment of 23 million Swiss francs. As a percentage of sales, research and development costs remained stable at 9.7%. Excluding the impairment, research and development expenses as a percentage of sales declined slightly to 9.5%.

Diagnostics Division – Investments in research and development

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Research and development expenses	978	941	+5
Less non-cash items			
– Amortisation of intangible assets	(8)	(8)	–3
– Impairment of intangible assets	(23)	–	–
Research and development expenses excluding non-cash items	**947**	**933**	**+3**

General and administration | General and administration costs decreased by 9% in local currencies, primarily following the absence in 2009 of significant one-off expenses in 2008. The decline in administration costs of 3% is due to continuous efficiency improvements of the underlying cost structure and to the inclusion in 2008 of 15 million Swiss francs of Ventana integration costs. Excluding one-off expenses in 2008, general and administration expenses as a percentage of sales remained basically stable at 4.4% compared to 4.5% in 2008.

Diagnostics Division – General and administration

	2009 (mCHF)	2008 (mCHF)	% change (local currencies)
Administration	(362)	(384)	–3
Legal and environmental settlements	(5)	(15)	–65
Business combinations	1	(41)	–
Restructuring expenses	(27)	(27)	+6
Gains (losses) on disposal of property, plant and equipment	(4)	(2)	+33
Other general items	(43)	(26)	+68
Total	**(440)**	**(495)**	**–9**

Operating free cash flow

The operating free cash flow of the Diagnostics Division increased by 102% in local currencies, driven by strong operating performance. Operating profit cash adjustments increased mainly due to provisions, as non-cash provision expenses exceeded provision payments by 62 million Swiss francs in 2009, while in 2008 provision payments exceeded non-cash provision expenses by 52 million Swiss francs. Net working capital increased by 259 million Swiss francs, mainly due to an increase in accounts receivable following strong sales in the fourth quarter of 2009. Inventories increased slightly, mainly as a result of preparation for the launch of the cobas 8000. As a percentage of sales, operating free cash flow of the Diagnostics Division increased to 11.5% compared to 6.2% in 2008.

Diagnostics Division – Operating free cash flow

	2009 (mCHF)	2008 (mCHF)
Operating profit	1,198	1,187
– Depreciation, amortisation, impairments	1,269	1,120
– Provisions	62	(52)
– Equity compensation plans	29	15
– Other	54	39
Operating profit cash adjustments [1]	**1,414**	**1,122**
(Increase) decrease in net working capital		
– Accounts receivable	(319)	(233)
– Inventories	(85)	(251)
– Accounts payable	143	21
– Other	2	(1)
Total (increase) decrease in net working capital	**(259)**	**(464)**
Investments in property, plant and equipment	(1,193)	(1,237)
Investments in intangible assets	(8)	(8)
Operating free cash flow	**1,152**	**600**
– as % of sales	11.5	6.2

1) Operating profit cash adjustments include the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of property, plant and equipment and intangible assets with their cash equivalents. A detailed breakdown is provided on page 135.

Corporate operating costs

General and administration | In local currencies costs in 2009 were 30% higher at 340 million Swiss francs (265 million Swiss francs in 2008), primarily due to an increase of 50 million Swiss francs in environmental provisions in the residual vitamins and fine chemicals business and contributions of 21 million Swiss francs to the state-managed pension insurance scheme in Germany. Operating free cash flow was a net outflow of 353 million Swiss francs (2008: net outflow of 275 million Swiss francs) mainly due to the higher operating expenses.

Foreign exchange impact on operating results

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

Growth (reported in local currencies and Swiss francs)

	% change (local currencies) 2009	% change (local currencies) 2008	% change (CHF) 2009	% change (CHF) 2008
Sales	+10	+6	+8	–1
Operating profit before exceptional items	+14	+4	+8	–4

Exchange rates against the Swiss franc

	31 December 2009	Average 2009	31 December 2008	Average 2008
1 USD	1.04	1.09	1.06	1.08
1 EUR	1.49	1.51	1.49	1.58
100 JPY	1.12	1.16	1.17	1.05

During 2009 the euro and many other currencies weakened against the Swiss franc, which reduces on translation the Swiss franc amount of any revenues and expenses in euros and these other currencies. At the same time US dollar was stable and the Japanese yen strengthened against the Swiss franc. This strengthening upon translation in the Group's income statement increases the Swiss franc amount of revenues and expenses denominated in yen.

In the Pharmaceuticals Division, on a sales level, the negative translation impact from the euro and other currencies is only partly offset by the positive impact of the yen, with sales growth in local currencies being 11% compared to 8% in Swiss francs. At an operating profit level the effect is more noticeable, due to relatively higher expenses and asset intensity in eurozone countries and the United States compared to Japan. Operating profit before exceptional items increased 15% in local currencies compared to 9% in Swiss francs, and the margin increase of 1.2 percentage points in local currencies only translates to a margin increase of 0.2% in Swiss francs.

In the Diagnostic Division the effects are more pronounced due to the relative strength and asset intensity of the Diagnostics Division in Germany. The business in Japan represents a relatively smaller proportion of the overall Diagnostics results, while at the same time one of the key third-party suppliers for diagnostics instruments is a Japan-based company that is invoicing in yen. In combination this means that the negative impact of the euro is stronger and the yen does not have a strong positive impact. This results in sales growth in local currencies of 9% only translating into 4% in Swiss francs. Similarly the operating profit before exceptional items increase of 12% in local currencies translates to only 1% in Swiss francs, while the local currency margin increase of 0.4 percentage points translates into a Swiss franc margin decline of 0.4% in Swiss francs.

The sensitivity of Group sales and operating profit before exceptional items in absolute terms to a 1% movement in foreign currencies against the Swiss franc during 2009 are shown in the table below.

Currency sensitivities

Impact of 1% rise in average exchange rate versus the Swiss franc	Sales (mCHF)	Operating profit before exceptional items (mCHF)
US dollar	+175	+42
Euro	+132	+62
Japanese yen	+53	+21
All other currencies	+109	+66

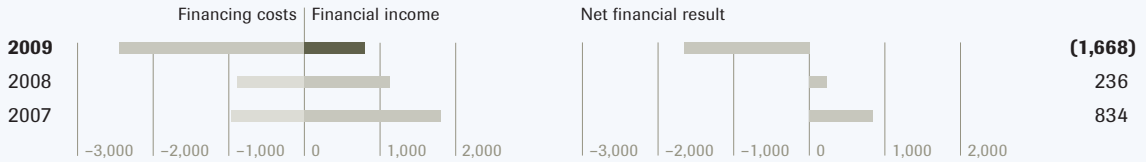
Non-operating results

Non-operating results

	2009 (mCHF)	2008 (mCHF)	% change (CHF)
Operating profit	**12,277**	**13,924**	**–12**
Associates	–	1	–100
Financial income	792	1,123	–29
Financing costs	(2,460)	(887)	+177
Exceptional financing costs	(377)	–	–
Profit before taxes	**10,232**	**14,161**	**–28**
Income taxes	(2,870)	(3,305)	–13
Income taxes on exceptional items	1,148	(12)	–
Net income	**8,510**	**10,844**	**–22**
Attributable to			
– Roche shareholders	7,784	8,969	–13
– Non-controlling interests	726	1,875	–61
Net income before exceptional items	**10,474**	**10,828**	**–3**
Attributable to			
– Roche shareholders	9,798	9,001	+9
– Non-controlling interests	676	1,827	–63

The Group financed the Genentech transaction by a combination of the Group's own funds, bonds, notes and commercial paper. The Group raised net proceeds of 48.2 billion Swiss francs through a series of bond and note offerings. As a consequence the underlying dynamics of the Group's Treasury results changed significantly during 2009, with a substantial increase in interest expenses. In 2009 financing costs exceeded financial income by 1,668 million Swiss francs. In addition, exceptional financing costs of 377 million Swiss francs were recorded for one-time costs directly attributable to the transaction. The tax impact of the financing costs contributed to the decline of the Group's effective tax rate before exceptional items to 21.5% compared to 23.4% in 2008. Net income decreased by 22% primarily due to the exceptional items. Excluding these, net income was down 3% due to higher financing costs. However the income attributable to Roche shareholders, before exceptional items, was 9% higher than in 2008 as lower non-controlling interests following the Genentech transaction more than compensated for the associated higher financing costs.

Net financial result before exceptional items | in millions of CHF



Financial income

Financial income was 792 million Swiss francs in 2009, declining 29% compared to 2008. Interest income and income from debt securities were 218 million Swiss francs, down 44% due to lower market interest rates, a change in the asset allocation from bonds into lower-yielding money instruments and lower debt security holdings. Net income from equity securities was 36 million Swiss francs compared to 133 million Swiss francs in 2008. Expected returns on pension plan assets were 507 million Swiss francs, down 26% compared to 2008 due to a lower asset base at the year-end 2008. A full analysis of financial income is given in Note 5 to the Consolidated Financial Statements.

Financing costs

Financing costs were 2,460 million Swiss francs, 1,573 million Swiss francs higher than in 2008 reflecting the additional financing costs for new debt issued in connection with the Genentech transaction from the effective date of 26 March 2009 to 31 December 2009. The interest cost of pension plans was 656 million Swiss francs, a slight increase compared to 2008. A full analysis of financing costs is given in Note 5 to the Consolidated Financial Statements.

Exceptional financing costs

In order to execute the Genentech transaction, the Group liquidated certain debt securities into cash. This resulted in a net loss on these transactions of 238 million Swiss francs. Furthermore, due to the prevailing financial conditions in the first quarter of 2009, the Group issued bonds and notes in advance of the transaction totalling 48.2 billion Swiss francs through a series of debt offerings. The interest expense on these instruments for the bridging period between their issue and the completion of the Genentech transaction on 26 March 2009 was 139 million Swiss francs.

Income taxes

The Group's effective tax rate before exceptional items declined to 21.5% compared to the 2008 rate of 23.4%. The main driver was the additional financing costs for the Genentech transaction from the effective date of 26 March 2009 to 31 December 2009.

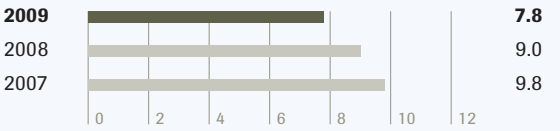
A net tax benefit of 817 million Swiss francs was recorded for the exceptional operating items connected with the Genentech transaction and the related reorganisation of the pharmaceuticals business. In addition, an income tax benefit of 147 million Swiss francs in respect of Genentech's stock options is clearly attributable to the Genentech transaction. Other exceptional tax items are shown in the table below.

Analysis of the Group's effective tax rate

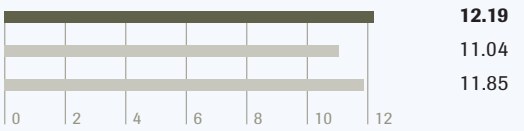
	2009			2008		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate before exceptional items	13,344	(2,870)	21.5	14,133	(3,305)	23.4
Major legal cases	(320)	123	38.4	271	(105)	38.7
Changes in Group organisation	(2,415)	964	39.9	(243)	93	38.3
Exceptional financing costs	(377)	61	16.2	–	–	–
Group's effective tax rate	**10,232**	**(1,722)**	**16.8**	**14,161**	**(3,317)**	**23.4**

Net income and Earnings per share

Net income attributable to Roche shareholders | in billions of CHF



Core EPS | in CHF



In 2009 Group net income decreased by 22% to 8.5 billion Swiss francs compared to 2008, mainly due to the exceptional items relating to the Genentech transaction and the restructuring of the Pharmaceuticals manufacturing operations. Diluted EPS decreased by 12%, less than the decrease in net income due to the positive impact of 100% ownership of Genentech. Net income attributable to Roche shareholders declined 13% to 7.8 billion Swiss francs. Of the total 726 million Swiss francs non-controlling interests, 431 million Swiss francs are attributable to Genentech non-controlling interests until 25 March 2009 and 277 million Swiss francs to Chugai non-controlling interests. Excluding exceptional items, net income attributable to Roche shareholders rose 9%.

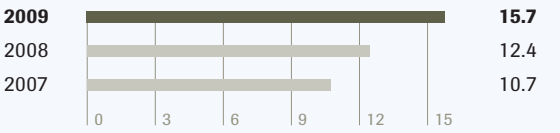
Diluted EPS

	2009 (CHF)	2008 (CHF)	% change
Group	9.02	10.23	–12
Core	12.19	11.04	+10

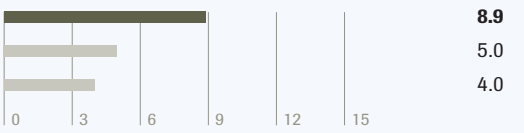
The decrease in diluted EPS was due to the decrease in net income attributable to Roche shareholders, as described above. The Core EPS, which excludes exceptional items and amortisation and impairment of intangible assets, increased 20% in local currencies (10% in Swiss francs) reflecting the positive development of the underlying business for Roche shareholders. Supplementary net income and EPS information is given on page 134. This includes calculations of Core EPS and reconciles these to the Group's published IFRS results.

Cash flows and net cash

Operating free cash flow | in billions of CHF



Free cash flow | in billions of CHF



Free cash flow

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
2009				
Operating profit	11,419	1,198	(340)	12,277
Operating profit cash adjustments [1]	4,851	1,414	51	6,316
(Increase) decrease in net working capital	669	(259)	(62)	348
Investments in property, plant and equipment	(1,789)	(1,193)	(2)	(2,984)
Investments in intangible assets	(227)	(8)	–	(235)
Operating free cash flow	**14,923**	**1,152**	**(353)**	**15,722**
Treasury activities				(667)
Taxes paid				(1,767)
Dividends paid				(4,395)
Free cash flow				**8,893**
2008				
Operating profit	13,002	1,187	(265)	13,924
Operating profit cash adjustments [1]	1,496	1,122	(7)	2,611
(Increase) decrease in net working capital	(15)	(464)	(2)	(481)
Investments in property, plant and equipment	(2,021)	(1,237)	(1)	(3,259)
Investments in intangible assets	(409)	(8)	–	(417)
Operating free cash flow	**12,053**	**600**	**(275)**	**12,378**
Treasury activities				166
Taxes paid				(3,514)
Dividends paid				(4,051)
Free cash flow				**4,979**

1) Operating profit cash adjustments include the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of property, plant and equipment and intangible assets with their cash equivalents. A detailed breakdown is provided on page 135.

The free cash flow of the Group in 2009 increased significantly by 3.9 billion Swiss francs to 8.9 billion Swiss francs. This increase was primarily due to a higher operating free cash flow and lower tax payments. These factors more than covered the higher dividend payments of 4.4 billion Swiss francs.

The underlying business continued to show good cash generation with the operating free cash flow increasing by 34% in local currencies (27% in Swiss francs). This was in contrast to the decrease in operating profit, due to the impact of a number of non-cash items, notably expense for provision in 2009. These are shown in the breakdown on page 135. Net working capital was reduced slightly overall despite the continued growth of the business. Capital expenditure in total was slightly lower than the previous year.

In the third quarter of 2009 significant interest payments were made for the new debt issued in 2009. The major coupon payment dates are in the first and third quarter each year. Total taxes paid in 2009 decreased by 1.7 billion Swiss francs compared to 2008 driven by a one-time 1.1 billion Swiss francs tax benefit on the settlement of stock options with Genentech employees upon closing of the transaction.

Net cash | in millions of CHF

31 December 2008	
Cash and cash equivalents	4,915
Marketable securities	15,856
Long-term debt	(2,972)
Short-term debt	(1,117)
Net cash at beginning of period	**16,682**
Free cash flow for 2009	8,893
Transactions in own equity instruments	(622)
Business combinations, net of divestments of subsidiaries	(83)
Hedging and collateral arrangements	3,264
Changes in ownership interests in subsidiaries	(52,714)
Currency translation, fair value and other movements	713
Net change in net cash	**(40,549)**
31 December 2009	
Cash and cash equivalents	2,442
Marketable securities	16,107
Long-term debt	(36,143)
Short-term debt	(6,273)
Net cash (net debt) at end of period	**(23,867)**

The purchase of all outstanding publicly held shares in Genentech, including the settlement of Genentech's outstanding employee stock option plans and payment of related fees and expenses resulted in a cash outflow of 47.0 billion US dollars (52.7 billion Swiss francs), as described in Note 3 to the Consolidated Financial Statements. This was recorded to equity as a change in ownership interest in subsidiaries.

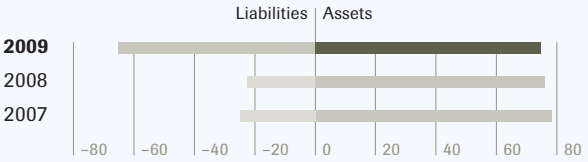
The free cash flow described above already compensated for almost 9 billion Swiss francs of the cash used for the Genentech transaction, even taking into account the Group's record dividend payment. Own equity instruments were purchased to cover the Group's obligations for its equity compensation plans.

A positive cash flow of 3.3 billion Swiss francs was generated from the hedging and collateral arrangements that were set up following the financing of the Genentech transaction (see the 'Debt' section below and Note 27 to the Consolidated Financial Statements). As the fair value of the derivative instruments moved up due to a weaker US dollar, cash collateral of net 1.5 billion Swiss francs was delivered to Roche. In addition the Group generated cash flows of 1.8 billion Swiss francs from realised gains on hedging derivatives with shorter maturities that were settled during 2009.

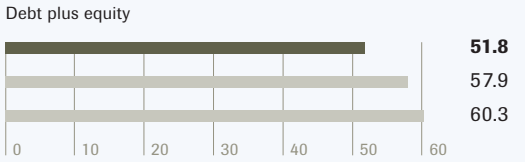
The net debt position of the Group is 23.9 billion Swiss francs, a movement of 40.6 billion Swiss francs from a net cash position of 16.7 billion Swiss francs at 31 December 2008 due to the 52.7 billion Swiss francs used in the Genentech transaction.

Balance sheet

Balance sheet | in billions of CHF



Capitalisation | in billions of CHF



Condensed balance sheet

	31 December 2009 (mCHF)	31 December 2008 (mCHF)	% change
Property, plant and equipment	17,697	18,190	–3
Goodwill and intangible assets	14,266	15,474	–8
Other non-current assets	4,123	3,821	+8
Cash and marketable securities	18,549	20,771	–11
Other current assets	19,930	17,833	+12
Total assets	**74,565**	**76,089**	**–2**
Debt (current and non-current)	(42,416)	(4,089)	+937
Other non-current liabilities	(6,941)	(7,191)	–3
Other current liabilities	(15,794)	(10,987)	+44
Total liabilities	**(65,151)**	**(22,267)**	**+193**
Total net assets	**9,414**	**53,822**	**–83**
Capital and reserves attributable to Roche shareholders	7,366	44,479	–83
Equity attributable to non-controlling interests	2,048	9,343	–78
Total equity	**9,414**	**53,822**	**–83**
Debt	42,416	4,089	+937
Equity	9,414	53,822	–83
Capitalisation	**51,830**	**57,911**	**–11**

A full consolidated balance sheet is given on page 33 of the Consolidated Financial Statements.

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009 (see Note 3 to the Consolidated Financial Statements). Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group 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 Group was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the Group's net equity, but has no effect on the Group's business or its dividend policy. The transaction was not accounted for as a business combination, and therefore no additional goodwill or intangible assets were recorded.

Non-current assets | Property, plant and equipment declined due to impairments of certain Pharmaceuticals Division manufacturing sites, in particular the discontinuation of a construction project at the manufacturing site at Vacaville, California. Intangible assets decreased by 16% due to amortisation and higher impairment charges.

Current assets | Accounts receivable were higher in local currencies, reflecting the growth of the business. Inventory levels reduced slightly overall showing improvements to operational efficiency. Cash and marketable securities declined by 11%. Other current assets also increased by 1.5 billion Swiss francs due to the fair value movements in derivatives hedging the non-US dollar-denominated debt.

Debt | There was a significant increase in debt to finance the Genentech transaction. In February and March 2009, the Group performed a series of bond and note offerings generating net proceeds of 48.2 billion Swiss francs. The carrying value of debt at 31 December 2009 was 42.4 billion Swiss francs, compared to 4.1 billion Swiss francs at 31 December 2008.

Other non-current and current liabilities | The overall balance increased by 4.6 billion Swiss francs mainly due to 3.4 billion Swiss francs higher accrued and other current liabilities, which includes 1.5 billion Swiss francs in respect of the cash collateral received in respect of the derivates that hedge debt. There was also an increase of 0.9 billion Swiss francs in provisions, primarily for litigation and restructuring.

Total net assets/equity | The most significant movements in equity were the impact of the change in ownership interests in Genentech of 52.2 billion Swiss francs changes, the net income of 8.5 billion Swiss francs, the dividend payments of 4.4 billion Swiss francs and currency translation gains of 3.1 billion Swiss francs. Overall capitalisation, being total debt plus equity, declined by 11%, with the decrease in the second half of 2009 being due to debt repayments. The split between debt and equity changed significantly compared to 2008.

Debt

To finance the Genentech transaction, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs in February and March 2009. Of the debt raised in early 2009, 6.9 billion Swiss francs had already been repaid by the end of 2009, either by repayment on maturity of six-month debt or by early redemption.

The maturity schedule of the Group's bonds and notes outstanding at 31 December 2009 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts by contractual maturity

	US dollar principal (mUSD)	Euro principal (mEUR)	UK Sterling principal (mGBP)	Swiss franc principal (mCHF)	Total [1] (mUSD)	Total [1] (mCHF)
2010	3,500	1,500 [2]	–	–	5,650	5,858
2011	931	–	–	–	931	965
2012	2,500	–	–	2,500 [2]	4,911	5,092
2013	–	5,250 [2]	–	–	7,526	7,803
2014	2,750	–	–	–	2,750	2,851
2015–2020	5,500	2,750 [2]	1,250 [2]	1,500	12,898	13,373
2021 and beyond	3,000	1,750 [2]	250	–	5,910	6,128
Total	**18,181**	**11,250**	**1,500**	**4,000**	**40,576**	**42,070**

1) Total translated at 31 December 2009 exchange rates.
2) The proceeds from these bonds and notes were swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. The total exposure hedged at issuance of these bonds and notes was approximately 25 billion Swiss francs (see Note 27). Collateral agreements were entered with the derivative counterparties to mitigate counterparty risk (see Notes 27 and 32).

The Group plans to meet its debt obligations using cash generated from the underlying business. In 2009 Free Cash Flow was 8.9 billion Swiss francs, which includes the cash generated from operations, as well as payment of interest, tax and dividends. Of the debt raised to finance the Genentech transaction, 25% of it will have been repaid by the end of 2010.

For short-term financing requirements, the Group has a commercial paper program in the United States under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 2.5 billion euros and 950 million US dollars available as back-stop lines. Commercial paper notes totalling 0.3 billion US dollars were outstanding as of 31 December 2009. For longer term financing the Group maintains strong long-term investment-grade credit ratings of AA- by Standard & Poor's and A2 by Moody's which should facilitate efficient access to international capital markets.

Pensions and other post-employment benefits

Post-employment benefit plans are classified as 'defined contribution plans' if the Group pays fixed contributions into a separate fund or to a third-party financial institution and will have no further legal or constructive obligation to pay further contributions. In 2009 expenses for the Group's defined contribution plans were 295 million Swiss francs (2008: 253 million Swiss francs).

All other plans are classified as 'defined benefit plans', even if the Group's potential obligation is relatively minor or has a relatively remote possibility of arising. The funding and asset management of the Group's various defined benefit plans is overseen at a corporate level. Plans are usually established as trusts independent of the Group and are funded by payments from the Group and by employees, but in some cases the plan is unfunded and the Group pays pensions to retired employees directly from its own financial resources.

Funding status of defined benefit pension and other post-employment benefit plans

	2009 (mCHF)	2008 (mCHF)
Funded plans		
– Fair value of plan assets	10,530	9,438
– Defined benefit obligation	(11,267)	(10,504)
– Over (under) funding	**(737)**	**(1,066)**
Unfunded plans		
– Defined benefit obligation	(3,486)	(3,078)

Funding status | Overall the Group's defined benefit plans continue to be adequately funded despite the financial turbulence during 2009 with the funding status at 93% compared to 90% at the beginning of the year. The main movements came from an increase in the fair value of plan assets following declines in global financial markets in previous years. A small overall decline in discount rates caused an increase in the defined benefit obligation.

Expenses recorded in income statement | Total pension expenses in 2009 relating to the Group's defined benefit plans were 464 million Swiss francs compared to 281 million Swiss francs in 2008. The increase of 39% is primarily due to a lower expected return on plan assets arising mainly as a consequence of a lower asset base at the year-end 2008. Based on the revised actuarial assumptions at the end of 2009, total pension expenses for 2010 are expected to remain broadly stable compared to 2009.

Full details of the Group's pensions and other post-employment benefits are given in Note 10 to the Consolidated Financial Statements.

Roche securities

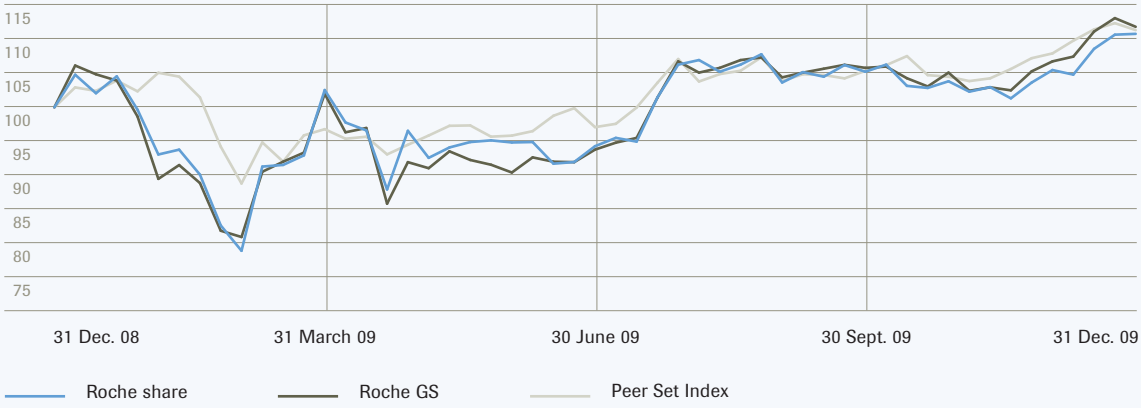
Share price and market capitalisation (at 31 December)

	2009	2008	% change
Share price (CHF)	181.00	168.70	+7
Non-voting equity security *(Genussschein)* price (CHF)	175.80	162.50	+8
Market capitalisation (billions of CHF)	151	141	+8

Roche ranked number 8 among a peer group of 18 healthcare companies [1)] as listed below, in terms of Total Shareholder Return (TSR), i.e. share price growth plus dividends, in 2009 when measured in Swiss francs at actual exchange rates. Year-end return was +11% for the Roche share and +12% for the Roche non-voting equity security. The combined performance of share and non-voting equity security was +12% compared to a weighted average return for the peer group of +11% at actual exchange rates.

1) Peer group for 2009: Abbott Laboratories, Amgen, Astellas, AstraZeneca, Bayer, Becton Dickinson, Biogen Idec, Bristol-Myers Squibb, Eli Lilly, Gilead, GlaxoSmithKline, Johnson & Johnson, Merck & Co., Novartis, Pfizer, Roche, Sanofi-Aventis, Takeda.

Total Shareholder Return development | in %



Proposed dividend

The Board of Directors is proposing an increase of 20% in the dividend for 2009 to 6.00 Swiss francs per share and non-voting equity security (2008: 5.00 Swiss francs) for approval at the Annual General Meeting. This is the 23rd consecutive increase in the dividend. If the dividend proposal is approved by shareholders, dividend payments on the shares and non-voting equity securities in issue will amount to 5.2 billion Swiss francs (2008: 4.3 billion Swiss francs), resulting in a payout ratio of 53% (2008: 49%). Based on the prices at year-end 2009, the dividend yield on the Roche share is 3.3% (2008: 3.0%) and the yield on the non-voting equity security is 3.4% (2008: 3.1%). Further information on the Roche securities is given on pages 136–137 of the Finance Report.

Information per share and non-voting equity security

	2009 (CHF)	2008 (CHF)	% change
Basic EPS	9.07	10.43	–13
Diluted EPS	9.02	10.23	–12
EPS (continuing businesses before exceptional items)	11.37	10.28	+11
Core EPS	12.19	11.04	+10
Equity attributable to Roche shareholders per share	8.61	51.74	–83
Dividend per share	6.00	5.00	+20

For further details please refer to Notes 28 and 29 of the Consolidated Financial Statements and page 134 of the Finance Report. Payout ratio is calculated as dividend per share divided by earnings per share (continuing businesses before exceptional items).

Financial risks

The Group's risk profile has changed significantly following the Genentech transaction, as bonds and notes of 48.2 billion Swiss francs were issued during 2009. As a consequence, at 31 December 2009 the Group has a net debt position of 24 billion Swiss francs (31 December 2008: net cash position of 17 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

Asset allocation | A significant portion of the cash and marketable securities the Group currently holds will be used for debt redemptions and interest service in March 2010. Liquid funds are either held as cash or are invested in high-quality, investment-grade fixed income securities with a short-term investment horizon to meet those liquidity requirements. During 2009, Roche reduced its bond portfolio by 7.1 billion Swiss francs as bonds matured or were sold. The higher holdings in shares are due to the reclassification of certain equity securities from long-term investments into short-term marketable securities, as they are no longer considered as strategic investments.

Cash and marketable securities

	2009 (mCHF)	2009 (% of total)	2008 (mCHF)	2008 (% of total)
Cash and cash equivalents	2,442	13	4,915	24
Money market instruments	15,040	81	7,961	38
Bonds, debentures and other investments	753	4	7,844	38
Shares	314	2	51	0
Total cash and marketable securities	**18,549**	**100**	**20,771**	**100**

Credit risk | Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Despite significant market difficulties since mid-2008, the rating profile of the Group's 18.2 billion Swiss francs fixed income marketable securities remained strong, with 99% being invested in the A-AAA range. The Group signs netting and collateral agreements with the derivatives counterparties in order to mitigate counterparty risk on derivative positions. The counterparty profile of the Group's 10.5 billion Swiss francs trade receivables remains well diversified across types of customer and regions, with some wholesaler concentration in the US.

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

Even after the Genentech transaction, Roche enjoys strong long-term investment-grade credit ratings of AA- by Standard & Poor's and A2 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 5.1 billion Swiss francs (2008: 5.2 billion Swiss francs), of which 4.7 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 31 December 2009, no debt has been drawn under these credit lines.

Market risks | Market risk arises from changing market prices of the Group's financial assets or financial liabilities. The exposures are predominantly related to changes in interest rates, foreign exchange rates and equity prices. The Group uses Value-at-Risk (VaR) to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The VaR data in the table below indicate the economic loss level over a period of one month which with 95% probability will not be exceeded. Actual future economic 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 exchange rates and equity investment prices, particularly in periods of high market volatilities. Furthermore, the VaR numbers below do not include a credit risk component.

Market risk of financial instruments

	31 December 2009 (mCHF)	31 December 2008 (mCHF)
VaR – Interest rate component	717	27
VaR – Foreign exchange component	43	96
VaR – Other price component	57	62
Diversification	(98)	(52)
VaR – Total	**719**	**133**

At 31 December 2009, the total VaR of the financial assets and liabilities was 719 million Swiss francs (31 December 2008: 133 million Swiss francs). The interest rate VaR increased substantially to 717 million Swiss francs driven by the 48.2 billion Swiss francs of bonds and notes issued in the first quarter of 2009. As all newly issued debt is held at amortised 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-US 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 31 December 2009, the Group held equity securities with a market value of 0.6 billion Swiss francs (31 December 2008: 0.6 billion Swiss francs). This includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations.

Further information on financial risk management and financial risks and the VaR methodology is included in Note 32 to the Consolidated Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2007 the Group early adopted IFRS 8 'Operating Segments' and IAS 23 (revised) 'Borrowing Costs', which were required to be implemented from 1 January 2009 at the latest. In 2008 the Group early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements', which are required to be implemented from 1 January 2010 at the latest. In 2009 the Group has implemented revisions to IAS 1 'Presentation of Financial Statements', the effects of which are described in Note 1 to the Consolidated Financial Statements. The 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.

Roche Group
Consolidated Financial Statements

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

Roche Group consolidated income statement for the year ended 31 December 2009 | in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**38,996**	**10,055**	**–**	**49,051**
Royalties and other operating income [2]	1,948	152	–	2,100
Cost of sales	(9,535)	(5,080)	–	(14,615)
Marketing and distribution	(6,964)	(2,511)	–	(9,475)
Research and development [2]	(8,896)	(978)	–	(9,874)
General and administration	(1,395)	(440)	(340)	(2,175)
Operating profit before exceptional items [2]	**14,154**	**1,198**	**(340)**	**15,012**
Major legal cases [25]	(320)	–	–	(320)
Changes in Group organisation [8]	(2,415)	–	–	(2,415)
Operating profit [2]	**11,419**	**1,198**	**(340)**	**12,277**
Associates [15]				–
Financial income [5]				792
Financing costs [5]				(2,460)
Exceptional financing costs [5]				(377)
Profit before taxes				**10,232**
Income taxes [6]				(2,870)
Income taxes on exceptional items [6]				1,148
Net income				**8,510**
Attributable to				
– Roche shareholders				7,784
– Non-controlling interests				726

Earnings per share and non-voting equity security [29]	
Basic (CHF)	9.07
Diluted (CHF)	9.02

Roche Group consolidated income statement for the year ended 31 December 2008 | in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales[2]	**35,961**	**9,656**	**–**	**45,617**
Royalties and other operating income[2]	2,148	139	–	2,287
Cost of sales	(8,963)	(4,698)	–	(13,661)
Marketing and distribution	(6,696)	(2,474)	–	(9,170)
Research and development[2]	(7,904)	(941)	–	(8,845)
General and administration	(1,572)	(495)	(265)	(2,332)
Operating profit before exceptional items[2]	**12,974**	**1,187**	**(265)**	**13,896**
Major legal cases[25]	271	–	–	271
Changes in Group organisation[8]	(243)	–	–	(243)
Operating profit[2]	**13,002**	**1,187**	**(265)**	**13,924**
Associates[15]				1
Financial income[5]				1,123
Financing costs[5]				(887)
Profit before taxes				**14,161**
Income taxes[6]				(3,305)
Income taxes on exceptional items[6]				(12)
Net income				**10,844**
Attributable to				
– Roche shareholders				8,969
– Non-controlling interests				1,875
Earnings per share and non-voting equity security[29]				
Basic (CHF)				10.43
Diluted (CHF)				10.23

Roche Group consolidated statement of comprehensive income | in millions of CHF

	Year ended 31 December 2009	2008
Net income recognised in income statement	**8,510**	**10,844**
Other comprehensive income		
Available-for-sale investments[28]	355	(420)
Cash flow hedges[28]	75	16
Currency translation of foreign operations[28]	3,054	(2,998)
Defined benefit post-employment plans[28]	(5)	(1,522)
Other comprehensive income, net of tax	**3,479**	**(4,924)**
Total comprehensive income	**11,989**	**5,920**
Attributable to		
– Roche shareholders[28]	10,911	4,285
– Non-controlling interests[30]	1,078	1,635
Total	**11,989**	**5,920**

Roche Group consolidated balance sheet | in millions of CHF

	31 December 2009	31 December 2008	31 December 2007
Non-current assets			
Property, plant and equipment [12]	17,697	18,190	17,832
Goodwill [13]	8,261	8,353	6,835
Intangible assets [14]	6,005	7,121	6,346
Associates [15]	16	9	9
Financial long-term assets [16]	481	940	1,333
Other long-term assets [16]	452	451	527
Deferred income tax assets [6]	2,573	1,829	1,317
Post-employment benefit assets [10]	601	592	1,332
Total non-current assets	**36,086**	**37,485**	**35,531**
Current assets			
Inventories [17]	5,648	5,830	6,113
Accounts receivable [18]	10,461	9,755	9,804
Current income tax assets [6]	244	268	263
Other current assets [19]	3,577	1,980	2,452
Marketable securities [20]	16,107	15,856	20,447
Cash and cash equivalents [21]	2,442	4,915	3,755
Total current assets	**38,479**	**38,604**	**42,834**
Total assets	**74,565**	**76,089**	**78,365**
Non-current liabilities			
Long-term debt [27]	(36,143)	(2,972)	(3,834)
Deferred income tax liabilities [6]	(1,099)	(1,409)	(1,527)
Post-employment benefit liabilities [10]	(4,726)	(4,669)	(3,696)
Provisions [25]	(700)	(654)	(688)
Other non-current liabilities [26]	(416)	(459)	(723)
Total non-current liabilities	**(43,084)**	**(10,163)**	**(10,468)**
Current liabilities			
Short-term debt [27]	(6,273)	(1,117)	(3,032)
Current income tax liabilities [6]	(2,478)	(2,193)	(2,215)
Provisions [25]	(1,618)	(804)	(1,517)
Accounts payable [22]	(2,300)	(2,017)	(1,861)
Accrued and other current liabilities [23]	(9,398)	(5,973)	(5,829)
Total current liabilities	**(22,067)**	**(12,104)**	**(14,454)**
Total liabilities	**(65,151)**	**(22,267)**	**(24,922)**
Total net assets	**9,414**	**53,822**	**53,443**
Equity			
Capital and reserves attributable to Roche shareholders [28]	7,366	44,479	45,483
Equity attributable to non-controlling interests [30]	2,048	9,343	7,960
Total equity	**9,414**	**53,822**	**53,443**

Roche Group consolidated statement of cash flows | in millions of CHF

	Year ended 31 December 2009	2008
Cash flows from operating activities		
Cash generated from operations[31]	19,304	17,626
(Increase) decrease in working capital	349	(524)
Payments made for defined benefit post-employment plans[10]	(467)	(353)
Utilisation of provisions[25]	(709)	(1,061)
Other operating cash flows	167	3
Cash flows from operating activities, before income taxes paid	**18,644**	**15,691**
Income taxes paid	(1,767)	(3,514)
Total cash flows from operating activities	**16,877**	**12,177**
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,984)	(3,139)
Purchase of intangible assets	(235)	(418)
Disposal of property, plant and equipment	113	69
Disposal of intangible assets	3	–
Disposal of products	169	472
Business combinations[7]	(98)	(3,004)
Divestments of subsidiaries[34]	15	40
Interest and dividends received[31]	306	611
Sales of marketable securities	14,968	16,666
Purchases of marketable securities	(15,171)	(12,758)
Other investing cash flows	5	(261)
Total cash flows from investing activities	**(2,909)**	**(1,722)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes[27]	48,197	–
Redemption and repurchase of bonds and notes[27]	(7,421)	(2,188)
Increase (decrease) in commercial paper[27]	(261)	(107)
Increase (decrease) in other debt[27]	(133)	(317)
Hedging and collateral arrangements[27]	3,264	–
Change in ownership interest in subsidiaries		
– Genentech[3]	(52,708)	–
– Chugai[4]	–	(934)
– Ventana[7]	–	(1,285)
– Memory[7]	(6)	–
Interest paid	(748)	(216)
Dividends paid	(4,395)	(4,051)
Genentech		
– Genentech equity compensation plans[11]	108	735
– Genentech share repurchases[3]	–	(844)
Equity-settled equity compensation plans, net of transactions in own equity instruments[11]	(651)	(235)
Chugai share repurchases[4]	(14)	–
Other financing cash flows	–	–
Total cash flows from financing activities	**(14,768)**	**(9,442)**
Net effect of currency translation on cash and cash equivalents	(1,673)	147
Increase (decrease) in cash and cash equivalents	**(2,473)**	**1,160**
Cash and cash equivalents at 1 January	4,915	3,755
Cash and cash equivalents at 31 December[21]	**2,442**	**4,915**

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

	Share capital	Retained earnings	Reserves			Total	Non-controlling interests	Total equity
			Fair value	Hedging	Translation			
Year ended 31 December 2008								
At 1 January 2008	**160**	**49,905**	**125**	**–**	**(4,707)**	**45,483**	**7,960**	**53,443**
Net income recognised in income statement	–	8,969	–	–	–	8,969	1,875	10,844
Available-for-sale investments	–	–	(372)	–	–	(372)	(48)	(420)
Cash flow hedges	–	–	–	9	–	9	7	16
Currency translation of foreign operations	–	–	16	–	(2,833)	(2,817)	(181)	(2,998)
Defined benefit post-employment plans	–	(1,504)	–	–	–	(1,504)	(18)	(1,522)
Total comprehensive income	**–**	**7,465**	**(356)**	**9**	**(2,833)**	**4,285**	**1,635**	**5,920**
Business combinations[7]	–	–	–	–	–	–	321	321
Dividends paid	–	(3,969)	–	–	–	(3,969)	(95)	(4,064)
Equity compensation plans, net of transactions in own equity instruments	–	691	–	–	–	691	574	1,265
Genentech and Chugai share repurchases[3,4]	–	(472)	–	–	–	(472)	(372)	(844)
Changes in ownership interests in subsidiaries								
– Chugai[4]	–	(530)	–	–	–	(530)	(404)	(934)
– Ventana[7]	–	(964)	–	–	–	(964)	(321)	(1,285)
Changes in non-controlling interests	–	(45)	–	–	–	(45)	45	–
At 31 December 2008	**160**	**52,081**	**(231)**	**9**	**(7,540)**	**44,479**	**9,343**	**53,822**
Year ended 31 December 2009								
At 1 January 2009	**160**	**52,081**	**(231)**	**9**	**(7,540)**	**44,479**	**9,343**	**53,822**
Net income recognised in income statement	–	7,784	–	–	–	7,784	726	8,510
Available-for-sale investments	–	–	352	–	–	352	3	355
Cash flow hedges	–	–	–	60	–	60	15	75
Currency translation of foreign operations	–	–	(22)	(4)	2,747	2,721	333	3,054
Defined benefit post-employment plans	–	(6)	–	–	–	(6)	1	(5)
Total comprehensive income	**–**	**7,778**	**330**	**56**	**2,747**	**10,911**	**1,078**	**11,989**
Business combinations[7]	–	–	–	–	–	–	4	4
Dividends paid	–	(4,300)	–	–	–	(4,300)	(95)	(4,395)
Equity compensation plans, net of transactions in own equity instruments	–	77	–	–	–	77	178	255
Genentech and Chugai share repurchases[3,4]	–	(9)	–	–	–	(9)	(5)	(14)
Changes in ownership interests in subsidiaries								
– Genentech[3]	–	(43,777)	–	–	–	(43,777)	(8,464)	(52,241)
– Memory[7]	–	(2)	–	–	–	(2)	(4)	(6)
Changes in non-controlling interests	–	(13)	–	–	–	(13)	13	–
At 31 December 2009	**160**	**11,835**	**99**	**65**	**(4,793)**	**7,366**	**2,048**	**9,414**

Notes to the Roche Group 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

The consolidated financial statements of the Roche Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared using the historical cost convention except 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 28 January 2010 and are subject to approval by the Annual General Meeting of shareholders on 2 March 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 judgement 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.

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 Holding Ltd, a company registered in Switzerland, and its subsidiaries ('the Group').

The subsidiaries are those companies controlled, directly or indirectly, by Roche Holding Ltd, 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 Holding Ltd 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 Group. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group. Inter-company balances, transactions and resulting unrealised income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

Investments in associates are accounted for using the equity method. These are companies over which the Group exercises, or has the power to exercise, significant influence, but which it does not control. This is normally evidenced when the 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 unrealised income are eliminated to the extent of the Group's interest in the associate. Interests in joint ventures are reported using the line-by-line proportionate consolidation method.

Segment reporting

The determination of the Group's operating segments is based on the organisation units for which information is reported to the Group's management. The Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenue from the sale or licensing of products or technology to third parties. Certain headquarter activities are reported as 'Corporate'. These consist of corporate headquarters, including the Corporate Executive Committee, corporate communications, corporate human resources, corporate finance, including treasury, taxes and pension fund management, corporate legal and corporate safety and environmental services. Previously within the Pharmaceuticals Division there had been three sub-divisions, Roche Pharmaceuticals, Genentech and Chugai. Following the completion of the Genentech transaction (see Note 3), the Genentech sub-division was merged into the Roche Pharmaceuticals sub-division, and the Chugai sub-division is aggregated as part of 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

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

Upon consolidation, assets and liabilities of Group companies using functional currencies other than Swiss francs (foreign entities) are translated into Swiss francs using year-end rates of exchange. Sales, costs, expenses, net income and cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to equity. On disposal of a foreign entity, the identified cumulative currency translation differences within equity relating to that foreign entity are recognised in income as part of the gain or loss on divestment.

Revenues

Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts and volume rebates, and exclude value added taxes and other taxes directly linked to sales. Revenues from the sale of products are recognised upon transfer to the customer of significant risks and rewards. Trade discounts, cash discounts and volume rebates are recorded on an accrual basis consistent with the recognition of the related sales. Estimates of expected sales returns, charge-backs and other rebates, including Medicaid in the United States and similar rebates in other countries, are also deducted from sales and recorded as accrued liabilities or provisions or as a deduction from accounts receivable. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends and the Group's experience. If the circumstances are such that the level of sales returns, and hence revenues, cannot be reliably measured, then sales are only recognised when the right of return expires, which is generally upon prescription of the products to patients. Other revenues are recorded as earned or as the services are performed. 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 Group is also party to in-licensing and similar arrangements with its alliance partners. The 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 capitalised 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 Group does not currently have any such internal development costs that qualify for capitalisation 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 capitalised as intangible assets as described below. Once available for use, such intangible assets are amortised 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 recognised on an accrual basis in accordance with the substance of the respective licensing agreements. If the collectability of a royalty amount is not reasonably assured, those royalties are recognised as revenue when the cash is received. Certain Group companies receive 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 recognised based on achievement of the deliverables as defined in the respective agreements. Upfront payments and licence fees for which there are subsequent deliverables are initially reported as deferred income and are recognised in income as earned over the period of the development collaboration or the manufacturing obligation.

Payments made by Group companies to third parties and associates for such items are capitalised 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 Group. Where the 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 Group companies. The Group'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 in the country concerned. 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 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 unrecognised 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 Group participate in equity compensation plans, including separate plans at Genentech (prior to the Genentech transaction) and at Chugai. 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 capitalised and included in the carrying value of the assets.

Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. 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 Group is the lessee, leases of property, plant and equipment where the Group has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the start of the lease at fair value, or the present value of the minimum lease payments, if lower. The rental obligation, net of finance charges, is reported within debt. Assets acquired under finance leases are depreciated in accordance with the Group's policy on property, plant and equipment. If there is no reasonable certainty that the 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 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 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 recognised as earned income over the term of the lease based on the effective interest rate method. Lease income from operating leases is recognised 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 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 Group recognises 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 recognised at fair value. Where the Group does not acquire 100% ownership of the acquired business non-controlling interests 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 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 amortised, 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 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, licences, 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 amortised 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/amortisation 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 13. 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 13.

Inventories

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

Accounts receivable

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates and similar allowances. An allowance for doubtful accounts is recorded for the difference between the carrying value and the recoverable amount where there is objective evidence that the 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 the Group'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 recognised 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 recognised when the 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 foreign currency effects arising from their translation from their functional currency into Swiss francs and 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 recognised, 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 flow 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 32 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 Group has the intent and ability to hold until maturity. Loans and receivables are financial assets created by the 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 recognised 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 amortised cost using the effective interest rate method. Available-for-sale financial assets are subsequently carried at fair value, with all unrealised 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 recognised in equity are included in financial income for the current period. Loans and receivables are subsequently carried at amortised 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 amortised cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in 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 recognised. For debt securities measured at amortised cost or available-for-sale, the reversal is recognised in income. For equity securities held available-for-sale, the reversal is recognised directly in equity.

A financial asset is derecognised when the contractual cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised 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 recognised separately if not closely related to the host contract and where the host contract is carried at amortised 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 recognised asset or liability, or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. 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 recognised 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 amortised cost. Any discount between the net proceeds received and the principal value due on redemption is amortised over the duration of the debt instrument and is recognised as part of financing costs using the effective interest rate method. The Group derecognises 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 6 July 2009 as disclosed in Note 27.

Taxation

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

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

Deferred income tax assets and liabilities are recognised 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 recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred 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 Group operates.

Discontinued businesses and non-current assets held for sale

A discontinued business is a component of the Group's business that represents a separate major line of business or geographical area of operations 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 recognised 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.

Own equity instruments

The Group's holdings in its own equity instruments are recorded as a deduction from equity. The original purchase cost, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. These instruments have been acquired primarily to meet the potential obligations to employees that may arise in respect of certain of the Group's equity compensation plans.

Management judgements made in applying accounting policies

The application of the Group's accounting policies may require management to make judgements, apart from those involving estimates, that can have a significant effect on the amounts recognised in the consolidated financial statements. Management judgement 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 the Group'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. The Group 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 recognised when, in management's judgement, the significant risks and rewards of ownership have been transferred and when the Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligation has been fulfilled. For some transactions this can result in cash receipts being initially recognised as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

Consolidation of subsidiaries and associates | The 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 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 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 in the acquired business, with any residual recorded as goodwill. This process involves management making an assessment of the fair value of these items. Management judgement is particularly involved in the recognition and measurement of the following items:

- Intellectual property. This may include patents, licences, 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 the items concerned, and not only on the contractual terms, in order to fairly present these items.

Leases | The 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 judgement about whether substantially all of the risks and rewards of ownership are transferred. Arrangements which do not take the legal form of a lease but that nevertheless convey the right to use an asset are also covered by such assessments.

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 judgements 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 recognised 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 recognised when the right of return expires, which is generally upon prescription of the products to patients. In order to estimate this, management uses publicly available information about prescriptions as well as information provided by wholesalers and other intermediaries.

Sales allowances | The Group has provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the United States and similar rebates in other countries, which at 31 December 2009 total 1,062 million Swiss francs. Such estimates are based on analyses of existing contractual or legislatively-mandated obligations, historical trends and the Group'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 recognised in the balance sheet in future periods and consequently the level of sales recognised in the income statement in future periods.

Property, plant and equipment and intangible assets, including goodwill | The Group has property, plant and equipment with a carrying value of 17,697 million Swiss francs as disclosed in Note 12. Goodwill has a carrying value of 8,261 million Swiss francs (see Note 13) and intangible assets have a carrying value of 6,005 million Swiss francs (see Note 14). 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 capitalised 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 the Group's employees participate in post-employment defined benefit plans. The calculations of the recognised 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, the Group's independent actuaries use statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At 31 December 2009 the present value of the Group's defined benefit obligation is 11,267 million Swiss francs for funded plans and 3,486 million Swiss francs for unfunded plans (see Note 10). 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 recognised in the balance sheet in future periods.

Legal provisions | Group companies are party to various legal proceedings, including claims arising from trade, and the most significant matters are described in Note 25. Legal provisions at 31 December 2009 total 549 million Swiss francs. 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 recognised in the balance sheet in future periods.

Environmental provisions | The Group has provisions for environmental remediation costs, which at 31 December 2009 total 247 million Swiss francs, as disclosed in Note 25. 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 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 recognised in the balance sheet in future periods.

Income taxes | At 31 December 2009 the net liability for current income taxes is 2,234 million Swiss francs and the net asset for deferred income taxes is 1,474 million Swiss francs, as disclosed in Note 6. 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 recognised liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favourable or unfavourable 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 recognised in the balance sheet in future periods.

Changes in accounting policies

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

In 2009 the Group has implemented revisions to IAS 1 'Presentation of Financial Statements' the effects of which are described below. The 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 6). 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 Group has also simplified the presentation of its equity by reporting 'own equity instruments' together with 'retained earnings'. The changes from the implementation of the revised standard are purely presentational and have no impact on the Group's overall results and financial position.

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

2. Operating segment information

Divisional information | in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Revenues from external customers								
Sales	38,996	35,961	10,055	9,656	–	–	49,051	45,617
Royalties and other operating income	1,948	2,148	152	139	–	–	2,100	2,287
Total	**40,944**	**38,109**	**10,207**	**9,795**	**–**	**–**	**51,151**	**47,904**
Revenues from other operating segments								
Sales	7	8	10	9	–	–	17	17
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(17)	(17)
Total	**7**	**8**	**10**	**9**	**–**	**–**	**–**	**–**
Segment results								
Operating profit before exceptional items	14,154	12,974	1,198	1,187	(340)	(265)	15,012	13,896
Major legal cases	(320)	271	–	–	–	–	(320)	271
Changes in Group organisation	(2,415)	(243)	–	–	–	–	(2,415)	(243)
Operating profit	**11,419**	**13,002**	**1,198**	**1,187**	**(340)**	**(265)**	**12,277**	**13,924**
Capital expenditure								
Business combinations	57	631	50	3,266	–	–	107	3,897
Additions to property, plant and equipment	1,644	1,940	1,191	1,245	2	2	2,837	3,187
Additions to intangible assets	228	410	8	8	–	–	236	418
Total capital expenditure	**1,929**	**2,981**	**1,249**	**4,519**	**2**	**2**	**3,180**	**7,502**
Research and development								
Research and development costs	8,896	7,904	978	941	–	–	9,874	8,845
Other segment information								
Depreciation of property, plant and equipment	1,255	1,022	721	649	5	5	1,981	1,676
Amortisation of intangible assets	253	511	459	458	–	–	712	969
Impairment of property, plant and equipment	1,118	20	9	8	–	–	1,127	28
Impairment of goodwill	–	–	–	–	–	–	–	–
Impairment of intangible assets	588	99	80	5	–	–	668	104
Equity compensation plan expenses	522	469	45	31	28	13	595	513

Net operating assets | in millions of CHF

	Assets			Liabilities			Net assets		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Pharmaceuticals	31,068	32,483	32,590	(8,885)	(7,213)	(7,898)	22,183	25,270	24,692
Diagnostics	19,027	18,750	16,323	(2,340)	(2,141)	(2,263)	16,687	16,609	14,060
Corporate	152	156	232	(199)	(248)	(271)	(47)	(92)	(39)
Total operating	**50,247**	**51,389**	**49,145**	**(11,424)**	**(9,602)**	**(10,432)**	**38,823**	**41,787**	**38,713**
Non-operating	24,318	24,700	29,220	(53,727)	(12,665)	(14,490)	(29,409)	12,035	14,730
Group	**74,565**	**76,089**	**78,365**	**(65,151)**	**(22,267)**	**(24,922)**	**9,414**	**53,822**	**53,443**

Information by geographical area | in millions of CHF

	Revenues from external customers		Non-current assets	
	Sales	Royalties and other operating income	Property, plant and equipment	Goodwill and intangible assets
2009				
Switzerland	499	427	2,744	2,326
European Union	16,219	59	4,902	2,265
– *of which Germany*	*3,320*	*57*	*3,481*	*2,210*
Rest of Europe	1,568	–	45	2
Europe	**18,286**	**486**	**7,691**	**4,593**
United States	17,208	1,499	6,554	9,074
Rest of North America	948	2	123	93
North America	**18,156**	**1,501**	**6,677**	**9,167**
Latin America	2,940	22	485	18
Japan	5,036	87	1,776	486
Rest of Asia	3,166	4	959	–
Asia	**8,202**	**91**	**2,735**	**486**
Africa, Australia and Oceania	1,467	–	109	2
Total	**49,051**	**2,100**	**17,697**	**14,266**
2008				
Switzerland	509	493	2,625	2,366
European Union	15,601	272	4,732	2,381
– *of which Germany*	*3,200*	*252*	*3,321*	*2,334*
Rest of Europe	1,521	16	43	3
Europe	**17,631**	**781**	**7,400**	**4,750**
United States	16,362	1,449	8,095	10,032
Rest of North America	932	1	117	90
North America	**17,294**	**1,450**	**8,212**	**10,122**
Latin America	2,975	2	397	22
Japan	3,532	54	1,807	579
Rest of Asia	2,920	–	287	–
Asia	**6,452**	**54**	**2,094**	**579**
Africa, Australia and Oceania	1,265	–	87	1
Total	**45,617**	**2,287**	**18,190**	**15,474**

Supplementary information on sales by therapeutic areas in the Pharmaceuticals Division and by business areas in the Diagnostics Division are given on pages 6—8 and 13—14 respectively. Sales are allocated to geographical areas by destination according to the location of the customer. Royalties and other operating income are allocated according to the location of the Group company that receives the revenue. European Union information is based on members of the EU as at 31 December 2009.

Major customers

The US national wholesale distributor, AmerisourceBergen Corp., represented approximately 6 billion Swiss francs (2008: 6 billion Swiss francs) of the Group's revenues. Approximately 82% of these revenues were in the Pharmaceuticals operating segment, with the residual in the Diagnostics segment. The Group also reported substantial revenues from the US national wholesale distributors, Cardinal Health, Inc. and McKesson Corp., and in total these three customers represented approximately a quarter of the Group's revenues.

3. Genentech

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

Genentech transaction

On 21 July 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 USD 89.00 in cash per share, equivalent to a total cash payment of approximately 43.7 billion US dollars (the 'Roche Proposal'). On 24 July 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, at the Special Committee's discretion, negotiate and recommend or not recommend the acceptance of the Roche Proposal. On 13 August 2008 Genentech announced that the Special Committee did not support the proposal.

On 9 February 2009 Roche Investments USA Inc., a wholly owned subsidiary of the Group, commenced a cash tender offer for the publicly-held Genentech shares at USD 86.50 per share. On 12 March 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 USD 95.00 per share in cash (the 'Genentech transaction'). As a result, Genentech became a wholly-owned subsidiary of the Group, effective 26 March 2009.

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

Genentech transaction

	USD millions	CHF millions
Purchase of publicly held shares	44,400	49,774
Settlement of outstanding employee stock options	2,412	2,704
Directly attributable transaction costs	205	230
Total cash consideration	**47,017**	**52,708**
Income tax effects	(417)	(467)
Change in ownership interest in subsidiaries	**46,600**	**52,241**

Translated at spot rate on date of transaction (26 March 2009) 1 USD = 1.12 CHF

The Group financed the Genentech transaction by a combination of the Group's own funds, bonds, notes and commercial paper. The Group raised net proceeds of approximately 48.2 billion Swiss francs through a series of debt offerings, as described in Note 27. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

The impacts of the Genentech transaction and the related reorganisation of Roche's pharmaceuticals business on the Group's results are described in Note 8.

Genentech share repurchases

On 15 April 2008 Genentech's Board of Directors approved an extension of the existing stock repurchase programme authorising Genentech to repurchase up to 150 million shares of Genentech's common stock for a total of 10 billion US dollars through 30 June 2009. Since the programme's inception through 31 December 2008, Genentech had repurchased approximately 89 million shares for a total of approximately 6.5 billion US dollars. During 2008 the net cash outflow from repurchases of Genentech common stock was 780 million US dollars or 844 million Swiss francs. No repurchases were made during 2009.

4. Chugai

Effective 1 October 2002 the Roche Group and Chugai completed an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. The merged company, known as Chugai, is a fully consolidated subsidiary of the Group. At 31 December 2009 the Group's interest in Chugai was 61.6% (2008: 61.5%).

The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE:4519'. Chugai prepares financial statements in conformity with accounting principles generally accepted in Japan (JGAAP). These are filed on a quarterly basis with the Tokyo Stock Exchange.

Roche's relationship with Chugai

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

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

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

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

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

Under the Rest of the World Umbrella Rights Agreement signed in May 2002, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea, if Chugai decides that it requires a partner for such activities.

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

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

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

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

Dividends

The dividends distributed to third parties holding Chugai shares during 2009 totalled 87 million Swiss francs (2008: 74 million Swiss francs) and have been recorded against non-controlling interests (see Note 30). Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Tender offer for Chugai shares

On 22 May 2008, the Group announced a tender offer to acquire additional common shares of Chugai to increase the Group's ownership of Chugai's issued shares from 50.1% to 59.9%. The tender offer was fully subscribed at the offer price of 1,730 Japanese yen per share and on 24 June 2008 the Group acquired 54.9 million common shares of Chugai for a cash consideration of 95.0 billion Japanese yen (912 million Swiss francs). Taking into account the shares that had previously been repurchased by Chugai but not retired, the Group's ownership in Chugai's outstanding shares increased to 61.5%. The total cash outflow of 934 million Swiss francs, including directly attributable costs of 22 million Swiss francs, has been recorded to equity as a change in ownership interest in subsidiaries.

Chugai share repurchases

During 2009 Chugai repurchased 640,800 of its common shares. As a result the Group's ownership in Chugai increased to 61.6% from 61.5%. The total cash outflow, including repurchases of fractional shares, was 1.2 billion Japanese yen (14 million Swiss francs). There were no share repurchases in 2008.

Other matters

Details of Chugai's equity compensation plans are given in Note 11. Details of the 'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds', of which the remaining outstanding bonds were fully redeemed in 2008, are given in Note 27.

5. Financial income and financing costs

Financial income | in millions of CHF

	Year ended 31 December 2009	2008
Gains on sale of equity securities	55	231
(Losses) on sale of equity securities	(4)	(1)
Dividend income	1	5
Gains (losses) on equity security derivatives, net	2	13
Write-downs and impairments of equity securities	(18)	(115)
Net income from equity securities	**36**	**133**
Interest income	179	698
Gains on sale of debt securities	7	23
(Losses) on sale of debt securities	(9)	(168)
Gains (losses) on debt security derivatives, net	44	(44)
Gains (losses) on financial assets at fair-value-through-profit-or-loss, net	–	(64)
Write-downs and impairments of long-term loans	(3)	(53)
Net interest income and income from debt securities	**218**	**392**
Expected return on plan assets of defined benefit plans [10]	507	688
Foreign exchange gains (losses), net	(990)	(393)
Gains (losses) on foreign currency derivatives, net	1,023	328
Net foreign exchange gains (losses)	**33**	**(65)**
Net other financial income (expense)	(2)	(25)
Total financial income	**792**	**1,123**

Financing costs | in millions of CHF

	Year ended 31 December 2009	2008
Interest expense	(1,733)	(214)
Amortisation of debt discount [27]	(47)	(1)
Gains (losses) on debt derivatives, net	–	(4)
Gains (losses) on redemption and repurchase of bonds and notes, net [27]	(9)	–
Gains (losses) on financial liabilities at fair-value-through-profit-or-loss, net	6	5
Time cost of provisions [25]	(21)	(21)
Interest cost of defined benefit plans [10]	(656)	(652)
Total financing costs	**(2,460)**	**(887)**

Net financial income | in millions of CHF

	Year ended 31 December 2009	2008
Financial income	792	1,123
Financing costs	(2,460)	(887)
Net financial income	**(1,668)**	**236**
Financial result from Treasury management	(1,519)	200
Financial result from Pension management	(149)	36
Net financial income	**(1,668)**	**236**

Exceptional financing costs

As described in Note 3, effective 26 March 2009 the Group purchased all publicly owned shares of Genentech for USD 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 52.7 billion Swiss francs.

In order to execute this transaction, the Group liquidated certain debt securities into cash. This resulted in a net loss on these transactions of 238 million Swiss francs. Furthermore, due to the prevailing financial conditions, the Group issued bonds and notes in advance of the transaction totalling 48.2 billion Swiss francs through a series of debt offerings, as described in Note 27. The interest expense on these instruments for the bridging period between their issue and the completion of the Genentech transaction on 26 March 2009 was 139 million Swiss francs.

These amounts are disclosed separately in the income statement in order to fairly present the Group's results in the overall context of the Genentech transaction and related reorganisations in the Group's Pharmaceuticals Division. The total income tax benefit recorded in respect of exceptional financing costs was 61 million Swiss francs.

Exceptional financing costs | in millions of CHF

	2009	2008
Gain (loss) on liquidation of debt securities	(238)	–
Interest expense incurred on newly issued bonds and notes during bridging period	(139)	–
Total income (expense)	**(377)**	**–**

6. Income taxes

Income tax expenses | in millions of CHF

	2009	2008
Current income taxes	(3,701)	(3,617)
Adjustments recognised for current tax of prior periods	160	35
Deferred income taxes	671	277
Total income (expense)	**(2,870)**	**(3,305)**

Income taxes on exceptional items

As described in Note 8, the Group incurred exceptional expenses totalling 2,415 million Swiss francs in connection with the Genentech transaction and the related reorganisations in the Group's pharmaceuticals business. Furthermore, as described in Note 5, the Group incurred exceptional financing costs totalling 377 million Swiss francs in connection with the financing of the Genentech transaction. As disclosed in Note 25, expenses incurred in respect of major legal cases were 320 million Swiss francs (2008: income of 271 million Swiss francs). 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 Group's results in the overall context of the Genentech transaction and related reorganisations in the Group's Pharmaceuticals Division.

An income tax benefit of 207 million Swiss francs 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 147 million Swiss francs are clearly attributable to the Genentech transaction, and therefore has 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 USD 86.50, being the price per share of Roche's tender offer of 9 February 2009, and the income tax benefit calculated at the final agreed tender offer price in the merger agreement at USD 95.00 per share.

Income taxes on exceptional items | in millions of CHF

	2009	2008
Current income taxes	235	–
Deferred income taxes	913	(12)
Total income tax (expense) benefit on exceptional items	**1,148**	**(12)**

Since the Group operates internationally, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates. This rate changes from year to year due to changes in the mix of the Group's taxable income and changes in local tax rates. The average expected rate decreased in 2009 compared to 2008 with the main driver being the additional financing costs from the Genentech transaction from 26 March 2009 onwards. The Group's effective tax rate can be reconciled to the Group's average expected tax rate as follows:

Reconciliation of the Group's effective tax rate

	2009	2008
Average expected tax rate	22.1%	23.0%
Tax effect of		
– Utilisation of previously unrecognised tax losses	–0.1%	–0.2%
– Non-taxable income/non-deductible expenses	+0.7%	+1.2%
– Genentech equity compensation plans	+0.1%	+0.5%
– Other differences	–1.3%	–1.1%
Group's effective tax rate before exceptional items	**21.5%**	**23.4%**

	2009			2008		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate before exceptional items	13,344	(2,870)	21.5	14,133	(3,305)	23.4
Major legal cases[25]	(320)	123	38.4	271	(105)	38.7
Changes in Group organisation[8]	(2,415)	964	39.9	(243)	93	38.3
Exceptional financing costs[5]	(377)	61	16.2	–	–	–
Group's effective tax rate	**10,232**	**(1,722)**	**16.8**	**14,161**	**(3,317)**	**23.4**

Tax effects of other comprehensive income | in millions of CHF

	2009			2008		
	Pre-tax amount	Tax benefit	After-tax amount	Pre-tax amount	Tax benefit	After-tax amount
Available-for-sale investments	369	(14)	355	(508)	88	(420)
Cash flow hedges	117	(42)	75	28	(12)	16
Currency translation of foreign operations	3,054	–	3,054	(2,998)	–	(2,998)
Defined benefit post-employment plans	(72)	67	(5)	(2,184)	662	(1,522)
Other comprehensive income	**3,468**	**11**	**3,479**	**(5,662)**	**738**	**(4,924)**

Income tax assets (liabilities) | in millions of CHF

	2009	2008	2007
Current income taxes			
– Assets	244	268	263
– Liabilities	(2,478)	(2,193)	(2,215)
Net current income tax assets (liabilities)	**(2,234)**	**(1,925)**	**(1,952)**
Deferred income taxes			
– Assets	2,573	1,829	1,317
– Liabilities	(1,099)	(1,409)	(1,527)
Net deferred income tax assets (liabilities)	**1,474**	**420**	**(210)**

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

Unrecognised tax losses: expiry

	2009		2008	
	Amount (mCHF)	Applicable tax rate	Amount (mCHF)	Applicable tax rate
Within one year	–	–	–	–
Between one and five years	90	24%	68	22%
More than five years	480	19%	223	31%
Total unrecognised tax losses	**570**	**20%**	**291**	**29%**

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested. These unremitted earnings totalled 26.5 billion Swiss francs at 31 December 2009 (2008: 41.7 billion Swiss francs).

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 recognised net assets (liabilities) | in millions of CHF

	Property, plant and equipment, and intangible assets	Other temporary differences	Total
Year ended 31 December 2008			
Net deferred income tax asset (liability) at 1 January 2008	(2,739)	2,529	(210)
Ventana acquisition[7]	(545)	123	(422)
Other business combinations[7]	(121)	2	(119)
(Charged) credited to the income statement	157	108	265
(Charged) credited to other comprehensive income[28]	–	738	738
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	113	113
Currency translation effects and other	208	(153)	55
Net deferred income tax asset (liability) at 31 December 2008	**(3,040)**	**3,460**	**420**
Year ended 31 December 2009			
Net deferred income tax asset (liability) at 1 January 2009	(3,040)	3,460	420
Lonza Singapore acquisition[7]	–	–	–
Other business combinations[7]	(22)	24	2
(Charged) credited to the income statement	431	1,153	1,584
(Charged) credited to other comprehensive income[28]	–	11	11
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	–	(460)	(460)
Currency translation effects and other	25	(108)	(83)
Net deferred income tax asset (liability) at 31 December 2009	**(2,606)**	**4,080**	**1,474**

7. Business combinations

Acquisitions – 2009

Lonza Singapore | In 2006 Genentech entered into a supply agreement for the manufacture of certain Genentech products at a facility under construction in Singapore by Lonza Group Ltd. ('Lonza') which is currently expected to receive US Food and Drug Administration ('FDA') licensure in 2010. Genentech was committed to fund the pre-commissioning production qualification costs at this facility and, upon FDA licensure, Genentech was committed to purchase 100% of products successfully manufactured at the facility for a period of three years after commissioning of the facility. Genentech also received an exclusive option to purchase Lonza's Singapore facility during the period from 2007 up to one year after FDA licensure for a purchase price of 290 million US dollars. Genentech also entered into a loan agreement with Lonza to advance up to 299 million US dollars to Lonza for the construction of the Singapore facility. If Genentech exercised its option to purchase the facility then any outstanding advances may be offset against the purchase price. If Genentech did not exercise its purchase option then the advances may be offset against supply purchases. Regardless of whether the purchase option is exercised, Genentech will be obliged to make a milestone payment of 70 million US dollars if certain performance milestones were met at the facility being constructed.

For accounting purposes, due to the nature of the supply agreement and Genentech's involvement in the construction of the buildings, Genentech has been considered to be the owner of the assets during the construction period even though the funds to construct the building shell and some infrastructure costs are paid by Lonza. As at 31 December 2008, construction in progress totalling 284 million Swiss francs had been capitalised and a liability for the financing obligation totalling 46 million Swiss francs had been recorded, which is net of 225 million US dollars (238 million Swiss francs) that had been advanced by Genentech to Lonza.

On 28 August 2009 Genentech Singapore Pte. Ltd, ('Genentech Singapore') exercised the option to purchase 100% ownership in Lonza Biologics Singapore Pte. Ltd. ('Lonza Singapore'). Lonza Singapore is a cell culture biologic manufacturing facility, which is mechanically complete. It is expected to produce Avastin (bevacizumab) bulk drug substance, has 80,000 litres of fermentation capacity and is located on approximately 10 acres with an option for up to 20 additional acres. As part of the integration between Roche's and Genentech's combined technical operations, the biotechnology production facilities in Singapore have been merged and now operate under the name of Roche Singapore Technical Operations. With the exercise of the option and resultant merger, approximately 230 Lonza employees joined Genentech Singapore Technical Operations, for a total site headcount of approximately 325. As at 28 August 2009, under the previous accounting treatment described above, construction in progress totalling 284 million US dollars (301 million Swiss francs) had been capitalised and a similar liability for the financing obligation had been recorded. In addition 225 million US dollars had been advanced by Genentech to Lonza.

The transaction value was 376 million US dollars, which consists of 306 million US dollars for the Singapore facility and 70 million US dollars of various milestone payments. Of this amount 225 million US dollars was offset by loans previously made by Genentech to Lonza. The net transaction value was 151 million US dollars (159 million Swiss francs), of which 108 million US dollars (114 million Swiss francs) was cash payments in 2009 and 43 million US dollars (46 million Swiss francs) in accrued milestone payments that will be made in 2010. For accounting purposes, 94 million US dollars (99 million Swiss francs) was allocated to the settlement of the existing financing obligation and 14 million US dollars (15 million Swiss francs) to the acquisition of the Lonza Singapore business. This has been allocated as follows:

Lonza Singapore acquisition: net assets acquired | in millions of CHF

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	–	–	–
Intangible assets	–	–	–
Inventories	16	–	16
Deferred income taxes	–	–	–
Cash	1	–	1
Other net assets (liabilities)	(2)	–	(2)
Net identifiable assets	**15**	**–**	**15**
Goodwill			–
Purchase consideration			**15**

Other acquisitions | Effective 1 January 2009 the Group acquired an 89.6% controlling interest in Memory Pharmaceuticals Corp. ('Memory'), a publicly owned US 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 Group's research and development pipeline in areas such as Alzheimer's disease. The purchase consideration was 48 million Swiss francs, paid in cash.

There were other minor business combinations in the Diagnostics business with a total purchase consideration of 57 million Swiss francs, of which 55 million Swiss francs was in cash and 2 million Swiss francs from a contingent consideration arrangement. A liability of 2 million Swiss francs was recognised at the acquisition date, based on management's best estimate at that time of the probability–adjusted expected cash outflow from the arrangement. As at 31 December 2009 the amount recognised for this arrangement was reduced to zero, based on the most recent management estimates.

The combined purchase consideration has been allocated as follows:

Other acquisitions – 2009: net assets acquired | in millions of CHF

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	3	–	3
Goodwill	3	(3)	–
Intangible assets			
– Product intangibles: in use	–	17	17
– Marketing intangibles	–	25	25
– Product intangibles: not available for use	–	47	47
Inventories	7	–	7
Provisions	(4)	–	(4)
Deferred income taxes	3	(1)	2
Cash	19	–	19
Other net assets (liabilities)	(22)	–	(22)
Net identifiable assets (liabilities)	**9**	**85**	**94**
Non-controlling interests			(4)
Goodwill			15
Purchase consideration			**105**

Subsequent to the effective date of the acquisition on 1 January 2009, the Group purchased the remaining shares in Memory held by third parties to give the Group a 100% interest in Memory. The cash consideration was 6 million Swiss francs, 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 Group's existing business. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of other net assets (liabilities) includes receivables with a fair value of 4 million Swiss francs which includes an allowance for doubtful accounts of 1 million Swiss francs.

Directly attributable acquisition-related costs of 2 million Swiss francs were incurred in these acquisitions. These are reported within general and administration expenses in the current period as part of the operating result of the Pharmaceuticals operating segment (1 million Swiss francs) and the Diagnostics operating segment (1 million Swiss francs).

Acquisitions – 2009: impact on results | in millions of CHF

	Revenues from external customers	Inventory fair value adjustment	Amortisation of intangible assets	Operating profit	Net income
Impact on reported results					
Lonza Singapore	–	–	–	–	–
Memory[a)]	–	–	–	(32)	(21)
Pharmaceuticals Division	**–**	**–**	**–**	**(32)**	**(21)**
Minor business combinations	18	–	(5)	–	–
Diagnostics Division	**18**	**–**	**(5)**	**–**	**–**
Group	**18**	**–**	**(5)**	**(32)**	**(21)**
Estimated impact on results if acquisition assumed effective 1 January 2009					
Lonza Singapore	–	–	–	–	–
Memory[a)]	–	–	–	(32)	(21)
Pharmaceuticals Division	**–**	**–**	**–**	**(32)**	**(21)**
Minor business combinations	24	–	(7)	1	1
Diagnostics Division	**24**	**–**	**(7)**	**1**	**1**
Group	**24**	**–**	**(7)**	**(31)**	**(20)**

The above figures exclude directly attributable acquisition-related costs of 1 million Swiss francs related to acquisitions by the Pharmaceuticals Division and 1 million Swiss francs related to acquisitions by the Diagnostics Division. Corresponding tax impacts are also excluded.

a) The figures exclude integration costs of 22 million Swiss francs related to Memory. Corresponding tax impacts are also excluded.

Acquisitions – 2009: net cash outflow | in millions of CHF

	Cash consideration paid	Cash in acquired company	Net cash outflow
Lonza Singapore	(15)	1	(14)
Other acquisitions	(103)	19	(84)
Total	**(118)**	**20**	**(98)**

The above cash consideration does not include the subsequent payment of 6 million Swiss francs to purchase the remaining shares in Memory held by third parties to give the 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'), a publicly owned US company based in Tucson, Arizona that had been listed on the NASDAQ under the symbol 'VMSI'. Prior to 8 February 2008, the Group owned shares in Ventana representing 0.4% of the outstanding shares of Ventana. Effective 8 February 2008 the 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 Group to broaden its diagnostic offerings and complement its world leadership in both *in-vitro* diagnostic systems and oncology therapies.

The purchase consideration was 2,532 million Swiss francs in cash. This has been allocated as follows:

Ventana acquisition: net assets acquired | in millions of CHF

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	87	8	95
Goodwill	16	(16)	–
Intangible assets			
– Product intangibles: in use	17	802	819
– Product intangibles: not available for use	–	570	570
Inventories	26	34	60
Deferred income taxes	120	(542)	(422)
Cash	45	–	45
Other net assets (liabilities)	(47)	(17)	(64)
Net identifiable assets	**264**	**839**	**1,103**
Non-controlling interests			(321)
Goodwill			1,750
Purchase consideration			**2,532**

Goodwill represents the strategic value to the 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 recognised 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 117 million Swiss francs. Included within this fair value is an allowance for doubtful trade accounts receivable of 2 million Swiss francs. Finance lease receivables totalling 9 million Swiss francs are also included in this total and the gross amount due under these contracts is 9 million Swiss francs.

The Group recognised a gain of 5 million Swiss francs as a result of measuring at fair value its 0.4% equity interest in Ventana held prior to the acquisition date. This gain is included in financial income for 2008. Directly attributable acquisition-related costs of 41 million Swiss francs 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 8 February 2008, the Group purchased the remaining shares in Ventana held by third parties to give the Group a 100% interest in Ventana. The cash consideration was 1,285 million Swiss francs, which has been recorded to equity as a change in ownership interest in subsidiaries.

Other acquisitions | Effective 23 May 2008 the Group acquired a 100% controlling interest in Piramed Ltd. ('Piramed'), a privately owned biotechnology company based in the UK. Piramed discovers and develops new medicines primarily for the treatment of cancer and immune inflammatory disorders such as arthritis and asthma. Piramed is a leading company in the discovery of highly selective drugs that inhibit different isoforms of PI3-K enzymes that are increasingly recognised as key players in a wide variety of disease processes. Piramed is reported as part of the Pharmaceuticals operating segment. The acquisition will further strengthen the Group's research and development pipeline in oncology and inflammatory disease. The purchase consideration was 183 million Swiss francs. This consisted of 176 million Swiss francs paid in cash and 7 million Swiss francs from a contingent consideration arrangement. The contingent consideration arrangement consists of a potential milestone payment of 15 million US dollars which is due upon the commencement of phase II clinical trials for Piramed's oncology programme. A liability of 7 million US dollars (7 million Swiss francs) was recognised at the acquisition date, based on management's best estimate at that time of the probability–adjusted expected cash outflow from the arrangement. As at 31 December 2009 the amount recognised for this arrangement was increased to 15 million US dollars (16 million Swiss francs) based on the most recent management estimates, and consequently an additional 8 million Swiss francs charge was recorded in the 2009 operating results.

Effective 24 September 2008 the Group acquired a 100% controlling interest in ARIUS Research Inc. ('ARIUS'), a publicly owned Canadian biotechnology company that had been listed on the TSX under the symbol 'ARI'. ARIUS discovers and develops antibody therapeutics to treat cancer and other diseases, including a proprietary antibody platform, which rapidly identifies and selects antibodies based on their functional ability to affect disease before progressing into clinical development. ARIUS is reported as part of the Pharmaceuticals operating segment. The acquisition will further strengthen the Group's developmental portfolio, initially within the areas of oncology and inflammatory diseases where this new technique offers potentially broad therapeutic applications. The purchase consideration was 201 million Swiss francs, paid in cash.

Effective 30 September 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 136 million Swiss francs, paid in cash.

There were other minor business combinations with a total purchase consideration of 17 million Swiss francs.

The combined purchase consideration for other acquisitions has been allocated as shown below.

Other acquisitions – 2008: net assets acquired | in millions of CHF

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	4	(1)	3
Intangible assets			
– Product intangibles: in use	–	26	26
– Product intangibles: not available for use	–	253	253
– Technology intangibles: in use	–	92	92
Deferred income taxes	–	(119)	(119)
Cash	13	–	13
Other net assets (liabilities)	(20)	–	(20)
Net identifiable assets	**(3)**	**251**	**248**
Goodwill			289
Purchase consideration			**537**

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

The fair value of other net assets (liabilities) includes receivables with a fair value of 3 million Swiss francs which is expected to be fully collectable.

Acquisitions – 2008: net cash outflow | in millions of CHF

	Cash consideration paid	Cash in acquired company	Net cash outflow
Ventana	(2,532)	45	(2,487)
Other acquisitions	(530)	13	(517)
Total	**(3,062)**	**58**	**(3,004)**

The above cash consideration paid for Ventana does not include the subsequent payment of 1,285 million Swiss francs to purchase the remaining shares in Ventana held by third parties to give the 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 interest in subsidiaries'.

8. Changes in Group organisation

As described in Note 3, on 21 July 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 21 July 2008 the Group also announced that Roche's pharmaceuticals business in the US 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 26 March 2009. Following this the Pharmaceuticals Division initiated a detailed integration programme 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 US, including commercial operations for the US 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 programme includes prioritising 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 Group currently anticipates that these restructuring activities will be substantially completed by the end of 2010. The total cost is expected to be in the order of 3.4 billion Swiss francs, which includes 243 million Swiss francs that were incurred in 2008. Approximately 2.2 billion Swiss francs of this total is non-cash. The carrying value of property, plant and equipment was reduced by 1.2 billion Swiss francs by the end of 2009, and is anticipated to be reduced by approximately 1.5 billion Swiss francs 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 Group's results. Costs of other restructuring programmes that are less material and do not fundamentally change the Group's organisation are expensed in the current period and reported within the respective functional expense.

Changes in Group organisation | in millions of CHF

	2009	2008
Employee-related costs		
– Termination costs	227	99
– Pensions and other post-employment benefits	(33)	(12)
– Genentech Employee Retention Program expenses	–	94
– Genentech stock options: accelerated vesting expenses	236	–
– Other retention plans and other employee benefits	40	15
– Other employee-related costs	100	6
Total employee-related costs	**570**	**202**
Site closure costs		
– Impairment of property, plant and equipment	1,083	10
– Accelerated depreciation of property, plant and equipment	103	26
– Other site closure costs	232	5
Total site closure costs	**1,418**	**41**
Impairment of intangible assets	286	–
Other reorganisation expenses	141	–
Total	**2,415**	**243**

The total income tax benefit recorded in respect of changes in Group organisation was 964 million Swiss francs (2008: 93 million Swiss francs).

Genentech Employee Retention Program | On 18 August 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 US dollars 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 192 million Swiss francs (2008: 146 million Swiss francs). 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 192 million Swiss francs (2008: 52 million Swiss francs). Accordingly the additional incremental costs incurred for the retention plan are reported as part of changes in Group organisation, since these are directly attributable to the Genentech transaction.

Genentech Employee Retention Program expenses | in millions of CHF

	2009	2008
Cost of sales	9	–
Marketing and distribution	48	14
Research and development	93	26
General and administration	42	12
Total included in operating profit before exceptional items	**192**	**52**
Changes in Group organisation	–	94
Total Genentech Employee Retention Program expenses	**192**	**146**

Genentech stock options | As part of the merger agreement of 12 March 2009 between Roche and Genentech, upon the successful completion of the tender offer on 26 March 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 CHF

	2009	2008
Genentech Stock Option Plan	217	–
Genentech Employee Stock Purchase Program	19	–
Total Genentech stock options: accelerated vesting expenses	**236**	**–**

9. Employee benefits

Employee remuneration | in millions of CHF

	2009	2008
Wages and salaries	8,781	8,363
Social security costs	934	948
Defined contribution post-employment plans	295	253
Operating expenses for defined benefit post-employment plans[10]	315	317
Equity compensation plans[11]	359	513
Changes in Group organisation		
– Genentech Employee Retention Program[8]	192	146
– Genentech stock options accelerated vesting expenses[8]	236	–
– Termination costs[8]	227	99
Other employee benefits	592	526
Employee remuneration included in operating results	**11,931**	**11,165**
Expected return on plan assets for defined benefit post-employment plans[10]	(507)	(688)
Interest cost for defined benefit post-employment plans[10]	656	652
Total employee remuneration	**12,080**	**11,129**

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 cost from defined benefit plans are included as part of financial income and financing costs, respectively (see Note 5).

10. Pensions and other post-employment benefits

The Group's objective is to provide attractive and competitive post-employment benefits to employees, while at the same time ensuring that the various plans are appropriately financed and managing any potential impacts on the Group's long-term financial position. Most employees are covered by pension plans sponsored by Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and market practice in the countries in which the employees are employed. Other post-employment benefits consist mostly of post-retirement healthcare and life insurance schemes, principally in the United States. Post-employment benefit plans are classified for IFRS as 'defined contribution plans' if the Group pays fixed contributions into a separate fund or to a third-party financial institution and will have no further legal or constructive obligation to pay further contributions. All other plans are classified as 'defined benefit plans', even if the Group's potential obligation is relatively minor or has a relatively remote possibility of arising. Consequently most of the Group'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 Group to funds administered by third parties. Payments by the Group were 295 million Swiss francs (2008: 253 million Swiss francs). No assets or liabilities are recognised in the Group's balance sheet in respect of such plans, apart from regular prepayments and accruals of the contributions withheld from employees' wages and salaries and of the Group's contributions.

Defined benefit plans

The Group's major defined benefit plans are located in Switzerland, the United States, Germany, the United Kingdom and Japan. Plans are usually established as trusts independent of the Group and are funded by payments from the Group and by employees. In some cases, notably for the major defined benefit plans in Germany, the plan is unfunded and the 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 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 unrecognised 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 CHF

	2009			2008		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
Current service cost	335	18	353	320	17	337
Past service cost	2	8	10	(3)	8	5
(Gain) loss on curtailment	(47)	(1)	(48)	(22)	(3)	(25)
(Gain) loss on settlement	–	–	–	–	–	–
Total operating expenses	**290**	**25**	**315**	**295**	**22**	**317**
Expected return on plan assets	(475)	(32)	(507)	(647)	(41)	(688)
Interest cost	597	59	656	593	59	652
Total financial (income) expense	**122**	**27**	**149**	**(54)**	**18**	**(36)**
Total expense recognised in income statement	**412**	**52**	**464**	**241**	**40**	**281**

The funding of the Group's various defined benefit plans is overseen at a corporate level. Qualified independent actuaries carry out valuations on a regular basis and for major plans annually as at the reporting date. For funded plans, which are usually trusts independent of the Group's finances, the net asset/liability recognised on the Group's balance sheet corresponds to the over/under funding of the plan, adjusted for unrecognised past service costs. For unfunded plans, where the Group meets the pension obligations directly from its own financial resources, a liability for the defined benefit obligation is recorded in the Group's balance sheet. Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan. Amounts recognised 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 CHF

	2009			2008		
	Funded plans	Unfunded plans	Total	Funded plans	Unfunded plans	Total
Fair value of plan assets	10,530	–	10,530	9,438	–	9,438
Defined benefit obligation	(11,267)	(3,486)	(14,753)	(10,504)	(3,078)	(13,582)
Over (under) funding	**(737)**	**(3,486)**	**(4,223)**	**(1,066)**	**(3,078)**	**(4,144)**
Unrecognised past service costs	(18)	(1)	(19)	(21)	(1)	(22)
Limit on asset recognition	(3)	–	(3)	–	–	–
Reimbursement rights	104	16	120	76	13	89
Net recognised asset (liability)	**(654)**	**(3,471)**	**(4,125)**	**(1,011)**	**(3,066)**	**(4,077)**
Reported as						
– Defined benefit plans	481	–	481	503	–	503
– Reimbursement rights	104	16	120	76	13	89
Post-employment benefit assets	**585**	**16**	**601**	**579**	**13**	**592**
Post-employment benefit liabilities	(1,239)	(3,487)	(4,726)	(1,590)	(3,079)	(4,669)
Net recognised asset (liability)	**(654)**	**(3,471)**	**(4,125)**	**(1,011)**	**(3,066)**	**(4,077)**

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 CHF

	2009			2008		
	Fair value of plan assets	Reim-bursement rights	Total	Fair value of plan assets	Reim-bursement rights	Total
At 1 January	9,438	89	9,527	12,170	116	12,286
Expected return on plan assets	500	7	507	680	8	688
Actuarial gains (losses)	691	33	724	(2,787)	(22)	(2,809)
Currency translation effects and other	(31)	(4)	(35)	(463)	(7)	(470)
Employer contributions	338	(5)	333	217	(6)	211
Employee contributions	68	–	68	61	–	61
Benefits paid – funded plans	(474)	–	(474)	(440)	–	(440)
Past service cost	–	–	–	–	–	–
Divestment of subsidiaries	–	–	–	–	–	–
Curtailments	–	–	–	–	–	–
Settlements	–	–	–	–	–	–
At 31 December	**10,530**	**120**	**10,650**	**9,438**	**89**	**9,527**

	2009	2008
Invested as		
– Shares and other equity instruments	4,709	4,033
– Bonds, debentures and other debt instruments	4,179	4,106
– Property	583	242
– Other assets	1,179	1,146
Total	**10,650**	**9,527**

Included within the fair value of plan assets are 27 thousand of the Group's shares with a fair value of 5 million Swiss francs (2008: 27 thousand shares with a fair value of 5 million Swiss francs) and 407 thousand of the Group's non-voting equity securities with a fair value of 71 million Swiss francs (2008: 337 thousand non-voting equity securities with a total fair value of 55 million Swiss francs).

Defined benefit plans: defined benefit obligation | in millions of CHF

	2009			2008		
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
At 1 January	12,669	913	13,582	12,988	1,002	13,990
Current service cost	335	18	353	320	17	337
Interest cost	597	59	656	593	59	652
Employee contributions	68	–	68	61	–	61
Actuarial (gains) losses	619	174	793	64	(53)	11
Currency translation effects and other	(32)	(24)	(56)	(794)	(65)	(859)
Benefits paid – funded plans	(427)	(47)	(474)	(399)	(41)	(440)
Benefits paid – unfunded plans	(122)	(12)	(134)	(131)	(11)	(142)
Past service cost	5	8	13	–	8	8
Divestment of subsidiaries	–	–	–	(11)	–	(11)
Curtailments	(47)	(1)	(48)	(22)	(3)	(25)
Settlements	–	–	–	–	–	–
At 31 December	**13,665**	**1,088**	**14,753**	**12,669**	**913**	**13,582**
Of which						
– Funded plans	10,451	816	11,267	9,807	697	10,504
– Unfunded plans	3,214	272	3,486	2,862	216	3,078

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 corporate management and the Group's actuaries. Actuarial assumptions consist of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as salary and benefit levels, interest rates, return on investments and costs of medical benefits. The 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 Group's actuaries use mortality tables which take into account historic patterns and expected changes, such as further increases in longevity. The mortality tables used for the major schemes are:

- Germany: Heubeck tables 2005G.
- Japan: National Census (No. 20 Life Table).
- Switzerland: BVG 2005.
- United Kingdom: non-pensioners – S1NA_L table rated up 1.5 years (male) and 0.5 years (female). Future improvements: medium cohort (from 2002) with a 1% underpin (from 2009)
- United Kingdom: pensioners – S1NA_L table rated up 1.5 years. Future improvements: medium cohort (from 2002) with a 1% underpin (from 2009).
- United States: RP2000 projected to 2010.

Rates of employee turnover, disability and early retirement are based on historical behaviour within 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, which are in countries with stable currencies and interest rates, are shown below.

Defined benefit plans: financial actuarial assumptions

	2009		2008	
	Weighted average	Range	Weighted average	Range
Discount rates	4.65%	2.35%–8.50%	4.84%	2.40%–8.75%
Expected rates of return on plan assets	5.23%	0.80%–10.50%	5.67%	0.70%–9.50%
Expected rates of salary increases	3.52%	2.00%–6.53%	3.50%	2.00%–6.53%
Medical cost trend rate	8.19%	7.80%–8.20%	8.76%	7.90%–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, realised and unrealised 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 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 1,191 million Swiss francs (2008: loss of 2,107 million Swiss francs).

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 behaviour within 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. Since the Group's major post-employment medical plans are for US employees, these rates are driven by developments in the United States. 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 CHF

	2009		2008	
	+1%	–1%	+1%	–1%
Current service cost and interest cost	8	(7)	9	(8)
Defined benefit obligation	113	(94)	87	(74)

Funding summary

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

Defined benefit plans: summary of funding status | in millions of CHF

	2009	2008	2007	2006	2005
Funded plans					
– Fair value of plan assets	10,530	9,438	12,170	11,632	10,858
– Defined benefit obligation	(11,267)	(10,504)	(10,646)	(11,002)	(10,976)
– Over (under) funding	**(737)**	**(1,066)**	**1,524**	**630**	**(118)**
Unfunded plans					
– Defined benefit obligation	(3,486)	(3,078)	(3,344)	(3,596)	(3,630)
Increase (decrease) in funding status arising from experience adjustments					
– Fair value of plan assets	691	(2,787)	40	626	547
– Defined benefit obligation	(33)	(126)	(235)	(249)	49
Increase (decrease) in funding status arising from changes in actuarial assumptions					
– Fair value of plan assets	–	–	–	–	–
– Defined benefit obligation	(760)	115	1,295	384	(1,148)

Cash flows

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

Defined benefit plans: cash flows | in millions of CHF

	2009	2008
Employer contributions – funded plans	(333)	(211)
Benefits paid – unfunded plans	(134)	(142)
Total cash inflow (outflow)	**(467)**	**(353)**

Based on the most recent actuarial valuations, the Group expects that employer contributions for funded plans in 2010 will be approximately 183 million Swiss francs, which includes an estimated 13 million Swiss francs of additional contributions. Benefits paid for unfunded plans are estimated to be approximately 137 million Swiss francs.

Amounts recorded in equity

The actuarial gains and losses recognised in the statement of comprehensive income were losses of 69 million Swiss francs (2008: losses of 2,820 million Swiss francs), pre-tax. The total amount at 31 December 2009 was an accumulated loss of 1,502 million Swiss francs (2008: accumulated loss of 1,433 million Swiss francs).

In addition 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 the cumulative unrecognised past service costs. Adjustments arising from this limit on asset recognition are recorded directly in equity. In 2009 this adjustment was a decrease of 3 million Swiss francs (2008: increase of 636 million Swiss francs).

11. Employee stock options and other equity compensation benefits

The Group operates several equity compensation plans, including separate plans at Genentech (prior to the Genentech transaction) and Chugai. Effective 1 January 2005 the Group 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 CHF

	2009	2008
Cost of sales	84	70
Marketing and distribution	60	101
Research and development	65	174
General and administration	150	168
Total operating expenses before exceptional items	**359**	**513**
Changes in Group organisation[8]	236	–
Total operating expenses	**595**	**513**
Share option plans		
Roche Option Plan	6	7
Genentech Stock Option Plan	330	336
Chugai Stock Acquisition Rights	1	2
Total share option plans	**337**	**345**
Other equity compensation plans		
Special Stock Awards	22	–
Roche Connect	13	13
Genentech Employee Stock Purchase Program	37	33
Roche Stock-settled Stock Appreciation Rights	142	120
Roche Restricted Stock Unit Plan	17	–
Chugai Retirement Stock Acquisition Rights	1	–
Roche Performance Share Plan	17	15
Roche Stock Appreciation Rights	9	(13)
Total other equity compensation plans	**258**	**168**
Total operating expenses	**595**	**513**
of which		
– Equity-settled	586	526
– Cash-settled	9	(13)

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

	2009	2008
Genentech equity compensation plans		
Genentech Stock Option Plan	81	620
Genentech Employee Stock Purchase Program	27	115
Total cash inflow from Genentech equity compensation plans	**108**	**735**
Cash outflow from Genentech share repurchases[3]	**–**	**(844)**
Other equity-settled equity compensation plans		
Roche Option Plan exercises	28	15
Chugai Stock Acquisition Rights exercises	–	–
Roche Connect costs	(13)	(13)
Total other equity-settled equity compensation plans	**15**	**2**
Cash outflow from transactions in own equity instruments	(666)	(237)
Total cash inflow (outflow) from other equity-settled equity compensation plans, net of transactions in own equity instruments	**(651)**	**(235)**
Cash-settled plans (included as part of movements in net working capital)		
Roche Stock Appreciation Rights	(17)	(35)

The net cash outflow from transactions in own equity instruments arises from sales and purchases of non-voting equity securities *(Genussscheine)* and derivative instruments thereon which are held for the Group's potential conversion obligations that may arise from the Group's equity-settled equity compensation plans. These derivative instruments mainly consist of call options that are exercisable at any time up to their maturity (see Note 28).

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 2,704 million Swiss francs, which was reported as a change in ownership interest in subsidiaries (see Note 3).

Roche Long-Term | During 2005 the Group implemented a new global long-term incentive programme which is available to certain directors, management and employees selected at the discretion of the Group. The programme consists of Stock-settled Stock Appreciation Rights ('S-SARs'), with the Group having the alternative of granting awards under the existing Roche Option Plan. In 2009, following the integration of Genentech, the Group also established a Restricted Stock Unit ('RSU') 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 1 January 2005 including amendments effective as of 1 January 2007 and the addenda, including the Roche S-SAR Plan's 2009 Addendum United States as of 1 September 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 1 September 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. Within the meaning of Section 25102(o) of Title 4 of the California Corporations Code and Sections 260.140.41 and 260.140.42 of Title 10 of the California Code of Regulations, approval of these Consolidated Financial Statements constitutes approval of the Roche S-SAR Plan and the Roche Restricted Stock Unit Plan, each of which is described in these Consolidated Financial Statements, by a majority of Roche Holding Ltd's outstanding securities entitled to vote.

Share option plans

Roche Option Plan | Awards under this plan give employees the right to purchase non-voting equity securities *(Genussscheine)* at an exercise price specified at the grant date. The options, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years, subject to continued employment. The Group covers such obligations by purchasing non-voting equity securities or derivatives thereon (see Note 28). With the introduction of Roche Long-Term in 2005, the number of options granted under the Roche Option Plan was significantly reduced, as most eligible employees now receive Roche Stock-settled Stock Appreciation Rights instead.

Roche Option Plan – movement in number of options outstanding

	2009		2008	
	Number of options (thousands)	Weighted average exercise price (CHF)	Number of options (thousands)	Weighted average exercise price (CHF)
Outstanding at 1 January	1,394	154.71	1,203	139.50
Granted	377	149.57	362	194.64
Forfeited	(32)	194.07	(40)	199.24
Exercised	(277)	100.68	(131)	111.80
Expired	(5)	115.50	–	–
Outstanding at 31 December	**1,457**	**162.92**	**1,394**	**154.71**
– of which exercisable	810	155.81	890	127.45

Roche Option Plan – terms of options outstanding as at 31 December 2009

	Options outstanding			Options exercisable	
Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Weighted average exercise price (CHF)	Number exercisable (thousands)	Weighted average exercise price (CHF)
2003	83	0.18	79.22	83	79.22
2004	296	1.17	129.50	296	129.50
2005	92	2.17	123.20	92	123.20
2006	107	3.17	195.19	107	195.19
2007	170	4.18	229.69	115	229.69
2008	337	5.11	194.56	116	194.59
2009	372	6.20	149.59	1	145.40
Total	**1,457**	**3.87**	**162.92**	**810**	**155.81**

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. The options granted, which are non-tradable equity-settled awards, had a ten-year duration and vested on a phased basis over four years, subject to continued employment. Upon the completion of the Genentech transaction (see Notes 3 and 8) 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 8.

Genentech Stock Option Plan – movement in number of options outstanding

	2009		2008	
	Number of options (millions)	Weighted average exercise price (USD)	Number of options (millions)	Weighted average exercise price (USD)
Outstanding at 1 January	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 31 December	**–**	**–**	**77**	**63.06**
– of which exercisable	–	–	56	56.51

Chugai Stock Acquisition Rights | During 2003 Chugai adopted a Stock Acquisition Rights programme. The programme allows for the granting of rights to employees and directors of Chugai. Each right entitles the holder to purchase 100 Chugai shares at a specified exercise price. The rights, which are non-tradable equity-settled awards, have a ten-year duration and vest after two years.

Chugai Stock Acquisition Rights – movement in number of rights outstanding

	2009		2008	
	Number of rights	Weighted average exercise price (JPY)	Number of rights	Weighted average exercise price (JPY)
Outstanding at 1 January	12,966	217,288	13,002	217,089
Granted	3,300	169,600	–	–
Forfeited	(190)	212,089	–	–
Exercised	(231)	154,556	(36)	145,400
Expired	–	–	–	–
Outstanding at 31 December	**15,845**	**208,333**	**12,966**	**217,288**
– of which exercisable	12,545	218,522	9,416	184,633

Chugai Stock Acquisition Rights – terms of rights outstanding at 31 December 2009

			Rights outstanding		Rights exercisable
Year of grant	Number outstanding	Weighted average years remaining contractual life	Weighted average exercise price (JPY)	Number exercisable	Weighted average exercise price (JPY)
2003	1,064	3.50	145,400	1,064	145,400
2004	2,109	4.25	167,500	2,109	167,500
2005	2,492	5.25	164,900	2,492	164,900
2006	3,380	6.25	224,500	3,380	224,500
2007	3,500	7.25	303,900	3,500	303,900
2008 – no awards	–	–	–	–	–
2009	3,300	9.25	169,600	–	–
Total	**15,845**	**6.49**	**208,333**	**12,545**	**218,522**

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

Issues of share option plans in 2009

	Roche Option Plan	Genentech Stock Option Plan	Chugai Stock Acquisition Rights
Number of options granted	377 thousand	0.2 million	3,300
Underlying equity	Roche non-voting equity securities	Genentech common stock	Chugai shares in blocks of 100
Currency	Swiss francs	US dollars	Japanese yen
Vesting period	Progressively over 3 years	Progressively over 4 years	After 2 years
Contractual life	7 years	10 years	10 years
Weighted average fair value of options issued	16.81	22.68	590
Option pricing model used	Binomial	Binomial	Binomial
Inputs to option pricing model			
– Share price at grant date	146.56	85.36	168,700
– Exercise price	149.57	85.36	169,600
– Expected volatility	25%	25%	34.59%
– Expected dividend yield	6.7%	0%	2.02%
– Early exercise factor	1.609	1.484	n/a
– Expected exit rate	5.7%	8.6%	0%

Volatility for Roche and Chugai options 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 behaviour.

Other equity compensation plans

Special Stock Awards | In March and December 2009 the Group issued Special Stock Awards to certain directors, management and employees selected at the discretion of the Group. The awards consist of immediately vesting non-voting equity securities *(Genussscheine)*. The fair value of the awards was calculated on the basis of the market value of Roche non-voting equity securities at the date of issue.

Special Stock Awards – awards issued in 2009

	March 2009	December 2009	Total
Number of awards issued (thousands)	105	43	148
Fair value per unit at grant (CHF)	146.70	169.40	153.30
Total fair value at grant (CHF millions)	15	7	22

Roche Connect | This programme enables all employees worldwide, except for those in the United States and certain other countries, to make regular deductions from their salaries to purchase non-voting equity securities *(Genussscheine)*. It is administered by independent third parties. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%). The administrator purchases the necessary non-voting equity securities directly from the market. At 31 December 2009 the administrator held 1.6 million non-voting equity securities (2008: 1.4 million). The programme has been operational since 1 October 2002. During the year the cost of the plan was 13 million Swiss francs (2008: 13 million Swiss francs), which was reported within the relevant expenditure line by function.

Genentech Employee Stock Purchase Program (ESPP) | Genentech had an employee stock purchase programme 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 27 million Swiss francs (2008: 115 million Swiss francs). During the year the cost of the plan was 37 million Swiss francs (2008: 33 million Swiss francs), which was reported within the relevant expenditure line by function. Upon the completion of the Genentech transaction (see Notes 3 and 8) 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 8.

Roche Stock-settled Stock Appreciation Rights | With the introduction of Roche Long-Term in 2005, the Group offers Stock-settled Stock Appreciation Rights (S-SARs) to certain directors, management and employees selected at the discretion of the Group. The S-SARs give employees the right to receive non-voting equity securities *(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. The Group covers such obligations by purchasing non-voting equity securities, or derivatives thereon (see Note 28).

Roche S-SARs – movement in number of rights outstanding

	2009		2008	
	Number of rights (thousands)	Weighted average exercise price (CHF)	Number of rights (thousands)	Weighted average exercise price (CHF)
Outstanding at 1 January	13,063	191.72	7,782	185.60
Granted	14,342	155.85	6,397	194.25
Forfeited	(780)	191.64	(477)	206.55
Exercised	(440)	129.88	(639)	131.40
Expired	–	–	–	–
Outstanding at 31 December	**26,185**	**173.12**	**13,063**	**191.72**
– of which exercisable	7,506	187.61	4,221	170.86

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

	Rights outstanding			Rights exercisable	
Year of grant	Number outstanding (thousands)	Weighted average years remaining contractual life	Weighted average exercise price (CHF)	Number exercisable (thousands)	Weighted average exercise price (CHF)
2005	1,570	2.17	123.39	1,570	123.39
2006	2,007	3.17	195.16	2,007	195.16
2007	2,657	4.17	229.34	1,794	229.33
2008	5,909	5.10	194.26	2,063	194.33
2009	14,042	6.47	155.99	72	145.47
Total	**26,185**	**5.42**	**173.12**	**7,506**	**187.61**

The weighted average fair value of the rights granted in 2009 was calculated using a binomial model. The inputs to the model were consistent with those used for the Roche Option Plan 2009 awards given previously, except that the early exercise factor was 1.379 and the expected exit rate was 7.1%. The resulting weighted average fair value per right is CHF 17.67 giving a total fair value of 253 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 Group issued Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the 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 CHF 147.22 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 1 January	–
Granted	1,257
Forfeited	(10)
Transferred to participants	–
Outstanding at 31 December	**1,247**
– of which exercisable	–

Chugai Retirement Stock Acquisition Rights | For the first time in 2009 Chugai issued stock acquisition rights in lieu of the abolition of the Retirement Gratuities System for Directors. The 785 rights issued have a thirty-year duration and vest upon the holder's retirement as a director of Chugai. Each right entitles the holder to purchase 100 Chugai shares at an exercise price of 100 Japanese yen. The total fair value of rights issued was equivalent to 1 million Swiss francs, which was calculated using a binomial model with inputs consistent with those used for the Chugai Stock Appreciation Rights given previously.

Roche Performance Share Plan | The Group offers future non-voting equity security awards (or, at the discretion of the Board of Directors, their cash equivalent) to certain directors and key senior managers. The programme 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 Group's Total Shareholder Return (shares and non-voting equity securities combined) relative to the Group's peers during the three-year period from the date of the grant, and the discretion of the Board of Directors. 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 31 December 2009

	2007–2009	2008–2010	2009–2011
Number of awards outstanding (thousands)	71	83	107
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2010	Feb. 2011	Feb. 2012
Fair value per unit at grant (CHF)	239.49	201.22	156.06
Total fair value at grant (CHF millions)	19	18	18

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 certain North American subsidiaries of the 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 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 Group does not plan to award any further cash-settled SARs and no awards have been made since 2004. On 9 January 2009 the ratio of ADRs to 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 CHF

	2009	2008
Liability at 31 December	35	43
Intrinsic value of vested rights at 31 December	35	43

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

		Rights outstanding and exercisable	
Year of grant	Number outstanding and exercisable (thousands)	Expiry	Weighted average price (USD)
2003	360	Feb. 2010	14.41
2004	1,439	Feb. 2011	26.04
Total	**1,799**		**23.71**

The fair value at 31 December 2009 was calculated using a binomial model. The inputs to the model were the ADR price at 31 December 2009 (USD 42.20), the exercise prices given in the above table, and other inputs consistent with those used for the Roche Option Plan 2009 awards given previously.

12. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At 1 January 2008					
Cost	1,092	10,207	14,681	3,424	29,404
Accumulated depreciation and impairment	–	(3,172)	(8,400)	–	(11,572)
Net book value	**1,092**	**7,035**	**6,281**	**3,424**	**17,832**
Year ended 31 December 2008					
At 1 January 2008	1,092	7,035	6,281	3,424	17,832
Additions	11	144	877	2,155	3,187
Disposals	(13)	(11)	(61)	(12)	(97)
Ventana acquisition[7]	15	25	25	30	95
Other business combinations[7]	–	–	3	–	3
Divestments of subsidiaries[34]	(4)	(46)	(51)	(6)	(107)
Transfers	–	1,692	1,262	(2,954)	–
Depreciation charge	–	(479)	(1,197)	–	(1,676)
Impairment charge	–	(17)	(11)	–	(28)
Currency translation effects	(28)	(406)	(401)	(184)	(1,019)
At 31 December 2008	**1,073**	**7,937**	**6,727**	**2,453**	**18,190**
Cost	1,073	11,410	15,203	2,453	30,139
Accumulated depreciation and impairment	–	(3,473)	(8,476)	–	(11,949)
Net book value	**1,073**	**7,937**	**6,727**	**2,453**	**18,190**
Year ended 31 December 2009					
At 1 January 2009	1,073	7,937	6,727	2,453	18,190
Additions	2	31	972	1,832	2,837
Disposals	(3)	(21)	(64)	(47)	(135)
Lonza Singapore acquisition[7]	–	–	–	–	–
Other business combinations[7]	–	–	3	–	3
Divestments of subsidiaries[34]	–	–	–	–	–
Transfers	–	789	1,062	(1,851)	–
Depreciation charge	–	(505)	(1,476)	–	(1,981)
Impairment charge	–	(687)	(338)	(102)	(1,127)
Currency translation effects	(18)	(34)	(29)	(9)	(90)
At 31 December 2009	**1,054**	**7,510**	**6,857**	**2,276**	**17,697**
Cost	1,054	12,022	16,467	2,377	31,920
Accumulated depreciation and impairment	–	(4,512)	(9,610)	(101)	(14,223)
Net book value	**1,054**	**7,510**	**6,857**	**2,276**	**17,697**

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 30 million Swiss francs (2008: 18 million Swiss francs) are reported as part of 'Cost of sales', 14 million Swiss francs (2008: zero) in 'Research and development' and 1,083 million Swiss francs (2008: 10 million Swiss francs) are reported as part of 'Changes in Group organisation' (see Note 8). The major part of the impairment reported in 'Changes in Group organisation' 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 totalling 9 million Swiss francs using a rate of 4.79% (2008: 42 million Swiss francs using a rate of 4.79%) were capitalised as property, plant and equipment.

Leasing arrangements where the Group is the lessee

Finance leases | As at 31 December 2009 the capitalised cost of property, plant and equipment under finance leases was 157 million Swiss francs (2008: 174 million Swiss francs) and the net book value of these assets was 43 million Swiss francs (2008: 53 million Swiss francs).

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

	Future minimum lease payments		Present value of future minimum lease payments	
	2009	2008	2009	2008
Within one year	1	3	1	3
Between one and five years	1	2	1	1
More than five years	–	–	–	–
Total	**2**	**5**	**2**	**4**
Future finance charges	–	–	–	1
Total future minimum lease payments (undiscounted)	**2**	**5**	**2**	**5**

In addition to the above, Genentech leasing arrangements are disclosed below.

Operating leases | Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the Group. Total operating lease rental expense was 424 million Swiss francs (2008: 411 million Swiss francs).

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

	2009	2008
Within one year	235	220
Between one and five years	432	412
More than five years	175	173
Total minimum payments	**842**	**805**

Leasing arrangements where the Group is the lessor

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

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

	Gross investment in lease		Present value of future minimum lease payments	
	2009	2008	2009	2008
Within one year	27	25	24	23
Between one and five years	57	41	55	38
More than five years	2	2	2	2
Total	**86**	**68**	**81**	**63**
Unearned finance income	(4)	(3)	n/a	n/a
Unguaranteed residual value	n/a	n/a	1	2
Net investment in lease	**82**	**65**	**82**	**65**

The accumulated allowance for uncollectible minimum lease payments was 2 million Swiss francs (2008: 1 million Swiss francs). There were no contingent rents recognised 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 recognised over the lease term on a straight line basis.

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

	2009	2008
Within one year	107	94
Between one and five years	224	212
More than five years	2	–
Total minimum payments	**333**	**306**

At 31 December 2009, machinery and equipment with an original cost of 2,742 million Swiss francs (2008: 2,356 million Swiss francs) and a net book value of 1,175 million Swiss francs (2008: 997 million Swiss francs) was being leased to third parties. There was no contingent rent recognised as income.

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 31 December 2009 the total carrying value of property, plant and equipment from this agreement was 213 million Swiss francs (2008: 239 million Swiss francs) and the carrying value of the leasing obligation was 273 million Swiss francs (2008: 291 million Swiss francs). 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 CHF

	Principal	Ground lease	Interest	Total minimum lease payment
Within one year	13	8	17	38
Between one and five years	76	34	58	168
More than five years	181	50	36	267
Total	**270**	**92**	**111**	**473**

Capital commitments

The Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totalling 0.8 billion Swiss francs (2008: 2.0 billion Swiss francs).

13. Goodwill

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

	2009	2008
At 1 January	8,353	6,835
Lonza Singapore acquisition[7]	–	–
Ventana acquisition[7]	–	1,750
Other business combinations[7]	15	289
Impairment charge	–	–
Currency translation effects	(107)	(521)
At 31 December	**8,261**	**8,353**
Allocated to the following cash-generating units		
Pharmaceuticals Division		
– Roche Pharmaceuticals	2,122	2,139
– Chugai	124	129
Total Pharmaceuticals Division	**2,246**	**2,268**
Diagnostics Division		
– Diabetes Care	770	770
– Professional Diagnostics	1,728	1,752
– Molecular Diagnostics	–	–
– Applied Science	246	247
– Tissue Diagnostics	782	799
– Strategic goodwill (held at divisional level and not allocated to business areas)	2,489	2,517
Total Diagnostics Division	**6,015**	**6,085**
Total Group	**8,261**	**8,353**

There are no accumulated impairment losses in goodwill. The goodwill arising from investments in associates is classified as part of the investments in associates (see Note 15).

Goodwill impairment testing

Pharmaceuticals Division | The division's sub-divisions are the cash-generating units used for the testing of goodwill. For Chugai, the recoverable amount is based on fair value less costs to sell, determined with reference to the publicly quoted share prices of Chugai shares. For Roche Pharmaceuticals, the recoverable amount used in the impairment testing is based on value in use. The cash flow projections used are based on the most recent business plans approved by management. These assume no significant changes in the organisation 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. 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 organisation 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. 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.

14. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At 1 January 2008					
Cost	14,251	1,514	–	772	16,537
Accumulated amortisation and impairment	(9,583)	–	–	(608)	(10,191)
Net book value	**4,668**	**1,514**	**–**	**164**	**6,346**
Year ended 31 December 2008					
At 1 January 2008	4,668	1,514	–	164	6,346
Ventana acquisition[7]	819	570	–	–	1,389
Other business combinations[7]	26	253	–	92	371
Additions	55	363	–	–	418
Disposals	–	–	–	–	–
Amortisation charge	(927)	–	–	(42)	(969)
Impairment charge	(5)	(99)	–	–	(104)
Currency translation effects	(223)	(100)	–	(7)	(330)
At 31 December 2008	**4,413**	**2,501**	**–**	**207**	**7,121**
Cost	14,304	2,568	–	805	17,677
Accumulated amortisation and impairment	(9,891)	(67)	–	(598)	(10,556)
Net book value	**4,413**	**2,501**	**–**	**207**	**7,121**
Allocation by operating segment					
– Pharmaceuticals	1,291	1,946	–	140	3,377
– Diagnostics	3,122	555	–	67	3,744
Total Group	**4,413**	**2,501**	**–**	**207**	**7,121**

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Year ended 31 December 2009					
At 1 January 2009	4,413	2,501	–	207	7,121
Lonza Singapore acquisition[7]	–	–	–	–	–
Other business combinations[7]	17	47	25	–	89
Additions	40	183	–	13	236
Disposals	(3)	–	–	–	(3)
Amortisation charge	(673)	–	(4)	(35)	(712)
Impairment charge	(225)	(405)	–	(38)	(668)
Currency translation effects	(41)	(22)	–	5	(58)
At 31 December 2009	**3,528**	**2,304**	**21**	**152**	**6,005**
Cost	13,759	2,750	42	790	17,341
Accumulated amortisation and impairment	(10,231)	(446)	(21)	(638)	(11,336)
Net book value	**3,528**	**2,304**	**21**	**152**	**6,005**
Allocation by operating segment					
– Pharmaceuticals	911	1,760	–	114	2,785
– Diagnostics	2,617	544	21	38	3,220
Total Group	**3,528**	**2,304**	**21**	**152**	**6,005**

Significant intangible assets as at 31 December 2009 | in millions of CHF

	Operating segment	Net book value	Remaining amortisation period
Product intangibles in use			
Tanox acquisition	Pharmaceuticals	422	10 years
Chugai acquisition	Pharmaceuticals	353	3–11 years
Corange/Boehringer Mannheim acquisition	Diagnostics	1,147	8 years
Igen acquisition	Diagnostics	332	7 years
Ventana acquisition	Diagnostics	622	8 years
Product intangibles not available for use			
Alnylam alliance	Pharmaceuticals	245	n/a
Ventana acquisition	Diagnostics	535	n/a

Classification of amortisation and impairment expenses | in millions of CHF

	2009 Amortisation	2009 Impairment	2008 Amortisation	2008 Impairment
Cost of sales				
– Pharmaceuticals	221	–	477	–
– Diagnostics	448	57	450	5
Marketing and distribution				
– Diagnostics	3	–	–	–
Research and development				
– Pharmaceuticals	32	302	34	99
– Diagnostics	8	23	8	–
Changes in Group organisation				
– Pharmaceuticals	–	286	–	–
Total	**712**	**668**	**969**	**104**

Internally generated intangible assets

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

Intangible assets with indefinite useful lives

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

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 capitalised rights could result in shortened useful lives or impairment.

2009 | In 2009 the Pharmaceuticals operating segment recorded an impairment charge of 588 million Swiss francs and the Diagnostics operating segment recorded an impairment charge of 80 million Swiss francs.

In the Pharmaceuticals operating segment an impairment charge of 286 million Swiss francs was recorded related to the Pharmaceuticals Division reorganisation (see Note 8). The integration programme includes prioritising projects within the shared portfolio. The assets concerned were fully written down by these charges. An impairment charge of 286 million Swiss francs was also recorded in respect of product intangibles not available for use and follows from recent clinical data and portfolio prioritisation decisions relating to certain projects either with alliance partners or acquired in business combinations. The assets concerned, which were not yet being amortised, were written down to their recoverable amount of 321 million Swiss francs, based on a value in use calculation using a discount rate of 7.7%. In addition an impairment charge of 16 million Swiss francs 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 66 million Swiss francs, based on a value in use calculation using a discount rate of 7.7%.

In the Diagnostics operating segment an impairment charge of 80 million Swiss francs was recorded. This was in respect of intangibles 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 71 million Swiss francs, based on a value in use calculation using a discount rate of 7.7%.

2008 | In the Pharmaceuticals operating segment an impairment charge of 30 million Swiss francs was recorded in the first half of 2008 and a further 69 million Swiss francs 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 amortised, were fully written down by these charges. In the Diagnostics operating segment an impairment charge of 5 million Swiss francs was recorded in the second half of 2008 relating to product intangible assets in use. These followed the regular updating of the division's business plans and technology assessments in the second half of 2008. The assets were written down to their recoverable amount of 13 million Swiss francs, based on a value in use calculation using a discount rate of 8.4%.

Intangible assets that are not yet available for use mostly represent in-process research and development assets acquired either through in-licensing arrangements, business combinations or separate purchases. As at 31 December 2009 the carrying value of such assets in the Pharmaceuticals Division is 1,760 million Swiss francs. Of this amount approximately 52% represents projects that have potential decision points within the next twelve months which in certain circumstances could lead to impairment. Due to the inherent uncertainties in the research and development process, such assets are particularly at risk of impairment if the project in question does not result in a commercialised product.

Potential commitments from alliance collaborations

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

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

Potential future third-party collaboration payments as at 31 December 2009 | in millions of CHF

	Pharmaceuticals	Diagnostics	Group
Within one year	127	14	141
Between one and two years	186	7	193
Between two and three years	155	2	157
Total	**468**	**23**	**491**

15. Associates

The Group's investments in associates are accounted for using the equity method. The goodwill arising from investments in associates is classified as part of the investments in associates.

Investments in associates | in millions of CHF

	Share of net income		Carrying value		
	2009	2008	2009	2008	2007
Total investments in associates	**–**	**1**	**16**	**9**	**9**

The Group has no significant investments in associates and there were no material transactions between the Group and its associates. Additional information about associates is given in Note 34.

16. Financial and other long-term assets

Financial and other long-term assets | in millions of CHF

	2009	2008	2007
Available-for-sale investments	315	588	836
Held-to-maturity investments	5	16	19
Loans receivable	18	16	19
Long-term trade receivables	45	73	190
Restricted cash	41	205	226
Other	57	42	43
Total financial long-term assets	**481**	**940**	**1,333**
Long-term employee benefits	226	230	273
Other	226	221	254
Total other long-term assets	**452**	**451**	**527**

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 the Group's strategic alliance efforts. The carrying value of equity investments held at cost is 34 million Swiss francs (2008: 25 million Swiss francs, 2007: 26 million Swiss francs). 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.

17. Inventories

Inventories | in millions of CHF

	2009	2008	2007
Raw materials and supplies	814	702	603
Work in process	763	1,003	1,168
Finished goods and intermediates	4,509	4,466	4,590
Less: provision for slow-moving and obsolete inventory	(438)	(341)	(248)
Total inventories	**5,648**	**5,830**	**6,113**

In 2009 expenses relating to inventories expensed through cost of sales totalled 9,263 million Swiss francs (2008: 8,419 million Swiss francs).

18. Accounts receivable

Accounts receivable | in millions of CHF

	2009	2008	2007
Trade accounts receivable	10,540	9,781	9,811
Notes receivable	270	181	190
Other	24	23	23
Allowances for doubtful accounts	(273)	(147)	(139)
Charge-backs and other allowances	(100)	(83)	(81)
Total accounts receivable	**10,461**	**9,755**	**9,804**

At 31 December 2009 accounts receivable include amounts denominated in US dollars equivalent to 2.3 billion Swiss francs (2008: 2.8 billion Swiss francs, 2007: 3.8 billion Swiss francs) and amounts denominated in euros equivalent to 3.9 billion Swiss francs (2008: 3.9 billion Swiss francs, 2007: 3.8 billion Swiss francs).

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

	2009	2008
At 1 January	(147)	(139)
Additional allowances created	(192)	(79)
Unused amounts reversed	54	36
Utilised during the year	9	12
Currency translation effects	3	23
At 31 December	**(273)**	**(147)**

Net bad debt expense was 138 million Swiss francs (2008: 43 million Swiss francs). Significant concentrations within trade receivables of counterparty credit risk are described in Note 32.

19. Other current assets

Other current assets | in millions of CHF

	2009	2008	2007
Accrued interest income	4	145	37
Derivative financial instruments[24]	1,756	262	70
Restricted cash	1	–	889
Other	669	624	593
Total financial current assets	**2,430**	**1,031**	**1,589**
Prepaid expenses	499	452	355
Other	648	497	508
Total non-financial current assets	**1,147**	**949**	**863**
Total other current assets	**3,577**	**1,980**	**2,452**

Derivative financial instrument assets are primarily related to hedges on the non-US dollar denominated bonds and notes issued to finance the Genentech transaction. Restricted cash in 2007 includes 889 million Swiss francs of the surety bond posted by Genentech in connection with the City of Hope litigation (see Note 25). 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.

20. Marketable securities

Marketable securities | in millions of CHF

	2009	2008	2007
Financial assets at fair-value-through-profit-or-loss			
Held-for-trading investments			
– Bonds and debentures	–	1,027	1,129
Designated as fair-value-through-profit-or-loss			
– Bonds and debentures	–	–	78
– Money market instruments and time accounts over three months	–	–	167
– other investments	–	–	178
Total financial assets at fair-value-through-profit-or-loss	**–**	**1,027**	**1,552**
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	314	51	292
– Bonds and debentures	753	6,814	7,624
– Money market instruments and time accounts over three months	15,029	7,961	10,965
– Other investments	–	3	14
Total available-for-sale financial assets	**16,096**	**14,829**	**18,895**
Total marketable securities	**16,107**	**15,856**	**20,447**

Marketable securities are held for fund management purposes and are classified as current. They are primarily denominated in US dollars. Other investments held for strategic purposes are classified as non-current (see Note 16). 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 CHF

Contracted maturity	2009 Amount	2009 Average effective interest rate	2008 Amount	2008 Average effective interest rate
Within one year	261	3.01%	2,612	5.81%
Between one and five years	339	2.42%	4,178	5.81%
More than five years	153	2.84%	1,051	5.35%
Total bonds and debentures	**753**	**2.71%**	**7,841**	**5.75%**

Money market instruments | These generally have fixed interest rates ranging from 0% to 9.65% (2008: 0.05% to 5.50%) depending upon the currency in which they are denominated. They are contracted to mature within one year of 31 December 2009.

21. Cash and cash equivalents

Cash and cash equivalents | in millions of CHF

	2009	2008	2007
Cash			
– Cash in hand and in current or call accounts	2,396	1,999	2,792
Cash equivalents			
– Time accounts with a maturity of three months or less	46	2,916	963
Total cash and cash equivalents	**2,442**	**4,915**	**3,755**

22. Accounts payable

Accounts payable | in millions of CHF

	2009	2008	2007
Trade accounts payable	1,299	1,053	1,188
Other taxes payable	442	437	406
Dividends payable	15	15	–
Other accounts payable	544	512	267
Total accounts payable	**2,300**	**2,017**	**1,861**

23. Accrued and other current liabilities

Accrued liabilities and other current liabilities | in millions of CHF

	2009	2008	2007
Deferred income	562	262	231
Accrued payroll and related items	2,026	1,838	1,566
Interest payable	1,138	95	104
Derivative financial instruments [24]	343	194	80
Other accrued liabilities	5,329	3,584	3,848
Total accrued and other current liabilities	**9,398**	**5,973**	**5,829**

24. Derivative financial instruments

The Group uses derivative financial instruments as part of its risk management activities. This is discussed in Note 32. 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 CHF

	Assets			Liabilities		
	2009	2008	2007	2009	2008	2007
Foreign currency derivatives						
– Forward exchange contracts	25	155	29	(343)	(119)	(71)
– Cross-currency swaps	1,698	–	–	–	–	–
– Other	–	21	4	–	(32)	(4)
Interest rate derivatives						
– Swaps	11	20	7	–	(1)	–
– Other	2	23	–	–	–	(1)
Other derivatives	20	43	30	–	(42)	(4)
Total derivative financial instruments [19, 23]	**1,756**	**262**	**70**	**(343)**	**(194)**	**(80)**

Hedge accounting

The 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 32, the 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 Group generally limits the use of hedge accounting to certain significant transactions. Consequently as at 31 December 2009 the 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 Group has issued bonds and notes to finance the Genentech transaction (see Note 27). On some of the bonds and notes which are denominated in euros and sterling, the Group has entered into cross-currency swaps to hedge foreign exchange and interest rate risk. These cash flow hedges qualify for hedge accounting. As at 31 December 2009 such instruments, which are designated and qualify for hedge accounting, are recorded as assets with a fair value of 1,698 million Swiss francs. There was no ineffective portion.

In 2008 Genentech had partly hedged non-US dollar cash flows from future royalty income and development expenses expected over the next one to five years. Genentech entered into zero-cost collar option contracts. As at 31 December 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 Swiss francs. 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 CHF

	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 31 December 2009									
Cash inflows	20,903	815	–	–	815	815	8,618	454	9,386
Cash outflows	(19,185)	(830)	–	–	(830)	(832)	(7,762)	(447)	(8,484)
Total	**1,718**	**(15)**	**–**	**–**	**(15)**	**(17)**	**856**	**7**	**902**
Year ended 31 December 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 CHF

	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 31 December 2009									
Cash inflows	5,412	815	–	–	815	815	815	454	1,698
Cash outflows	(5,417)	(830)	–	–	(830)	(832)	(828)	(447)	(1,650)
Total	**(5)**	**(15)**	**–**	**–**	**(15)**	**(17)**	**(13)**	**7**	**48**
Year ended 31 December 2008									
Cash inflows	–	–	–	–	–	–	–	–	–
Cash outflows	–	–	–	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

The changes in the hedging reserve within equity are shown in Note 28.

Fair value hedges

The Group has hedged some of its fixed-term debt instruments with interest rate swaps. As at 31 December 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 11 million Swiss francs (2008: asset of 20 million Swiss francs). During 2009 a loss of 9 million Swiss francs was recorded on these interest rate swaps (2008: gain of 14 million Swiss francs). 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 instruments.

The Group has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure the Group has entered into forward contracts, which have been designated and qualify as fair value hedges. As at 31 December 2009 such instruments are recorded as assets with a fair value of 20 million Swiss francs (2008: assets of 42 million Swiss francs). During 2009 a loss of 22 million Swiss francs was recorded on these forward contracts (2008: gain of 19 million Swiss francs). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

The 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.

25. Provisions and contingent liabilities

Provisions: movements in recognised liabilities | in millions of CHF

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended 31 December 2008						
At 1 January 2008	1,102	203	193	277	430	2,205
Additional provisions created	125	3	191	110	426	855
Unused amounts reversed	(354)	(18)	(17)	(10)	(39)	(438)
Utilised during the year	(618)	(22)	(91)	(76)	(254)	(1,061)
Unwinding of discount[5]	15	4	1	1	–	21
Currency translation effects	(47)	(9)	(13)	(23)	(32)	(124)
At 31 December 2008	**223**	**161**	**264**	**279**	**531**	**1,458**
Of which						
– Current portion	90	19	186	60	449	804
– Non-current portion	133	142	78	219	82	654
Total provisions	**223**	**161**	**264**	**279**	**531**	**1,458**

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended 31 December 2009						
At 1 January 2009	223	161	264	279	531	1,458
Additional provisions created	513	101	457	131	582	1,784
Unused amounts reversed	(113)	(3)	(22)	(12)	(62)	(212)
Utilised during the year	(64)	(20)	(157)	(126)	(342)	(709)
Unwinding of discount[5]	5	13	1	2	–	21
Other business combinations[7]	–	–	2	–	2	4
Currency translation effects	(15)	(5)	(13)	4	1	(28)
At 31 December 2009	**549**	**247**	**532**	**278**	**712**	**2,318**
Of which						
– Current portion	514	17	421	60	606	1,618
– Non-current portion	35	230	111	218	106	700
Total provisions	**549**	**247**	**532**	**278**	**712**	**2,318**
Expected outflow of resources						
– Within one year	514	17	421	60	606	1,618
– Between one to two years	17	19	61	33	37	167
– Between two to three years	6	46	28	28	20	128
– More than three years	12	165	22	157	49	405
Total provisions	**549**	**247**	**532**	**278**	**712**	**2,318**

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 320 million Swiss francs, 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 271 million Swiss francs was recorded following the 24 April 2008 California Supreme Court decision in the City of Hope litigation (see below). This consisted of the 310 million US dollars released to income as a favourable 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 recorded in respect of major legal cases was a benefit of 123 million Swiss francs (2008: expense of 105 million Swiss francs).

Legal provisions

Legal provisions consist of a number of separate legal matters, including claims arising from trade, in various 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 by between 4% and 5% where the time value of money is material.

Environmental provisions

Provisions for environmental matters include various separate environmental issues in a number of countries. By their nature the amounts and timings of any outflows are difficult to predict. 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 programmes that materially change the scope of business undertaken by the Group or the manner in which business is conducted. Such provisions include only the costs necessarily entailed by the restructuring which are not associated with the recurring activities of the Group. The timings of these cash outflows are reasonably certain on a global basis and are shown in the table above. Significant provisions are discounted by between 3% and 4% where the time value of money is material.

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. Significant provisions are discounted by 6% where the time value of money is material.

Other provisions

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

The Group has entered into strategic alliances with various companies in order to gain access to potential new products or to utilise other companies to help develop the Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The Group's best estimates of future commitments for such payments are given in Note 14.

Pharmaceuticals legal cases

On 10 June 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 US dollars in compensatory damages based on a finding of a breach of a 1976 agreement between Genentech and the City of Hope. On 24 June 2002 the jury voted to award the City of Hope 200 million US dollars in punitive damages in the same case. On 13 September 2002 Genentech filed a notice of appeal of the jury verdict and damages awards with the California Court of Appeal. On 21 October 2004 the Court of Appeal affirmed the verdict and damages awards in all respects. Also, on 21 October 2004 Genentech announced that it would seek review by the California Supreme Court, which has discretion over which cases it will review. On 24 November 2004 Genentech filed its petition for review by the California Supreme Court and on 2 February 2005 the California Supreme Court granted this petition. The appeal to the California Supreme Court was heard on 5 February 2008 and on 24 April 2008 overturned the award of 200 million US dollars in punitive damages to the City of Hope, but upheld the award of 300 million US dollars in compensatory damages. On 9 May 2008 Genentech paid 476 million US dollars to the City of Hope, reflecting the amount of compensatory damages awarded, plus interest thereon from the date of the original decision on 10 June 2002. On 31 March 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 judgement 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 Swiss francs was recorded as the time cost of provisions within financing costs.

A full provision, totalling 776 million US dollars as at 31 December 2007, had been recorded for these awards. As a result of the 24 April 2008 California Supreme Court decision, provisions totalling 310 million US dollars were released to income in 2008 as a favourable litigation settlement, of which 200 million US dollars relates to the original award recorded in 2002 as an exceptional major legal case expense and 110 million US dollars relates to interest accrued as a charge to financing costs in the intervening periods.

On 3 October 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 US dollars in cash and investments to secure this bond. This amount, which was equivalent to 889 million Swiss francs at 31 December 2007, was recorded as restricted cash within other current assets in the Annual Financial Statements. 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 4 October 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 20 October 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 31 December 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 13 May 2005 a request was filed by a third party for re-examination of US 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 7 July 2005 the US Patent and Trademark Office ('the Patent Office') ordered a re-examination of this patent. On 25 February 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 22 August 2008. Genentech's opening appeal brief was filed on 9 December 2008. Subsequent to the filing of the appeal brief, the Patent Office continued with the re-examination. On 12 and 13 February 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 23 February 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 19 May 2009 reflecting the formal termination of these proceedings in Genentech's favour.

On 30 May 2008 Centocor, Inc. filed a patent lawsuit against Genentech and City of Hope in the US 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 3 September 2008. Genentech answered the complaint on 19 September 2008 and also filed counterclaims against Centocor alleging that four Centocor products infringe certain Genentech patents. Genentech filed an amendment to those counterclaims on 10 October 2008 and Centocor answered these counterclaims on 26 November 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 licences. The outcome of this matter cannot be determined at this time.

On 8 October 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 humanised anti-CD20 programme, and its collaborator, Biogen Idec Inc., disagreed with certain of Genentech's development decisions related to humanised anti-CD20 products. The disputed issues were submitted to arbitration. On 15 June 2009 Genentech received the decision from the arbitrators, which included certain favourable and certain adverse rulings relating to some of Genentech's development decisions and programmes. 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 and elsewhere relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. As of 31 December 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 26 June 2009 HLR announced that, following a re-evaluation of its portfolio of medicines that are now available from generic manufacturers, rapidly declining brand sales in the US and high costs from personal-injury lawsuits that it continues to defend vigorously, it had decided to immediately discontinue the manufacture and distribution of the product in the 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 favour 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 favour 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 31 December 2009 juries in the Superior Court have ruled in favour of the plaintiff in five cases, assessing total compensatory damages totalling 26 million US dollars. 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 favour of the plaintiff, assessing total compensatory damages of 7 million US dollars, subsequently reduced to 6.8 million US dollars 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 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 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 31 December 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 31 December 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 19 November 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 US 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 US Patent No. 7,285,271. At Roche and Trimeris's request the case has been transferred to the US District Court for North Carolina. The outcome of this matter cannot be determined at this time.

On 28 June 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 16 January 2008 the Administrative Court ruled in favour 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 12 February 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 in December 2006, and Lonza has operated the facility since that time. Under the terms of that sale, Genentech retained control of the defence 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 US dollars. Genentech's indemnification obligation to Lonza, if any, cannot be determined at this time.

On 8 May, 11 June, 8 August, and 29 September 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 US 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 Connectics Corporation and was subsequently assigned to InterMune. Genentech responded to these complaints with a motion to dismiss these matters, which was granted on 28 April 2009. Plaintiffs filed amended complaints including only state law claims on 28 May 2009. Genentech responded to these complaints with another motion to dismiss, which was held on 11 September 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 23 December 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 matter 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 and on 9 July 2009 the settlement was approved by the Delaware Court of Chancery.

On 27 October 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis US LLC and Sanofi-Aventis US Inc. in the Northern District of California seeking a declaratory judgement that certain Genentech products, including Rituxan, do not infringe Sanofi's US Patents 5,849,522 ('the '522 patent') and 6,218,140 ('the '140 patent') and a declaratory judgement that the '522 and '140 patents are invalid. Also on 27 October 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. 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 24 October 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.

26. Other non-current liabilities

Other non-current liabilities | in millions of CHF

	2009	2008	2007
Deferred income	109	174	243
Other long-term liabilities	307	285	480
Total other non-current liabilities	**416**	**459**	**723**

27. Debt

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

	2009	2008
At 1 January	4,089	6,866
Proceeds from issue of bonds and notes	48,197	–
Redemption and repurchase of bonds and notes	(7,421)	(2,188)
Increase (decrease) in commercial paper	(261)	(107)
Increase (decrease) in other debt	(133)	(317)
(Gains) losses on redemption and repurchase of bonds and notes, net[5]	9	–
Amortisation of debt discount[5]	47	1
(Gains) losses on financial liabilities at fair-value-through-profit-or-loss, net[5]	(6)	(5)
Currency translation effects and other	(2,105)	(161)
At 31 December	**42,416**	**4,089**
Consisting of		
– Bonds and notes	41,710	3,035
– Commercial paper	270	529
– Amounts due to banks and other financial institutions	136	77
– Genentech leasing obligations[7,12]	273	337
– Finance lease obligations	2	4
– Other borrowings	25	107
Total debt	**42,416**	**4,089**
Reported as		
– Long-term debt	36,143	2,972
– Short-term debt	6,273	1,117
Total debt	**42,416**	**4,089**

The fair value of the bonds and notes is 45.4 billion Swiss francs (2008: 3.0 billion Swiss francs, 2007: 5.5 billion Swiss francs) and the fair value of total debt is 46.1 billion Swiss francs (2008: 4.0 billion Swiss francs, 2007: 6.8 billion Swiss francs). 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 the Group's assets in connection with debt.

Bonds and notes

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

	Effective interest rate Underlying instrument	Including hedging	2009	2008	2007
US dollar-denominated notes – floating rate	3 months LIBOR				
Notes due 25 February 2010, principal 3 billion US dollars	+1.13%	n/a	3,110	–	–
Notes due 25 February 2011, principal 931 million US dollars	+2.10%	n/a	964	–	–
US dollar-denominated notes – fixed rate					
4.50% notes due 1 March 2012, principal 2.5 billion US dollars	4.84%	n/a	2,578	–	–
5.00% notes due 1 March 2014, principal 2.75 billion US dollars	5.31%	n/a	2,826	–	–
6.00% notes due 1 March 2019, principal 4.5 billion US dollars	6.37%	n/a	4,577	–	–
7.00% notes due 1 March 2039, principal 2.5 billion US dollars	7.43%	n/a	2,500	–	–
European Medium Term Note programme – floating rate	3 months EURIBOR				
Notes due 4 March 2010, principal 1.5 billion euros	+1.05%	+0.92%	2,229	–	–
European Medium Term Note programme – fixed rate					
4% notes due 9 October 2008, principal 750 million euros	4.16%	n/a	–	–	1,240
4.625% notes due 4 March 2013, principal 5.25 billion euros	4.82%	5.53%	7,759	–	–
5.5% notes due 4 March 2015, principal 1.25 billion pounds sterling	5.70%	5.83%	2,065	–	–
5.625% notes due 4 March 2016, principal 2.75 billion euros	5.70%	6.37%	4,072	–	–
6.5% notes due 4 March 2021, principal 1.75 billion euros	6.66%	6.99%	2,569	–	–
5.375% notes due 29 August 2023, principal 250 million pounds sterling	5.46%	n/a	411	377	553
Swiss franc bonds					
'Rodeo' 1.75% due 20 March 2008, principal 1 billion Swiss francs	3.00%	n/a	–	–	998
2.5% bonds due 23 March 2012, principal amount 2.5 billion Swiss francs	2.68%	3.10%	2,490	–	–
4.5% bonds due 23 March 2017, principal amount 1.5 billion Swiss francs	4.77%	n/a	1,477	–	–
US dollar bonds					
'Chameleon' 6.75% due 6 July 2009, principal 487 million US dollars	6.77%	n/a	–	522	568
Genentech Senior Notes					
4.40% Senior Notes due 15 July 2010, principal 500 million US dollars	4.53%	n/a	528	549	569
4.75% Senior Notes due 15 July 2015, principal 1 billion US dollars	4.87%	n/a	1,037	1,058	1,127
5.25% Senior Notes due 15 July 2035, principal 500 million US dollars	5.39%	n/a	518	529	564
Japanese yen convertible bonds issued by Chugai					
'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds' 1.05% due 30 September 2008 (2007: outstanding principal amount 42 million Japanese yen)	1.05%	n/a	–	–	–
Total			**41,710**	**3,035**	**5,619**

Bonds and notes: maturity | in millions of CHF

	2009	2008	2007
Within one year	5,867	522	2,238
Between one and two years	964	549	568
Between two and three years	5,068	–	569
Between three and four years	7,759	–	–
Between four and five years	2,826	–	–
More than five years	19,226	1,964	2,244
Total bonds and notes	**41,710**	**3,035**	**5,619**

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

	2009	2008	2007
US dollar notes	222	–	–
Euro notes	91	–	–
Swiss franc bonds	33	–	–
Sterling notes	24	5	8
Total unamortised discount	**370**	**5**	**8**

Fair Value Option

In 2005 the Group applied the Fair Value Option on three of its outstanding debt instruments on which the Group had been applying fair value hedge accounting in the past. These debt instruments are the 'European Medium Term Note programme' Euro bonds, the 'Chameleon' US dollar bonds and the 'Rodeo' Swiss franc bonds. These instruments were fully redeemed at their due dates in 2008 and 2009. The Fair Value Option treatment is based on the elimination of an accounting mismatch which had been recognised between the hedging swaps (reported at fair value) and the hedged bonds (reported at amortised cost).

Issuance of new bonds and notes – 2009

The Group financed the Genentech transaction (see Note 3) by a combination of the Group's own funds, debt securities, and commercial paper. The Group raised net proceeds of approximately 48.2 billion Swiss francs through a series of debt offerings, as described below. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

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

	Principal amount USD millions	Net proceeds CHF millions
Floating rate notes due 2010	3,000	3,477
Floating rate notes due 2011	1,250	1,448
Fixed rate 1.95% notes due 2009	2,500	2,808
Fixed rate 4.50% notes due 2012	2,500	2,878
Fixed rate 5.00% notes due 2014	2,750	3,157
Fixed rate 6.00% notes due 2019	4,500	5,116
Fixed rate 7.00% notes due 2039	2,500	2,797
Total	**19,000**	**21,681**

European Medium Term Note programme | On 4 March 2009 the 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

	EUR millions	Principal amount GBP millions	Net proceeds CHF millions
Floating rate EUR notes due 2010	1,500	–	2,214
Fixed rate 4.625% EUR notes due 2013	5,250	–	7,701
Fixed rate 5.5% GBP notes due 2015	–	1,250	2,045
Fixed rate 5.625% EUR notes due 2016	2,750	–	4,045
Fixed rate 6.5% EUR notes due 2021	1,750	–	2,551
Total	**11,250**	**1,250**	**18,556**

Subsequent to the debt issuances, the proceeds of all notes were swapped into US dollars. As a result, in these financial statements, the notes have economic characteristics equivalent to US dollar-denominated notes.

Swiss franc-denominated bonds and notes | On 23 March 2009 the 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

	Principal amount CHF millions	Net proceeds CHF millions
Fixed rate 1.2% bonds due 2009	4,000	3,998
Fixed rate 2.5% bonds due 2012	2,500	2,487
Fixed rate 4.5% bonds due 2017	1,500	1,475
Total	**8,000**	**7,960**

Subsequent to the debt issuances, the proceeds of the 2009 and 2012 Swiss franc-denominated bonds were swapped into US dollars. As a result, in these financial statements, the bonds have economic characteristics equivalent to US dollar-denominated bonds.

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

	2009	2008
US dollar-denominated notes	21,681	–
European Medium Term Note programme euro- and sterling-denominated notes	18,556	–
Swiss franc-denominated notes	7,960	–
Total cash inflows from issuance of bonds and notes	**48,197**	**–**

Collateral agreements | Collateral agreements were entered with the derivative counterparties to the above currency swaps to mitigate counterparty risk. As the fair value of the derivative instruments moved up during 2009 due to a weaker US dollar, cash collateral of 1.5 billion Swiss francs had been delivered to Roche as at 31 December 2009. This collateral is recorded as an increase in cash and a corresponding increase in accrued liabilities. At the same time the Group delivered cash collateral of 62 million Swiss francs for those derivatives which had a negative fair value. This collateral paid is recorded as an increase in other current assets and a corresponding decrease in cash. In addition the Group generated cash flows of 1.8 billion Swiss francs from realised gains on hedging derivatives with shorter maturities that were settled during 2009.

Redemption and repurchase of bonds and notes – 2009

Redemption of 'Chameleon' US dollar bonds | The Group redeemed these bonds with a remaining outstanding principal value of 487 million US dollars, which had a due date of 6 July 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 530 million Swiss francs. There was no gain or loss recorded in the income statement upon the redemption.

Redemption and repurchase of US dollar-denominated notes | The Group redeemed notes with a principal value of 2,500 million US dollars, which had a due date of 23 September 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 2,560 million Swiss francs. There was no gain or loss recorded in the income statement upon the redemption.

In addition the Group repurchased floating rate notes with a principal value of 319 million US dollars and original due date of 25 February 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 331 million Swiss francs. A loss of 9 million Swiss francs was recorded in the income statement upon the repurchase.

Redemption of Swiss franc-denominated notes | The Group redeemed notes with a principal value of 4,000 million Swiss francs, which had a due date of 23 September 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 4,000 million Swiss francs. There was no gain or loss recorded in the income statement upon the redemption.

Redemption, repurchase and conversion of bonds and notes – 2008

Redemption of 'Rodeo' Swiss franc bonds | On the due date of 20 March 2008 the Group redeemed these bonds at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 3.00%. The cash outflow was 1,000 million Swiss francs and there was no gain or loss recorded on the redemption.

Redemption of European Medium Term Note programme Euro bonds | On the due date of 9 October 2008 the Group redeemed at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 4.16%. The cash outflow was 1,188 million Swiss francs and there was no gain or loss recorded on the redemption.

Conversion and redemption of 'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds' | During 2008 the remaining outstanding bonds with a face value of 42 million Japanese yen (0.4 million Swiss francs) were either converted to shares of Chugai or redeemed at the issue price on the due date of 30 September 2008. The Group's percentage ownership of Chugai was unaffected by this conversion, as the Group had bonds convertible into Chugai shares that mirrored those that Chugai had outstanding with third parties. There was no gain or loss recorded in the income statement upon the conversion and redemption. The cash outflow was less than 1 million Swiss francs.

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

	2009	2008
'Chameleon' US dollar bonds	(530)	–
US dollar-denominated notes	(2,891)	–
Swiss franc-denominated notes	(4,000)	–
'Rodeo' Swiss franc bonds	–	(1,000)
European Medium Term Note programme Euro bonds	–	(1,188)
Japanese yen convertible bonds issued by Chugai	–	–
Total cash outflows from redemption, repurchase and conversion of bonds and notes	**(7,421)**	**(2,188)**

Commercial paper

Genentech commercial paper program | In October 2007 Genentech established a commercial paper program under which it can issue up to 1 billion US dollars of unsecured commercial paper notes. Maturities under the program generally vary from overnight to five weeks and cannot exceed 397 days. As at 31 December 2008 unsecured commercial paper notes with a principal amount of 500 million US dollars and an average interest rate of 0.80% were outstanding. These amounts were due at various dates until 23 January 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 543 million Swiss francs 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 15 May 2009 and there were no amounts outstanding at 31 December 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 US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. Committed credit lines of 2.5 billion euros and 950 million US dollars 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 282 million Swiss francs. As at 31 December 2009 unsecured commercial paper notes with a principal amount of 260 million US dollars and an average interest rate of 0.13% were outstanding. These amounts were due at various dates until 20 January 2010.

Movements in commercial paper obligations | in millions of CHF

	2009	2008
At 1 January	529	675
Net cash proceeds (payments)	(261)	(107)
Currency translation effects	2	(39)
At 31 December	**270**	**529**
Of which		
– Genentech commercial paper program	–	529
– Roche Holdings, Inc. commercial paper program	270	–
Total	**270**	**529**

Amounts due to banks and other financial institutions

These amounts are denominated in various currencies, notably in Chinese renminbi, and the average interest rate was 4.1%. The average interest rate in 2008 was 4.5%, when the balance was primarily denominated in Chinese renminbi. Repayment dates are up to eight years and 65 million Swiss francs (2008: 61 million Swiss francs) are due within one year.

28. Equity attributable to Roche shareholders

Changes in equity attributable to Roche shareholders | in millions of CHF

	Share capital	Retained earnings	Reserves Fair value	Reserves Hedging	Reserves Translation	Total
Year ended 31 December 2008						
At 1 January 2008	160	49,905	125	–	(4,707)	45,483
Net income recognised in income statement	–	8,969	–	–	–	8,969
Available-for-sale investments						
– Valuation gains (losses) taken to equity	–	–	(671)	–	–	(671)
– Transferred to income statement on sale or impairment	–	–	163	–	–	163
– Income taxes	–	–	88	–	–	88
– Non–controlling interests	–	–	48	–	–	48
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	(55)	–	(55)
– Transferred to income statement [a)]	–	–	–	83	–	83
– Transferred to the initial carrying value of hedged items	–	–	–	–	–	–
– Income taxes	–	–	–	(12)	–	(12)
– Non-controlling interests	–	–	–	(7)	–	(7)
Currency translation of foreign operations						
– Exchange differences	–	–	16	–	(2,998)	(2,982)
– Accumulated differences transferred to income statement on divestment [34]	–	–	–	–	(16)	(16)
– Non-controlling interests	–	–	–	–	181	181
Defined benefit post-employment plans						
– Actuarial gains (losses) [10]	–	(2,820)	–	–	–	(2,820)
– Limit on asset recognition [10]	–	636	–	–	–	636
– Income taxes	–	662	–	–	–	662
– Non-controlling interests	–	18	–	–	–	18
Other comprehensive income, net of tax	**–**	**(1,504)**	**(356)**	**9**	**(2,833)**	**(4,684)**
Total comprehensive income	**–**	**7,465**	**(356)**	**9**	**(2,833)**	**4,285**
Dividends paid	–	(3,969)	–	–	–	(3,969)
Equity compensation plans, net of transactions in own equity instruments	–	691	–	–	–	691
Genentech and Chugai share repurchases [3, 4]	–	(472)	–	–	–	(472)
Changes in ownership interests in subsidiaries						
– Chugai [4]	–	(530)	–	–	–	(530)
– Ventana [7]	–	(964)	–	–	–	(964)
Changes in non-controlling interests	–	(45)	–	–	–	(45)
At 31 December 2008	**160**	**52,081**	**(231)**	**9**	**(7,540)**	**44,479**

a) Of amounts transferred to income statement, losses of 86 million Swiss francs were reported as 'Royalties and other operating income' and gains of 3 million Swiss francs as 'Financial income'.

Changes in equity attributable to Roche shareholders | in millions of CHF

	Share capital	Retained earnings	Reserves Fair value	Reserves Hedging	Reserves Translation	Total
Year ended 31 December 2009						
At 1 January 2009	160	52,081	(231)	9	(7,540)	44,479
Net income recognised in income statement	–	7,784	–	–	–	7,784
Available-for-sale investments						
– Valuation gains (losses) taken to equity	–	–	162	–	–	162
– Transferred to income statement on sale or impairment	–	–	207	–	–	207
– Income taxes	–	–	(14)	–	–	(14)
– Non-controlling interests	–	–	(3)	–	–	(3)
Cash flow hedges						
– Gains (losses) taken to equity	–	–	–	2,090	–	2,090
– Transferred to income statement [a)]	–	–	–	(1,973)	–	(1,973)
– Transferred to the initial carrying value of hedged items	–	–	–	–	–	–
– Income taxes	–	–	–	(42)	–	(42)
– Non-controlling interests	–	–	–	(15)	–	(15)
Currency translation of foreign operations						
– Exchange differences	–	–	(22)	(4)	3,081	3,055
– Accumulated differences transferred to income statement on divestment [34]	–	–	–	–	(1)	(1)
– Non-controlling interests	–	–	–	–	(333)	(333)
Defined benefit post-employment plans						
– Actuarial gains (losses) [10]	–	(69)	–	–	–	(69)
– Limit on asset recognition [10]	–	(3)	–	–	–	(3)
– Income taxes	–	67	–	–	–	67
– Non-controlling interests	–	(1)	–	–	–	(1)
Other comprehensive income, net of tax	**–**	**(6)**	**330**	**56**	**2,747**	**3,127**
Total comprehensive income	**–**	**7,778**	**330**	**56**	**2,747**	**10,911**
Dividends paid	–	(4,300)	–	–	–	(4,300)
Equity compensation plans, net of transactions in own equity instruments	–	77	–	–	–	77
Genentech and Chugai share repurchases [3, 4]	–	(9)	–	–	–	(9)
Changes in ownership interests in subsidiaries						
– Genentech [3]	–	(43,777)	–	–	–	(43,777)
– Memory [7]	–	(2)	–	–	–	(2)
Changes in non-controlling interests	–	(13)	–	–	–	(13)
At 31 December 2009	**160**	**11,835**	**99**	**65**	**(4,793)**	**7,366**

a) Of amounts transferred to income statement, losses of 12 million Swiss francs were reported as 'Royalties and other operating income' and gains of 1,985 million Swiss francs as 'Financial income'.

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009, as described in Note 3. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group 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 Group was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the Group's net equity, but has no effect on the Group's business or its dividend policy.

Share capital

As of 31 December 2009, the authorised and issued share capital of Roche Holding Ltd, which is the Group's parent company, consisted of 160,000,000 shares with a nominal value of 1.00 Swiss franc each, as in the preceding year. The shares are bearer shares and the Group does not maintain a register of shareholders. Based on information supplied to the Group, a shareholder group with pooled voting rights owns 50.0125% (2008: 50.0125%) of the issued shares. This is further described in Note 33. Based on information supplied to the Group, Novartis Ltd, Basel, and its affiliates own 33.3330% (participation below 33⅓%) of the issued shares (2008: 33.3330%).

Non-voting equity securities (Genussscheine)

As of 31 December 2009, 702,562,700 non-voting equity securities have been authorised and were in issue as in the preceding year. Under Swiss company law these non-voting equity securities have no nominal value, are not part of the share capital and cannot be issued against a contribution which would be shown as an asset in the balance sheet of Roche Holding Ltd. Each non-voting equity security confers the same rights as any of the shares to participate in the net profit and any remaining proceeds from liquidation following repayment of the nominal value of the shares and, if any, participation certificates. In accordance with the law and the Articles of Incorporation of Roche Holding Ltd, the Company is entitled at all times to exchange all or some of the non-voting equity securities into shares or participation certificates.

Dividends

On 10 March 2009 the shareholders approved the distribution of a dividend of 5.00 Swiss francs per share and non-voting equity securities (2008: 4.60 Swiss francs) in respect of the 2008 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 4,300 million Swiss francs (2008: 3,969 million Swiss francs) and has been recorded against retained earnings in 2009. The Board of Directors has proposed dividends for the 2009 business year of 6.00 Swiss francs per share and non-voting equity security which, if approved, would result in a total distribution to shareholders of 5,175 million Swiss francs. This is subject to approval at the Annual General Meeting on 2 March 2010.

Own equity instruments

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

	31 December 2009 (millions)	31 December 2008 (millions)
Non-voting equity securities	6.7	3.0
Derivative instruments	7.4	8.5
Total	**14.1**	**11.5**

Own equity instruments are recorded within equity at original purchase cost. Details of own equity instruments held at 31 December 2009 are shown in the table below. Fair values are disclosed for information purposes.

Own equity instruments at 31 December 2009: supplementary information

	Equivalent number of non-voting equity securities (millions)	Maturity	Strike price (CHF)	Market value (CHF millions)
Non-voting equity securities	6.7	n/a	n/a	1.1
Derivative instruments		2 Feb. 2012 –	123.00 –	
	7.4	22 Jan. 2016	229.60	0.2
Total	**14.1**			**1.3**

Non-voting equity securities and derivative instruments are held for the Group's potential conversion obligations that may arise from the Roche Option Plan and Roche Stock-settled Stock Appreciation Rights (see Note 11). These mainly consist of call options that are exercisable at any time up to their maturity.

The Group holds none of its own shares.

Reserves

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

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

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

29. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

For the calculation of basic earnings per share and non-voting equity security, the number of shares and non-voting equity securities is reduced by the weighted average number of its own non-voting equity securities held by the Group during the period.

Basic earnings per share and non-voting equity security

	2009	Group 2008
Net income attributable to Roche shareholders (CHF millions)	7,784	8,969
Number of shares (millions)[28]	160	160
Number of non-voting equity securities (millions)[28]	703	703
Weighted average number of own non-voting equity securities held (millions)	(5)	(3)
Weighted average number of shares and non-voting equity securities in issue (millions)	**858**	**860**
Basic earnings per share and non-voting equity security (CHF)	9.07	10.43

Diluted earnings per share and non-voting equity security

For the calculation of diluted earnings per share and non-voting equity security, the net income and weighted average number of shares and non-voting equity securities outstanding are adjusted for the effects of all dilutive potential shares and non-voting equity securities.

Potential dilutive effects arise from the employee stock option plans. The exercise of outstanding vested employee stock options would have a dilutive effect. The exercise of the outstanding vested Chugai and, prior to the Genentech transaction, Genentech employee stock options would have a dilutive effect if the net income of Chugai or Genentech is positive. The diluted earnings per share and non-voting equity security reflects the potential impacts of these dilutive effects on the earnings per share figures.

Diluted earnings per share and non-voting equity security

	2009	2008
Net income attributable to Roche shareholders (CHF millions)	7,784	8,969
Increase in non-controlling share of Group net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised (CHF millions)	(39)	(159)
Net income used to calculate diluted earnings per share (CHF millions)	**7,745**	**8,810**
Weighted average number of shares and non-voting equity securities in issue (millions)	858	860
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	1	1
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**859**	**861**
Diluted earnings per share and non-voting equity security (CHF)	9.02	10.23

30. Non-controlling interests

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

	2009	2008
At 1 January	9,343	7,960
Net income recognised in income statement		
– Genentech[3]	431	1,659
– Chugai[4]	277	200
– Other non-controlling interests	18	16
Total net income recognised in income statement	**726**	**1,875**
Available-for-sale investments	3	(48)
Cash flow hedges	15	7
Currency translation of foreign operations	333	(181)
Defined benefit post-employment plans	1	(18)
Other comprehensive income, net of tax	**352**	**(240)**
Total comprehensive income	**1,078**	**1,635**
Ventana acquisition[7]	–	321
Memory acquisition[7]	4	–
Dividends paid to non-controlling shareholders		
– Chugai[4]	(87)	(74)
– Other non-controlling interests	(8)	(21)
Equity compensation plans, net of transactions in own equity instruments	178	574
Genentech and Chugai share repurchases[3,4]	(5)	(372)
Changes in ownership interests in subsidiaries		
– Genentech[3]	(8,464)	–
– Chugai[4]	–	(404)
– Ventana[7]	–	(321)
– Memory[7]	(4)	–
Changes in non-controlling interests	13	45
At 31 December	**2,048**	**9,343**
Of which		
– Genentech[3]	–	7,397
– Chugai[4]	2,004	1,901
– Other non-controlling interests	44	45
Total non-controlling interests	**2,048**	**9,343**

31. Statement of cash flows

Cash flows from operating activities

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

Cash generated from operations | in millions of CHF

	2009	2008
Net income	8,510	10,844
Add back non-operating (income) expense		
– Associates [15]	–	(1)
– Financial income [5]	(792)	(1,123)
– Financing costs [5]	2,460	887
– Exceptional financing costs [5]	377	–
– Income taxes [6]	2,870	3,305
– Income taxes on exceptional items [6]	(1,148)	12
Operating profit	**12,277**	**13,924**
Depreciation of property, plant and equipment [12]	1,981	1,676
Amortisation of intangible assets [14]	712	969
Impairment of intangible assets [14]	668	104
Impairment of property, plant and equipment [12]	1,127	28
Operating expenses for defined benefit post-employment plans [10]	315	317
Operating expenses for equity-settled equity compensation plans [11]	586	526
Net (income) expense for provisions [25]	1,572	417
Other adjustments	66	(335)
Cash generated from operations	**19,304**	**17,626**

Cash flows from investing activities

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

Interest and dividends received | in millions of CHF

	2009	2008
Interest received	305	606
Dividends received	1	5
Total	**306**	**611**

Cash flows from financing activities

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

Significant non-cash transactions

Of the total purchase consideration of 376 million US dollars for Lonza Singapore, 225 million US dollars (238 million Swiss francs) was a non-cash settlement of loans previously made by Genentech to Lonza. See Note 7 for further information.

32. Risk management

Group risk management

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

Financial risk management

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

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

Carrying value and fair value of financial assets | in millions of CHF

	Carrying value by asset class						
By line items in Notes	Available-for-sale	FVtPL[a]-designated	FVtPL[a]-held for trading	Held to maturity	Loans and receivables	Total	Fair value
Year ended 31 December 2009							
Accounts receivable	–	–	–	–	10,461	10,461	10,461
Accrued interest income	–	–	–	–	4	4	4
Marketable securities:							
– Money market instruments and time accounts over 3 months	15,029	–	–	11	–	15,040	15,040
– Bonds and debentures	753	–	–	–	–	753	753
– Shares	314	–	–	–	–	314	314
– Other investments	–	–	–	–	–	–	–
Cash and cash equivalents	–	–	–	–	2,442	2,442	2,442
Derivative financial instruments	–	–	1,756	–	–	1,756	1,756
Available-for-sale investments	315	–	–	–	–	315	315
Held-to-maturity investments	–	–	–	5	–	5	5
Loans receivable	–	–	–	–	18	18	18
Long-term trade receivables	–	–	–	–	45	45	45
Other financial current assets	–	–	–	–	669	669	669
Restricted cash	–	–	–	–	42	42	42
Other long-term assets	–	–	–	–	57	57	57
Total	**16,411**	**–**	**1,756**	**16**	**13,738**	**31,921**	**31,921**

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

By line items in Notes	Available-for-sale	FVtPL[a]-designated	FVtPL[a]-held for trading	Held to maturity	Loans and receivables	Total	Fair value
	Carrying value by asset class						
Year ended 31 December 2008							
Accounts receivable	–	–	–	–	9,755	9,755	9,755
Accrued interest income	–	–	–	–	145	145	145
Marketable securities:							
– Money market instruments and time accounts over 3 months	7,961	–	–	–	–	7,961	7,961
– Bonds and debentures	6,814	–	1,027	–	–	7,841	7,841
– Shares	51	–	–	–	–	51	51
– Other investments	3	–	–	–	–	3	3
Cash and cash equivalents	–	–	–	–	4,915	4,915	4,915
Derivative financial instruments	–	–	262	–	–	262	262
Available-for-sale investments	588	–	–	–	–	588	588
Held-to-maturity investments	–	–	–	16	–	16	16
Loans receivable	–	–	–	–	16	16	16
Long-term trade receivables	–	–	–	–	73	73	73
Other financial current assets	–	–	–	–	624	624	624
Restricted cash	–	–	–	–	205	205	205
Other long-term assets	–	–	–	–	42	42	42
Total	**15,417**	**–**	**1,289**	**16**	**15,775**	**32,497**	**32,497**

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 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 31 December 2009 | in millions of CHF

	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Marketable securities:				
– Money market instruments and time accounts over 3 months	1,862	13,167	–	15,029
– Bonds and debentures	388	346	19	753
– Shares	294	20	–	314
Derivative financial instruments	–	1,756	–	1,756
Available-for-sale investments	112	169	–	281
Total	**2,656**	**15,458**	**19**	**18,133**
Financial liabilities recognised at fair value				
Derivative financial instruments	–	(343)	–	(343)
Total	**–**	**(343)**	**–**	**(343)**

Available-for sale investments exclude equity securities held at cost of 34 million Swiss francs, as those are not carried at fair value (see Note 16).

At 31 December 2009 level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit, 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 CHF

	2009
At 1 January	292
Impairment charges	(3)
Valuation gains (losses) taken to equity	95
Gains (losses) recognised in the income statement	5
Sales	(376)
Currency translation difference	6
At 31 December	**19**

Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. The objective of managing counterparty credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties.

The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking account of any collateral held or other credit enhancements, is equal to the carrying value of the Group's financial assets.

Trade receivables | These are subject to a policy of active credit risk management which focuses on the assessment of country risk, credit availability, ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimising asset utilisation whilst maintaining risks at an acceptable level. Except as noted below, there is no significant concentration of counterparty credit risk due to the Group's large number of customers and their wide geographical spread. Risk limits and exposures are continuously monitored by country and by the nature of counterparties. Additionally, the Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. As at 31 December 2009 no collateral was held for loans and receivables (2008: none).

At 31 December 2009 the Group's combined trade accounts receivable balance with three US national wholesale distributors, AmerisourceBergen Corp., Cardinal Health, Inc. and McKesson Corp., was equivalent to 1.3 billion Swiss francs representing 13% of the Group's consolidated trade accounts receivable (2008: 1.4 billion Swiss francs representing 15%).

Nature and geographical location of trade receivables (not overdue) counterparties | in millions of CHF

	2009				2008			
Regions	Total	Public	Whole-salers/ distributors	Private	Total	Public	Whole-salers/ distributors	Private
Switzerland	89	37	9	43	130	51	10	69
European Union	2,340	994	812	534	2,053	953	643	457
Rest of Europe	456	12	394	50	479	11	405	63
North America	2,006	82	1,235	689	2,011	154	1,622	235
Latin America	501	132	189	180	474	142	192	140
Japan	1,472	–	1,447	25	1,439	–	1,402	37
Rest of Asia	756	114	251	391	685	97	255	333
Africa, Australia and Oceania	224	64	77	83	154	30	58	66
Total	**7,844**	**1,435**	**4,414**	**1,995**	**7,425**	**1,438**	**4,587**	**1,400**

Cash and marketable securities | These are subject to a policy of restricting exposures to high-quality counterparties and setting defined limits for individual counterparties. These limits and counterparty credit ratings are reviewed regularly. Investments in marketable securities are entered into on the basis of guidelines with regard to liquidity, quality and maximum amount. As a general rule, the Group invests only in high quality securities with adequate liquidity. Cash and short-term time deposits are subject to rules which limit the Group's exposure to individual financial institutions.

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

	2009 (mCHF)	2009 (% of total)	2008 (mCHF)	2008 (% of total)
AAA-range	8,978	49	9,884	48
AA-range	7,065	39	5,390	26
A-range	1,945	11	4,525	22
BBB-range	245	1	912	4
Below BBB-range	2	0	9	0
Total	**18,235**	**100**	**20,720**	**100**

Derivatives | The Group signs netting and collateral agreements under an ISDA (International Swaps and Derivatives Association) master agreement with the respective counterparties in order to mitigate counterparty risk on derivative positions. During 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued by the Group's US affiliate, Roche Holdings, Inc. in currencies other than US dollar. The total exposure hedged at issuance of these bonds and notes was approximately 25 billion Swiss francs (see Note 27). As the fair value of the derivative instruments moved up due to a weaker US dollar, net cash collateral of 1.5 billion Swiss francs was delivered to the Group.

Overdue assets | Financial assets which are past due but not impaired total 2.8 billion Swiss francs (2008: 2.7 billion Swiss francs).

Analysis of overdue but not impaired financial assets by class | in millions of CHF

	Total amount overdue	under 1 month	1–3 months	4–6 months	6–12 months	more than 1 year
Year ended 31 December 2009						
Loans and receivables	2,805	504	609	632	454	606
Year ended 31 December 2008						
Loans and receivables	2,656	560	681	543	438	434

As at 31 December 2009 there are 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. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. Group liquidity is reported to senior management on a monthly basis.

Roche and Chugai enjoy strong credit quality and are rated by at least one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements. In addition, the Group has unused committed credit lines with various financial institutions totalling 5.1 billion Swiss francs (2008: 5.2 billion Swiss francs).

Contractual maturity analysis of financial liabilities | in millions of CHF

	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 31 December 2009									
Total debt[a]	59,671	7,135	40	962	2,835	6,894	9,486	4,102	28,217
Trade payables	1,299	1,279	17	1	2	–	–	–	–
Accruals	7,321	6,091	531	650	49	–	–	–	–
Derivative financial instruments	343	334	6	3	–	–	–	–	–
Other liabilities: current & non-current	1,308	808	52	66	128	8	210	11	25
Total financial liabilities	**69,942**	**15,647**	**646**	**1,682**	**3,014**	**6,902**	**9,696**	**4,113**	**28,242**
Year ended 31 December 2008									
Total debt[a]	5,617	702	46	623	685	135	135	136	3,155
Trade payables	1,053	1,038	14	–	1	–	–	–	–
Accruals	5,379	3,727	429	1,162	61	–	–	–	–
Derivative financial instruments	194	194	–	–	–	–	–	–	–
Other liabilities: current & non-current	1,343	788	66	132	136	9	170	27	15
Total financial liabilities	**13,586**	**6,449**	**555**	**1,917**	**883**	**144**	**305**	**163**	**3,170**

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 the Group's financial assets or financial liabilities. Market risk may affect the Group financial result and the value of Group equity.

The Group 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.

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 CHF

	31 December 2009	31 December 2008
VaR – Foreign exchange component	43	96
VaR – Interest rate component	717	27
VaR – Other price component	57	62
Diversification	(98)	(52)
VaR – Total market risk	**719**	**133**

At 31 December 2009 the total VaR of the financial assets and liabilities was 719 million Swiss francs (31 December 2008: 133 million Swiss francs). The interest rate VaR increased substantially to 717 million Swiss francs driven by the 48.2 billion Swiss francs of bonds and notes issued in the first quarter of 2009. As all newly issued debt is held at amortised 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-US 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 31 December 2009, the Group held equity securities with a market value of 0.6 billion Swiss francs (31 December 2008: 0.6 billion Swiss francs). This includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations.

Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting the Group financial result and the value of Group'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') and because the foreign currency denominated financial statements of the Group's foreign subsidiaries may vary upon consolidation into the Swiss franc denominated Group Financial Statements ('translation exposures').

The objective of the Group's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimise the volatility of the Group's financial result. The primary focus of the Group's foreign exchange risk management activities is on hedging transaction exposures arising through foreign currency flows or monetary positions held in foreign currencies. The Group does not currently hedge translation exposures using financial instruments.

The Group monitors transaction exposures on a daily basis. The net foreign exchange result and the corresponding VaR parameters are reported on a monthly basis. The Group uses forward contracts, foreign exchange options and cross-currency swaps to hedge transaction exposures. Application of these instruments intends to continuously lock in favourable developments of foreign exchange rates, thereby reducing the exposure to potential future movements in such rates.

Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group financial result or the value of Group 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 the Group'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. The Group uses forward contracts, options and swaps to hedge its interest rate exposures. Depending on the interest rate environment of major currencies, the Group will use these instruments to generate 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. At 31 December 2009, the Group held equity securities with a market value of 0.6 billion Swiss francs (2008: 0.6 billion Swiss francs). 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.

The Group manages the price risk through placing limits on individual and total equity investments. These limits are defined both as a percentage of total liquid funds and as an absolute number for individual equity investments. Equity price risk is reported as a VaR figure on a monthly basis to senior management.

Impairment of financial assets

During 2008 impairments of shares were triggered by a significant or prolonged price decline below cost value. In 2009 impairments of loans and receivables were mainly due to an increase in the expected non-recoverability of trade receivables (see also Note 18).

Impairment losses by asset classes | in millions of CHF

	2009	2008
Loans and receivables	(138)	(43)
Available-for-sale financial assets		
– Shares	–	(75)
– Investments	(18)	(40)
– Debt securities	(3)	(53)
Total impairment losses	**(159)**	**(211)**

Capital

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

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

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009, as described in Note 3. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group 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 Group was reduced by 52.2 billion Swiss francs, of which 8.5 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the Group's net equity, but has no effect on the Group's business or its dividend policy.

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

Capital | in millions of CHF

	2009	2008	2007
Capital and reserves attributable to Roche shareholders[28]	7,366	44,479	45,483
Equity attributable to non-controlling interests[30]	2,048	9,343	7,960
Total equity	**9,414**	**53,822**	**53,443**
Total debt[27]	**42,416**	**4,089**	**6,866**
Capitalisation	**51,830**	**57,911**	**60,309**

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

The Group has a majority shareholding in Chugai (see Note 4). Chugai is a public company and its objectives, policies and processes for managing its own capital are determined by local management.

33. Related parties

Controlling shareholders

The share capital of Roche Holding Ltd, which is the Group's parent company, consists of 160,000,000 bearer shares. Based on information supplied by a shareholder group with pooled voting rights, comprising at 31 December 2009 of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Ms Maja Oeri, Mr Jörg Duschmalé and Mr Lukas Duschmalé, that group holds 80,020,000 shares as in the preceding year, which represents 50.0125% of the issued shares. This figure does not include any shares without pooled voting rights that are held outside this group by individual members of the group.

Mr André Hoffmann and Dr Andreas Oeri are members of the Board of Directors of Roche Holding Ltd. Mr Hoffmann received remuneration totalling 400,000 Swiss francs (2008: 400,000 Swiss francs) and Dr Oeri received remuneration totalling 360,000 Swiss francs (2008: 360,000 Swiss francs).

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

Subsidiaries and associates

A listing of the major Group subsidiaries and associates is included in Note 34. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation. There were no significant transactions between the Group and its associates.

Key management personnel

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees. Total remuneration of the Board of Directors, excluding the Chairman, in 2009 totalled 4 million Swiss francs (2008: 4 million Swiss francs).

The Chairman of the Board of Directors and members of the Corporate Executive Committee of Roche Holding Ltd receive remuneration, which consists of an annual salary, bonus and an expense allowance. The Group pays social insurance contributions in respect of the above remuneration and pays contributions to pension and other post-employment benefit plans for the Chairman of the Board of Directors and members of the Corporate Executive Committee. The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms, vesting conditions and fair value of these awards are disclosed in Note 11. New members of the Corporate Executive Committee (Mr Soriot in 2009 and Ms Ayyoubi in 2008) are included in the table below for the full calendar year in which they joined the CEC.

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

	2009	2008
Salaries, including bonuses and expenses	38	32
Special Stock Awards	9	–
Social security costs	3	3
Pensions and other post-employment benefits	5	5
Equity compensation plans	16	14
Other employee benefits	1	1
Total	**72**	**55**

For the purposes of these remuneration disclosures the values for equity compensation plans, including the Special Stock Awards, are calculated based on the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions. Further information on this is given in the detailed disclosures regarding executive remuneration that are required by Swiss law which are included in the financial statements of Roche Holding Ltd, Basel on pages 142–147. The fair values used in Note 11 represent the cost to the Group at grant date and reflect amongst other matters the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions. The value thus calculated for the cost to the Group for equity compensation plans, including the Special Stock Awards, granted to key management personnel was 30 million Swiss francs (2008: 15 million Swiss francs).

Special Stock Awards | During 2009 the Chairman of the Board of Directors and members of the Corporate Executive Committee were granted 96,750 Special Stock Awards (2008: none) in lieu of part of their cash-settled bonus for the financial year 2009.

Roche Long-Term | During 2009 members of the Corporate Executive Committee were granted 669,675 Stock-settled Stock Appreciation Rights (S-SARs) and no Roche Option Plan (ROP) or Restricted Stock Unit (RSU) awards (2008: 494,097 S-SARs and no ROP or RSU awards).

Roche Connect | During 2009 contributions paid by the Group with respect to the Chairman of the Board of Directors and members of the Corporate Executive Committee totalled 0.3 million Swiss francs (2008: 0.3 million Swiss francs).

Roche Performance Share Plan | During 2009 members of the Corporate Executive Committee were targeted with 21,546 awards of the 2009–2011 cycle (2008: 14,805 awards from the 2008–2010 cycle). Each award will result in between zero and two non-voting equity securities, depending upon the achievement of the performance targets.

Transactions with former members of the Corporate Executive Committee | Pensions totalling 2 million Swiss francs (2008: 2 million Swiss francs) were paid by the Group to two former Corporate Executive Committee members.

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the financial statements of Roche Holding Ltd, Basel on pages 142–147. The total remuneration of key management personnel given above of 72 million Swiss francs (2008: 55 million Swiss francs) corresponds to the sum of the remuneration for the Chairman of the Board of Directors given on page 142 and remuneration of the Corporate Executive Committee given on page 143.

Post-employment benefit plans

Transactions between the Group and the various post-employment defined benefit plans for the employees of the Group are described in Note 10.

34. Subsidiaries and associates

Divestments of subsidiaries

Effective 31 August 2009 the Group sold its wholly-owned subsidiary Lakeside de México SA de CV ('Lakeside') for 17 million Swiss francs in cash.

Effective 3 October 2008 the Group sold its wholly-owned subsidiary Cenexi SAS ('Cenexi'), including the manufacturing facility in Fontenay-sous-Bois, France, for 56 million Swiss francs in cash.

Gain (loss) on divestment of subsidiaries | in millions of CHF

	2009	2008
Consideration	17	56
Net assets disposed		
– Property, plant and equipment[12]	–	(107)
– Cash	(2)	(16)
– Other net assets	(3)	5
– Accumulated currency translation adjustments[28]	(1)	16
Gain (loss) on divestment	**11**	**(46)**

The total gain (loss) on divestment has been reported within general and administration expenses in the current period as part of the segment result of the Pharmaceuticals operating segment. The net cash inflow from divestments was 15 million Swiss francs (2008: 40 million Swiss francs).

Listed companies

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Switzerland	Roche Holding Ltd Stock Exchange: SIX Swiss Exchange Zurich Valor Share: 1203211 Valor *Genussschein*: 1203204 ISIN Share: CH0012032113 ISIN *Genussschein*: CH0012032048 Market Capitalisation: CHF 151,295.8 m	Basel	CHF	160.0	
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo ISIN: JP3519400000 Market Capitalisation: JPY 946,888.5 m	Tokyo	JPY	335.2	61.6

Non-listed companies

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Argentina	Productos Roche S.A. Química e Industrial	Buenos Aires	ARS	83.0	100
Australia	Roche Diagnostics Australia Pty. Limited	Castle Hill	AUD	5.0	100
	Roche Products Pty. Limited	Dee Why	AUD	65.0	100
Austria	Roche Austria GmbH	Vienna	EUR	14.5	100
	Roche Diagnostics GmbH	Vienna	EUR	1.1	100
	Roche Diagnostics Graz GmbH	Graz	EUR	0.4	100
Belgium	N.V. Roche S.A.	Brussels	EUR	32.0	100
	Roche Diagnostics Belgium S.A.	Brussels	EUR	3.8	100
Bermuda	Chemical Manufacturing and Trading Company Limited	Hamilton	USD	9.6	100
	Roche Capital Services Ltd.	Hamilton	RUB	0.3	100
	Roche Catalyst Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Management Ltd.	Hamilton	USD	(–)	100
	Roche Financial Services Ltd.	Hamilton	USD	0.1	100
	Roche International Ltd.	Hamilton	USD	(–)	100
	Roche Intertrade Limited	Hamilton	USD	10.0	100
	Roche Operations Ltd.	Hamilton	USD	1.0	100
	Roche Services Holdings Ltd.	Hamilton	USD	(–)	100
	Syntex Pharmaceuticals International Ltd.	Hamilton	USD	(–)	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL	41.7	100
	Roche Diagnostica Brasil Ltda.	São Paulo	BRL	284.7	100
Bulgaria	Roche Bulgaria EOOD	Sofia	BGN	5.1	100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Canada	Chempharm Limited	Toronto	CAD	(–)	100
	Hoffmann-La Roche Limited	Toronto	CAD	40.3	100
	Sapac Corporation Ltd.	St. John	CAD	(–)	100
Chile	Roche Chile Limitada	Santiago de Chile	CLP	70.9	100
China	Roche (China) Holding	Shanghai	USD	30.0	100
	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD	10.0	100
	Roche Diagnostics (Shanghai) Limited	Shanghai	USD	1.0	100
	Roche Hong Kong Limited	Hong Kong	HKD	10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD	6.3	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD	19.5	70
Colombia	Productos Roche S.A.	Bogotá	COP	26,923.7	100
Costa Rica	Roche Servicios S.A.	Heredia	USD	(–)	100
Croatia	Roche D.O.O.	Zagreb	HRK	4.8	100
Czech Republic	Roche s.r.o.	Prague	CZK	200.0	100
Denmark	Roche a/s	Hvidovre	DKK	4.0	100
	Roche Diagnostics a/s	Hvidovre	DKK	1.3	100
Dominican Republic	Productos Roche Dominicana S.A.	Santo Domingo	DOP	0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD	1.1	100
El Salvador	Productos Roche (El Salvador) S.A.	San Salvador	SVC	0.2	100
Estonia	Roche Eesti OÜ	Tallinn	EEK	2.0	100
Finland	Roche Diagnostics Oy	Espoo	EUR	0.2	100
	Roche Oy	Espoo	EUR	(–)	100
France	Roche Diagnostics S.A.	Meylan	EUR	16.0	100
	Roche S.A.S.	Neuilly-sur-Seine	EUR	38.2	100
	Ventana Medical Systems S.A.	Illkirch	EUR	0.9	100
Germany	Galenus Mannheim GmbH	Mannheim	EUR	1.7	100
	NimbleGen Systems GmbH	Pleiskirchen	EUR	(–)	100
	Roche Beteiligungs GmbH	Grenzach-Wyhlen	EUR	3.6	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	DEM	10.0	100
	Roche Diagnostics Deutschland GmbH	Mannheim	EUR	1.0	100
	Roche Diagnostics GmbH	Mannheim	EUR	94.6	100
	Roche Innovatis AG	Bielefeld	EUR	1.2	100
	Roche Kulmbach GmbH	Kulmbach	EUR	(–)	100
	Roche Pharma AG	Grenzach-Wyhlen	EUR	61.4	100
	Swisslab GmbH	Berlin	EUR	(–)	100
Greece	Roche (Hellas) S.A.	Athens	EUR	19.8	100
	Roche Diagnostics (Hellas) S.A.	Athens	EUR	23.7	100
Guatemala	Productos Roche Guatemala S.A.	Guatemala	GTQ	0.6	100
Honduras	Productos Roche (Honduras), S.A.	Tegucigalpa	HNL	(–)	100
Hungary	Roche (Hungary) Ltd.	Budapest	HUF	30.0	100
	Roche Services (Europe) Ltd.	Budapest	HUF	3.0	100
India	Roche Diagnostics (India) Pvt. Ltd.	Mumbai	INR	69.1	100
	Roche Scientific Company (India) Pvt. Ltd.	Mumbai	INR	10.0	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR	1,323.0	98.3
Ireland	Roche Ireland Limited	Clarecastle	EUR	1.9	100
	Roche Products (Ireland) Limited	Dublin	EUR	(–)	100
Italy	Roche Diagnostics S.p.A.	Milan	EUR	18.1	100
	Roche S.p.A.	Milan	EUR	34.1	100
Japan	Roche Diagnostics K.K.	Tokyo	JPY	2,500.0	100
Latvia	Roche Latvija SIA	Riga	LVL	0.2	100
Lithuania	UAB Roche Lietuva	Vilnius	LIT	0.8	100
Luxembourg	Pharminvest S.A.	Luxembourg	EUR	28.0	100
Malaysia	Roche (Malaysia) Sdn Bhd.	Kuala Lumpur	MYR	4.0	100
	Roche Diagnostics (Malaysia) Sdn Bhd.	Kuala Lumpur	MYR	0.9	100
Mexico	Roche Servicios de México, S.A. de C.V.	Mexico City	MXN	3.5	100
	Productos Roche, S.A. de C.V.	Mexico City	MXN	80.4	100
Morocco	Roche S.A.	Casablanca	MAD	9.5	100
Netherlands	Roche Diagnostics Nederland B.V.	Almere	EUR	2.3	100
	Roche Finance Europe B.V.	Woerden	EUR	2.0	100
	Roche Nederland B.V.	Woerden	EUR	10.9	100
	Roche Pharmholding B.V.	Woerden	EUR	467.8	100
New Zealand	Roche Diagnostics NZ Limited	Auckland	NZD	3.0	100
	Roche Products (New Zealand) Limited	Auckland	NZD	13.5	100
Nicaragua	Productos Roche (Nicaragua) S.A.	Managua	NIO	(–)	100
Norway	Roche Diagnostics Norge A/S	Oslo	NOK	5.8	100
	Roche Norge A/S	Oslo	NOK	6.2	100
Pakistan	Roche Pakistan Limited	Karachi	PKR	38.3	100
Panama	Productos Roche Interamericana S.A.	Panama City	USD	0.1	100
	Productos Roche Panamá S.A.	Panama City	PAB	(–)	100
	Roche Products Inc.	Panama City	USD	0.5	100
	Syntex Puerto Rico Inc.	Panama City	USD	(–)	100
	Technical Development Corp.	Panama City	CHF	0.8	100
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN	11.1	100

Country	Company	City	Share capital (in millions)		Equity interest (in %)
Philippines	Roche (Philippines) Inc.	Makati	PHP	300.0	100
Poland	Roche Diagnostics Polska Sp. z o.o.	Warsaw	PLN	8.0	100
	Roche Polska Sp. z o.o.	Warsaw	PLN	25.0	100
Portugal	Roche Farmacêutica Química Lda.	Amadora	EUR	1.1	100
	Roche Sistemas de Diagnósticos Sociedade Unipessoal Lda.	Amadora	EUR	2.6	100
Puerto Rico	Roche Operations Ltd.	Ponce	USD	(–)	100
Romania	Roche Romania S.R.L.	Bucharest	RON	472.1	100
Russian Federation	Roche – Moscow Ltd.	Moscow	RUB	2.6	100
	Limited Liability Company Roche Diagnostics Rus	Moscow	RUB	(–)	100
Serbia	Roche D.O.O. Beograd	Belgrade	EUR	1.9	100
Singapore	Roche Diagnostics Asia Pacific Pte. Ltd.	Singapore	SGD	7.4	100
	Roche Singapore Pte. Ltd.	Singapore	SGD	4.0	100
	Roche Singapore Technical Operations, Pte. Ltd.	Singapore	USD	70.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	EUR	0.3	100
Slovenia	Roche D.O.O. Pharmaceutical Company	Ljubljana	EUR	0.2	100
South Africa	Roche Products (Proprietary) Limited	Johannesburg	ZAR	60.0	100
South Korea	Roche Diagnostics Korea Co., Ltd.	Seoul	KRW	22,969.0	100
	Roche Korea Company Ltd.	Seoul	KRW	13,375.0	100
Spain	Andreu Roche S.A.	Madrid	EUR	0.1	100
	Roche Diagnostics S.L.	Barcelona	EUR	18.0	100
	Roche Farma S.A.	Madrid	EUR	54.1	100
	Syntex Roche S.A.	Madrid	EUR	0.1	100
Sweden	Roche AB	Stockholm	SEK	20.0	100
	Roche Diagnostics Scandinavia AB	Bromma	SEK	9.0	100
Switzerland	Disetronic Handels AG	Burgdorf	CHF	0.1	100
	Disetronic Holding AG	Burgdorf	CHF	9.7	100
	Disetronic Medical Systems AG	Burgdorf	CHF	0.9	100
	F. Hoffmann-La Roche Ltd	Basel	CHF	150.0	100
	GlycArt Biotechnology Ltd.	Schlieren	CHF	0.3	100
	Hoffmann-La Roche Ltd.	Basel	CHF	0.5	100
	IMIB Institute for Medical Informatics and Biostatistics Ltd.	Basel	CHF	0.1	100
	Rabbit-Air Ltd.	Zurich-Kloten	CHF	3.0	100
	Roche Capital Market Ltd.	Basel	CHF	1.0	100
	Roche Diagnostics (Switzerland) Ltd.	Rotkreuz	CHF	1.0	100
	Roche Diagnostics AG	Rotkreuz	CHF	5.0	100
	Roche Diagnostics International Ltd.	Steinhausen	CHF	20.0	100
	Roche Finance Ltd.	Basel	CHF	409.2	100
	Roche Long Term Foundation	Basel	CHF	0.5	100
	Roche Pharma (Switzerland) Ltd.	Reinach	CHF	2.0	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD	80.0	100
	Roche Products Ltd.	Taipei	TWD	100.0	100
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB	103.0	100
	Roche Thailand Limited	Bangkok	THB	12.0	100
Turkey	Roche Diagnostik Sistemleri Ticaret A.S.	Istanbul	TRY	30.0	100
	Roche Müstahzarlari Sanayi Anonim Sirketi	Istanbul	TRY	249.5	100
Ukraine	Roche Ukraine LLC	Kiev	USD	0.5	100
United Kingdom	Piramed Limited	Berkshire	GBP	12.8	100
	Roche Diagnostics Ltd.	Lewes	GBP	32.6	100
	Roche Holding (UK) Limited	Welwyn Garden City	GBP	100.0	100
	Roche Products Limited	Welwyn Garden City	GBP	98.3	100
	Roche Registration Limited	Welwyn Garden City	GBP	(–)	100
United States	454 Life Sciences Corporation	Branford	USD	(–)	100
	BioVeris Corporation	Gaithersburg	USD	(–)	100
	Disetronic Medical Systems Inc.	Fishers	USD	(–)	100
	Genentech, Inc.	South San Francisco	USD	(–)	100
	Genentech USA, Inc.	South San Francisco	USD	(–)	100
	Hoffmann-La Roche Inc.	Nutley	USD	3.0	100
	IGEN International, Inc.	Wilmington	USD	(–)	100
	Memory Pharmaceuticals Corp.	Montvale	USD	(–)	100
	Roche Carolina Inc.	Florence	USD	(–)	100
	Roche Colorado Corporation	Boulder	USD	(–)	100
	Roche Diagnostics Corporation	Indianapolis	USD	(–)	100
	Roche Diagnostics Operations, Inc.	Indianapolis	USD	(–)	100
	Roche Finance USA Inc.	Little Falls	USD	(–)	100
	Roche Holdings, Inc.	Wilmington	USD	1.0	100
	Roche Laboratories Inc.	Nutley	USD	(–)	100
	Roche Madison Inc.	Madison	USD	(–)	100
	Roche Molecular Systems, Inc.	Pleasanton	USD	(–)	100
	Roche NimbleGen, Inc.	Madison	USD	(–)	100
	Roche Palo Alto LLC	Palo Alto	USD	(–)	100
	Spring Bioscience Corp.	Fremont	USD	(–)	100
	Therapeutic Human Polyclonals, Inc.	Palo Alto	USD	(–)	100
	Ventana Medical Systems, Inc.	Tucson	USD	(–)	100
Uruguay	Roche International Ltd. – Montevideo Branch	Montevideo	UYU	(–)	100
Venezuela	Productos Roche S.A.	Caracas	VEF	0.2	100

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

Report of Roche Management on Internal Control over Financial Reporting

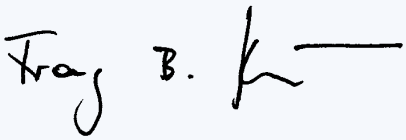
Report of Roche Management on Internal Control over Financial Reporting

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

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

Management assessed the effectiveness of its system of internal control over financial reporting as of 31 December 2009 based on the criteria for effective internal control over financial reporting described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the system of internal control over financial reporting was effective as of 31 December 2009.

The Statutory Auditor KPMG AG, have audited the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2009, in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA). They have also issued a report on the effectiveness of the Group's system of internal control over financial reporting. This report is set out on pages 128—129.



Franz B. Humer
Chairman of the Board of Directors

Erich Hunziker
Chief Financial Officer and Deputy Head of the Corporate Executive Committee

Basel, 28 January 2010

Report of the Statutory Auditor on the Consolidated Financial Statements

Report of the Statutory Auditor on the Consolidated Financial Statements to the Annual General Meeting of Roche Holding Ltd, Basel

As statutory auditor, 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 30 to 124) of Roche Holding Ltd for the year ended 31 December 2009.

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

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

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

Opinion | In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG

KPMG AG

John A. Morris
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 28 January 2010

Report of the Independent Auditor on Internal Control over Financial Reporting

Report of the Independent Auditor on Internal Control over Financial Reporting to the Annual General Meeting of Roche Holding Ltd, Basel

We have examined the Roche Group's system of internal control over financial reporting as of 31 December 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

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

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

In our opinion, the Roche Group maintained, in all material respects, effective internal control, over financial reporting as of 31 December 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with Swiss Auditing Standards and International Standards on Auditing, the consolidated financial statements of Roche Holding Ltd for the year ended 31 December 2009 and our report dated 28 January 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG

KPMG AG

John A. Morris François Rouiller

Basel, 28 January 2010

Multi-Year Overview and Supplementary Information

Multi-year overview

Statistics, as reported

	2000	2001	2002
Statement of income | in millions of CHF			
Sales	28,672	29,163	29,453
EBITDA	11,126	6,438	7,993
Operating profit	7,131	3,247	1,335
Net income attributable to Roche shareholders	8,647	3,697	(4,026)
Research and development	3,950	3,893	4,257
Balance sheet | in millions of CHF			
Non-current assets	34,798	36,411	33,143
Current assets	34,737	38,875	30,852
Total assets	69,535	75,286	63,995
Non-current liabilities	(23,642)	(25,772)	(22,850)
Current liabilities	(13,857)	(15,647)	(15,372)
Total liabilities	(37,499)	(41,419)	(38,222)
Net assets	32,036	33,867	25,773
Capital and reserves attributable to Roche shareholders	27,608	28,973	20,810
Equity attributable to non-controlling interests	4,428	4,894	4,963
Additions to property, plant and equipment	2,183	1,931	2,044
Personnel			
Number of employees at end of year	64,758	63,717	69,659
Key ratios			
Net income attributable to Roche shareholders as % of sales	30	13	–14
Net income as % of equity, attributable to Roche shareholders	31	13	–19
Research and development as % of sales	14	13	14
Current ratio %	251	248	201
Equity and non-controlling interests as % of total assets	46	45	40
Sales per employee in thousands of CHF	443	458	427
Data on shares and non-voting equity securities			
Number of shares	1,600,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)*	7,025,627	702,562,700	702,562,700
Total shares and non-voting equity securities	8,625,627	862,562,700	862,562,700
Total dividend in millions of CHF	992	1,121	1,251
Earnings per share and non-voting equity security (diluted) in CHF	1,024	4.37	(4.80)
Dividend per share and non-voting equity security in CHF	115	1.30	1.45

Information in this table is stated as reported. Changes in accounting policies arising from changes in International Financial Reporting Standards and the 100 for 1 stock split in 2001 are not applied retrospectively.

2003	2004	2005	2006	2007	2008	2009
31,220	31,273	35,511	42,041	46,133	45,617	49,051
8,609	9,566	11,404	14,436	17,068	16,637	18,028
5,592	8,979	8,669	11,730	14,468	13,896	15,012
3,069	6,641	5,787	7,880	9,761	8,969	7,784
4,766	5,093	5,705	6,589	8,385	8,845	9,874
29,820	28,670	33,739	33,519	35,349	37,485	36,086
29,666	29,406	35,626	40,895	42,834	38,604	38,479
59,486	58,076	69,365	74,414	78,183	76,089	74,565
(18,658)	(14,882)	(18,130)	(14,908)	(10,422)	(10,163)	(43,084)
(11,664)	(9,901)	(9,492)	(12,692)	(14,454)	(12,104)	(22,067)
(30,322)	(24,783)	(27,622)	(27,600)	(24,876)	(22,267)	(65,151)
29,164	33,293	41,743	46,814	53,307	53,822	9,414
23,570	28,223	34,922	39,444	45,347	44,479	7,366
5,594	5,070	6,821	7,370	7,960	9,343	2,048
2,265	2,357	3,428	3,878	3,648	3,187	2,837
65,357	64,703	68,218	74,372	78,604	80,080	81,507
10	21	16	19	21	20	16
13	24	17	20	22	20	106
15	16	16	16	18	19	20
254	297	375	322	296	319	174
49	57	60	63	68	71	13
482	483	521	565	587	570	602
160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700	862,562,700
1,423	1,725	2,156	2,933	3,968	4,313	5,175[a)]
3.61	7.81	6.71	9.05	11.16	10.23	9.02
1.65	2.00	2.50	3.40	4.60	5.00	6.00[a)]

a) Dividend 2009 as proposed by the Board of Directors.

Sales by division | in millions of CHF

	2005	2006	2007	2008	2009
Pharmaceuticals	27,268	33,294	36,783	35,961	38,996
Diagnostics	8,243	8,747	9,350	9,656	10,055
Total	**35,511**	**42,041**	**46,133**	**45,617**	**49,051**

Sales by geographical area | in millions of CHF

	2005	2006	2007	2008	2009
Switzerland	501	471	489	509	499
European Union	11,715	13,823	15,465	15,601	16,219
– *of which Germany*	*2,624*	*2,993*	*3,277*	*3,200*	*3,320*
Rest of Europe	1,061	1,307	1,620	1,521	1,568
Europe	**13,277**	**15,601**	**17,574**	**17,631**	**18,286**
United States	12,667	15,685	17,069	16,362	17,208
Rest of North America	812	985	1,004	932	948
North America	**13,479**	**16,670**	**18,073**	**17,294**	**18,156**
Latin America	2,033	2,539	2,784	2,975	2,940
Japan	3,948	3,713	3,562	3,532	5,036
Rest of Asia	1,803	2,384	2,681	2,920	3,166
Asia	**5,751**	**6,097**	**6,243**	**6,452**	**8,202**
Africa, Australia and Oceania	971	1,134	1,459	1,265	1,467
Total	**35,511**	**42,041**	**46,133**	**45,617**	**49,051**

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

	2005	2006	2007	2008	2009
Pharmaceuticals	2,613	3,030	2,588	1,940	1,644
Diagnostics	813	846	1,058	1,245	1,191
Corporate	2	2	2	2	2
Total	**3,428**	**3,878**	**3,648**	**3,187**	**2,837**

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

	2005	2006	2007	2008	2009
Switzerland	376	350	418	421	315
European Union	910	995	993	960	972
– *of which Germany*	*545*	*661*	*660*	*591*	*646*
Rest of Europe	25	15	30	17	20
Europe	**1,311**	**1,360**	**1,441**	**1,398**	**1,307**
United States	1,739	2,061	1,679	1,212	866
Rest of North America	13	47	34	21	13
North America	**1,752**	**2,108**	**1,713**	**1,233**	**879**
Latin America	63	101	133	127	115
Japan	197	201	230	292	230
Rest of Asia	75	69	103	116	285
Asia	**272**	**270**	**333**	**408**	**515**
Africa, Australia and Oceania	30	39	28	21	21
Total	**3,428**	**3,878**	**3,648**	**3,187**	**2,837**

European Union information is based on members of the EU as at 31 December 2009. The comparative information has been restated to include new EU members for the whole five-year period.

Supplementary Net Income and EPS Information

The Group's basic and diluted earnings per share information is given in Note 29 to the Consolidated Financial Statements on pages 109–110. Supplementary EPS information is given below on net income of continuing businesses before exceptional items and also on core net income, which additionally excludes amortisation of intangible assets and the related impacts on income taxes and non-controlling interests.

Profit from continuing businesses before exceptional items and Core net income | in millions of CHF

	2009		2008	
Net income		8,510		10,844
Major legal cases	320		(271)	
– income taxes	(123)		105	
		197		(166)
Changes in Group organisation	2,415		243	
– income taxes	(964)		(93)	
		1,451		150
Exceptional financing costs	377		–	
– income taxes	(61)		–	
		316		–
Profit from continuing businesses before exceptional items		**10,474**		**10,828**
Non-controlling interests				
– net income	(726)		(1,875)	
– exceptional items (major legal cases)	–		73	
– exceptional items (changes in Group organisation)	50		(25)	
		(676)		(1,827)
Net income attributable to Roche shareholders (before exceptional items)		**9,798**		**9,001**
Amortisation and impairment of intangible assets [1]	1,094		1,073	
– income taxes	(373)		(356)	
– non-controlling interests	(13)		(52)	
		708		665
Core net income		**10,506**		**9,666**

1) Does not include impairment of intangible assets of 286 million Swiss francs (2008: zero) that are already included in 'Changes in Group organisation' (see Note 8 to the Consolidated Financial Statements).

EPS (continuing businesses before exceptional items) and Core EPS

	EPS (continuing businesses before exceptional items) 2009	2008	Core EPS 2009	2008
Net income attributable to Roche shareholders (CHF millions)	9,798	9,001	10,506	9,666
Increase in non-controlling share of net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised	(34)	(154)	(36)	(159)
Net income used to calculate diluted earnings per share	**9,764**	**8,847**	**10,470**	**9,507**
Per share information (millions of shares and non-voting equity securities)				
Weighted average number of shares and non-voting equity securities in issue	858	860	858	860
Adjustment for assumed exercise of equity compensation plans, where dilutive	1	1	1	1
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	**859**	**861**	**859**	**861**
Earnings per share (diluted) (CHF)	**11.37**	**10.28**	**12.19**	**11.04**

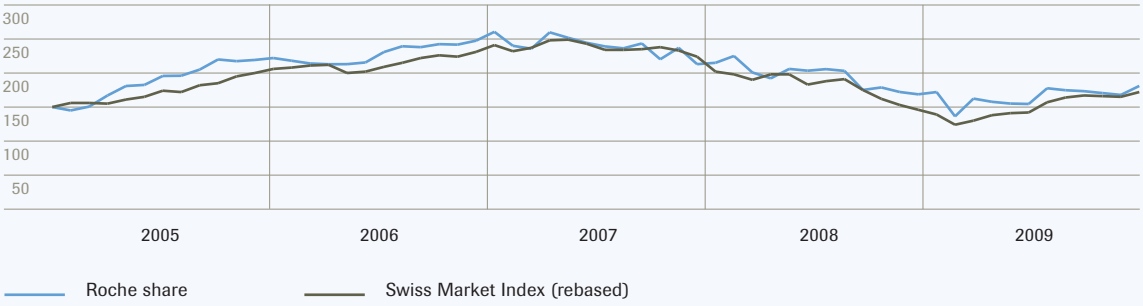
Supplementary Operating Free Cash Flow Information

Divisional operating free cash flow information | in millions of CHF

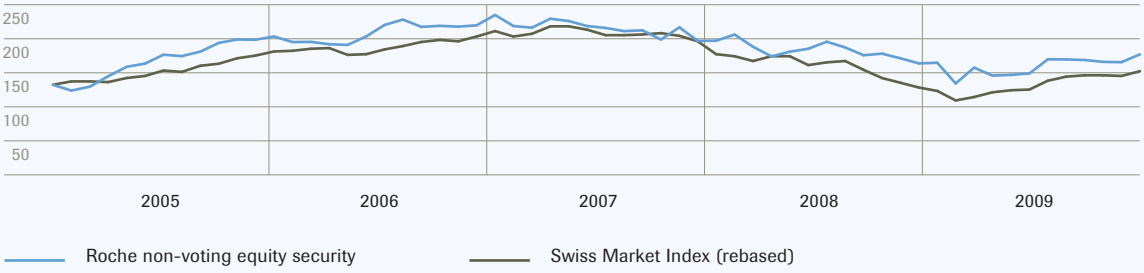
	Pharmaceuticals		Diagnostics		Corporate		Group	
	2009	2008	2009	2008	2009	2008	2009	2008
Depreciation, amortisation and impairment								
Depreciation of property, plant and equipment	1,255	1,022	721	649	5	5	1,981	1,676
Amortisation of intangible assets	253	511	459	458	–	–	712	969
Impairment of property, plant and equipment	1,118	20	9	8	–	–	1,127	28
Impairment of intangible assets	588	99	80	5	–	–	668	104
Total	**3,214**	**1,652**	**1,269**	**1,120**	**5**	**5**	**4,488**	**2,777**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	516	476	42	36	28	14	586	526
– Net (income) expense for provisions	1,331	322	206	127	35	(15)	1,572	434
– Net gain from disposals	(161)	(397)	10	13	–	(5)	(151)	(389)
– Non-cash working capital and other items	173	(18)	16	1	1	–	190	(17)
Deduct								
– Net cash flow from equity compensation plans	71	(174)	(13)	(21)	(3)	(5)	55	(200)
– Utilisation of provisions	(550)	(864)	(144)	(179)	(15)	(18)	(709)	(1,061)
– Proceeds from disposals	257	499	28	25	–	17	285	541
Total	**1,637**	**(156)**	**145**	**2**	**46**	**(12)**	**1,828**	**(166)**
Operating profit cash adjustments	**4,851**	**1,496**	**1,414**	**1,122**	**51**	**(7)**	**6,316**	**2,611**
EBITDA								
Operating profit before exceptional items	14,154	12,974	1,198	1,187	(340)	(265)	15,012	13,896
Depreciation, amortisation and impairments								
– Total Group	3,214	1,652	1,269	1,120	5	5	4,488	2,777
– Add back exceptional items	(1,472)	(36)	–	–	–	–	(1,472)	(36)
EBITDA	**15,896**	**14,590**	**2,467**	**2,307**	**(335)**	**(260)**	**18,028**	**16,637**
– margin, % of sales	40.8	40.6	24.5	23.9	–	–	36.8	36.5

Roche Securities

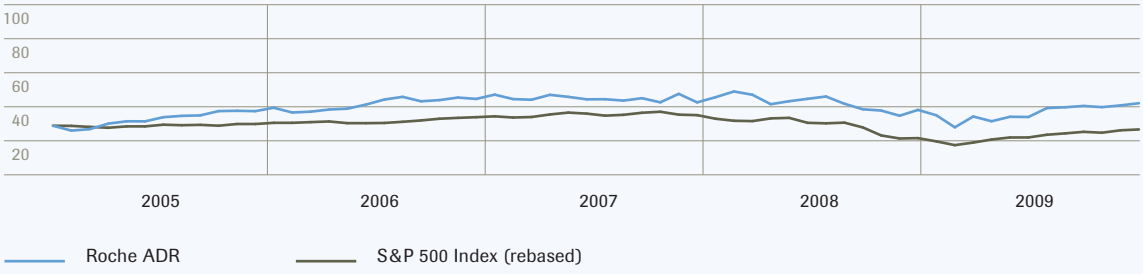
Price development of share | in CHF



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



Price development of American Depositary Receipt (ADR) | in USD



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

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

Number of shares and non-voting equity securities [a]

	2005	2006	2007	2008	2009
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	702,562,700	702,562,700	702,562,700	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**	**862,562,700**

Data per share and non-voting equity security | in CHF

		2005	2006	2007	2008	2009
Net income		6.71	9.05	11.16	10.23	9.02
Equity		40.49	45.73	52.57	51.57	8.54
Dividend		2.50	3.40	4.60	5.00	6.00 [c]
Stock price of share [b]	Opening	150.00	219.20	247.50	213.00	168.70
	High	230.00	252.50	266.25	229.50	182.10
	Low	139.00	198.00	209.70	155.20	130.30
	Year-end	219.20	247.50	213.00	168.70	181.00
Stock price of non-voting equity security *(Genussschein)* [b]	Opening	130.90	197.30	218.50	195.60	162.50
	High	206.90	227.00	240.10	208.60	179.00
	Low	120.60	185.80	190.30	148.20	124.10
	Year-end	197.30	218.50	195.60	162.50	175.80

Market capitalisation | in millions of CHF

		2005	2006	2007	2008	2009
	Year end	170,879	191,575	171,060	140,678	151,296

Key ratios (year-end)

	2005	2006	2007	2008	2009
Net income as % of equity	17	20	21	20	106
Dividend yield of shares in %	1.1	1.4	2.2	3.0	3.3
Dividend yield of non-voting equity securities *(Genussscheine)* in %	1.3	1.6	2.4	3.1	3.4
Price/earnings of shares	33	27	19	16	20
Price/earnings of non-voting equity securities *(Genussscheine)*	29	24	18	16	19

a) Each non-voting equity security *(Genussschein)* confers the same rights as any of the shares to participate in the available earnings and any remaining proceeds from liquidation following repayment of the nominal value of the shares and the participation certificate capital (if any). Shares and non-voting equity securities are listed on the SIX Swiss Exchange. Roche Holding Ltd has no restrictions as to ownership of its shares or non-voting equity securities.

b) All stock price data reflect daily closing prices.

c) Dividend 2009 as proposed by the Board of Directors.

Ticker symbols

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

Roche Holding Ltd, Basel

Financial Statements

Income statement | in millions of CHF

	Year ended 31 December 2009	2008
Income		
Income from participations	5,075	3,390
Interest income from loans to Group companies	98	227
Interest and investment income	11	23
Guarantee fee income from Group companies	280	–
Other income	26	19
Total income	**5,490**	**3,659**
Expenses		
Financial expenses	(22)	(88)
Administration expenses	(31)	(33)
Other expenses	(25)	(21)
Total expenses	**(78)**	**(142)**
Profit for the year before taxes	**5,412**	**3,517**
Taxes	(27)	(18)
Net profit for the year	**5,385**	**3,499**

Balance sheet | in millions of CHF

	31 December 2009	31 December 2008
Non-current assets		
Participations	4,683	4,580
Long-term loans	2	–
Long-term loans to Group companies	665	4,509
Total non-current assets	**5,350**	**9,089**
Current assets		
Short-term loans to Group companies	2,000	3,000
Accounts receivable from Group companies	3,367	67
Other accounts receivable	1	1
Marketable securities	2,069	91
Liquid funds	–	–
Total current assets	**7,437**	**3,159**
Total assets	**12,787**	**12,248**
Equity		
Share capital	160	160
Non-voting equity securities *(Genussscheine)*	p.m.	p.m.
General legal reserve	300	300
Free reserve	4,706	5,519
Special reserve	2,152	2,152
Available earnings:		
– Balance brought forward from previous year	1	2
– Net profit for the year	5,385	3,499
Total equity	**12,704**	**11,632**
Non-current liabilities		
Provisions	35	35
Total non-current liabilities	**35**	**35**
Current liabilities		
Accounts payable to Group companies	15	559
Unrealised foreign currency gains	–	–
Other liabilities	33	22
Total current liabilities	**48**	**581**
Total liabilities	**83**	**616**
Total equity and liabilities	**12,787**	**12,248**

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

Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation of the financial statements

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

Participations

The major participations of the company are listed in Note 34 to the Roche Group Consolidated Financial Statements.

Valuation methods and translation of foreign currencies

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

Taxes

The tax charge includes corporate income and capital taxes.

2. Equity

Share capital

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

Movement in recognised amounts | in millions of CHF

	Share capital	General legal reserve	Free reserve	Special reserve	Available earnings	Total equity
As at 1 January 2007	160	300	4,647	2,152	3,537	10,796
– Net income	–	–	–	–	4,238	4,238
– Dividends paid	–	–	–	–	(2,933)	(2,933)
– Transfer to free reserve	–	–	604	–	(604)	–
As at 31 December 2007	**160**	**300**	**5,251**	**2,152**	**4,238**	**12,101**
– Net income	–	–	–	–	3,499	3,499
– Dividends paid	–	–	–	–	(3,968)	(3,968)
– Transfer to free reserve	–	–	268	–	(268)	–
As at 31 December 2008	**160**	**300**	**5,519**	**2,152**	**3,501**	**11,632**
– Net income	–	–	–	–	5,385	5,385
– Dividends paid	–	–	–	–	(4,313)	(4,313)
– Transfer to (from) free reserve	–	–	(813)	–	813	–
As at 31 December 2009	**160**	**300**	**4,706**	**2,152**	**5,386**	**12,704**

3. Contingent liabilities

Guarantees

The company has issued guarantees for certain bonds and notes, commercial paper and credit facilities of Group companies. The nominal amount outstanding at 31 December 2009 was 40.3 billion Swiss francs (2008: 420 million Swiss francs). This increase was primarily due to the additional bonds and notes issued in 2009 by Group companies to finance the Genentech transaction, which are guaranteed by the Company. These are described in Note 27 to the Roche Group Consolidated Financial Statements on pages 100–105.

4. Significant shareholders

All shares in the Company are bearer shares, and for this reason the Company does not keep a register of shareholders. The following figures are based on information from shareholders, the shareholder validation check at the Annual General Meeting of 10 March 2009 and on other information available to the Company.

80,020,000 (2008: 80,020,000) shares: Shareholder group with pooled voting rights, comprising at 31 December 2009 of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Ms Maja Oeri, Mr Jörg Duschmalé and Mr Lukas Duschmalé. [a]

53,332,863 (2008: 53,332,863) shares (participation below 33⅓%): Novartis Ltd, Basel including affiliates thereof. [b]

a) Information supplied by the shareholders. This figure of 80,020,000 shares does not include shares without pooled voting rights held outside this group by individual members of the group.
b) Figures as of 31 December 2009 supplied by Novartis Ltd, Basel.

5. Risk management

The detailed disclosures regarding risk management that are required by Swiss law are included in the Roche Group Consolidated Financial Statements on pages 113–120.

6. Board and Executive remuneration

Board of Directors

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees.

Remuneration of members of the Board of Directors | in thousands of CHF

	2009	2008
B. Gehrig	400	409
A. Hoffmann	400	400
P. Baschera	330	330
J.I. Bell	330	330
P. Brabeck-Letmathe	300	300
L.J.R. de Vink	330	330
W. Frey	360	360
D.A. Julius	360	360
A. Oeri	360	360
W. Ruttenstorfer	330	330
H. Teltschik	390	391
B. Weder di Mauro	365	360
Total remuneration of Board of Directors	**4,255**	**4,260**

The Chairman of the Board of Directors, Dr Franz B. Humer, received remuneration as shown in the table below.

Remuneration of the Chairman of the Board of Directors | in thousands of CHF

	2009	2008
Annual salary, including bonuses and expenses	8,230	11,030
Special Stock Awards	2,792	–
Pensions and other post-employment benefits	2,995	2,956
Equity compensation plans	75	983
Other employee benefits	262	260
Total remuneration received	**14,354**	**15,229**
Social security costs	763	1,521
Total	**15,117**	**16,750**

Corporate Executive Committee

Members of the Corporate Executive Committee ('CEC') of Roche Holding Ltd receive remuneration, indirect benefits and participate in certain equity compensation plans as shown in the table below. The Group's CEO, Dr Severin Schwan, was the member of the Corporate Executive Committee with the highest total remuneration and his remuneration is also disclosed. New members of the Corporate Executive Committee (Mr Soriot in 2009 and Ms Ayyoubi in 2008) are included for the full calendar year in which they joined the CEC.

Remuneration of the members of the Corporate Executive Committee | in thousands of CHF

	2009 Total CEC	2009 – of which S. Schwan	2008 Total CEC	2008 – of which S. Schwan
Annual salary, including bonuses and expenses	29,742	5,905	21,384	5,313
Special Stock Awards	6,543	1,675	–	–
Pensions and other post-employment benefits	2,495	457	2,422	202
Equity compensation plans	16,033	4,039	12,557	2,493
Other employee benefits	248	25	145	11
Total remuneration received	**55,061**	**12,101**	**36,508**	**8,019**
Social security costs	1,909	386	1,777	287
Total	**56,970**	**12,487**	**38,285**	**8,306**

Special Stock Awards | During 2009 the Chairman of the Board of Directors and members of the Corporate Executive Committee were granted a total of 96,750 Special Stock Awards. The Chairman of the Board of Directors received 34,084 awards and members of the CEC received a total of 62,666 awards, of which 20,450 awards were granted to Dr Schwan. The fair value of these awards for the employee is calculated based on the fair value of non-voting equity securities *(Genussscheine)* at the grant date (CHF 146.70 or CHF 169.40) discounted to take into account the period in which they are blocked (3 years: 83.962%, 10 years: 55.839%).

Employer contribution to social security schemes and pension plans | The Group pays social insurance contributions in respect of the above remuneration and pays contributions to pension and other post-employment benefit plans for the Chairman of the Board of Directors and members of the Corporate Executive Committee.

Equity Compensation Plans | The Chairman of the Board of Directors and members of the Corporate Executive Committee also participate in certain equity compensation plans as described below. The terms and vesting conditions of these awards are disclosed in Note 11 to the Consolidated Financial Statements. The fair values used in the Consolidated Financial Statements represent the cost to the company at grant date and reflect amongst other matters the observed exercise behaviour and exit rate for the whole population that receive the awards and initial simulations of any performance conditions. For the purposes of these remuneration disclosures the values are calculated based on the fair value that the employee receives taking into account the preliminary assessment of any completed performance conditions.

The Chairman of the Board of Directors and members of the Corporate Executive Committee are eligible to participate in Roche Connect, a programme that enables employees to make regular deductions from their salaries to purchase non-voting equity securities. The Group contributes to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%).

During 2009 members of the Corporate Executive Committee were granted 669,675 Stock-settled Stock Appreciation Rights (S-SARs). The individual awards relating to 2009 are shown in the table below. The fair value of these awards for the employee is 20.30 Swiss francs, which is calculated using the Black-Scholes formula, assuming holding until maturity, and deducting 11% for the average two-year vesting period. The Chairman of the Board of Directors was not granted S-SARs in 2009 and 2008.

Members of the Corporate Executive Committee and other members of senior management participate in the Roche Performance Share Plan (PSP). The Group has three overlapping three-year PSPs. The target awards for the three-year cycle are defined at the beginning of the cycle and the awards are considered to form part of the employee's remuneration in three equal annual amounts over the three-year cycle. Each award will result in between zero and two non-voting equity securities *(Genussscheine)*, depending upon the achievement of the performance targets, and the discretion of the Board of Directors. The individual awards relating to 2009 are shown in the table below. The number of the awards is calculated as follows:

- PSP 2007–2009: At the end of the cycle the performance targets were not achieved and accordingly the participants received none of the originally targeted non-voting equity securities *(Genussscheine)*.
- PSP 2008–2010: One non-voting equity security *(Genussschein)* per award.
- PSP 2009–2011: One non-voting equity security *(Genussschein)* per award.
- The resulting allocations are multiplied by the non-voting equity security *(Genussschein)* price at 31 December 2009 of 175.80 Swiss francs to give the fair value for the remuneration received by the employee.

Remuneration from equity compensation plans in 2009 | in thousands of CHF

	Roche Connect Employer contributions	S-SAR awards S-SAR '09 (number)	S-SAR '09 fair value	PSP '07–'09 (number)	PSP '08–'10 (number)	PSP '09–'11 (number)	PSP awards PSP fair value	Total fair value
Total CEC	213	669,675	13,594	–	16,443	21,546	2,226	16,033
– of which								
S. Schwan	70	175,362	3,560	–	1,965	5,011	409	4,039

In 2008 the total remuneration of the Corporate Executive Committee from equity compensation plans was 13 million Swiss francs, of which 2 million Swiss was attributable to Dr Schwan, the member of the Corporate Executive Committee with the highest total remuneration.

Other employee benefits | This includes tax advisory costs, and remuneration of Dr Schwan, Dr Hunziker, Mr Burns and Prof. Knowles for serving on the Chugai Board of Directors. In 2009 this also includes a special payment to Dr Keller of 50,000 Swiss francs for his 25 years' service to the Group.

Transactions with former members of the Corporate Executive Committee | Pensions totalling 2 million Swiss francs were paid by the Group in 2009 to two former Corporate Executive Committee members (2008: 2 million Swiss francs).

7. Board and Executive shareholdings

Board of Directors

Directors Mr André Hoffmann and Dr Andreas Oeri and other members of the founder's families who are closely associated with them belong to a shareholder group with pooled voting rights. At the end of 2009 this group held 80,020,000 shares (50.01% of issued shares). Detailed information about this group is given in Note 4. In addition at the end of the year the members of the Board of Directors and persons closely associated with them held shares and non-voting equity securities *(Genussscheine)* as shown in the table below.

Shareholdings of members of the Board of Directors

	Shares		Non-voting equity securities *(Genussscheine)*		Other
	2009	2008	2009	2008	
F.B. Humer	3	3	196,528	153,919	b), c)
B. Gehrig	50	50	150	50	
A. Hoffmann	– a)	– a)	365,200 d)	365,200 d)	e)
P. Baschera	1	1	–	–	
J.I. Bell	300	300	1,647	1,647	
P. Brabeck-Letmathe	800	800	2,195	2,195	
L.J.R. de Vink	–	–	–	–	f)
W. Frey	72,500	72,500	–	–	
D.A. Julius	350	350	–	1,550	g)
A. Oeri	– a)	90,000 a)	351,793	1,640,460	e)
W. Ruttenstorfer	1,000	1,000	–	–	
H. Teltschik	385	385	–	–	
B. Weder di Mauro	200	200	–	–	
Total	**75,589** a)	**165,589** a)	**917,513**	**2,165,021**	

a) Figure does not include shares held in the shareholder group with pooled voting rights.
b) Special Stock Awards held at 31 December 2009: Dr Humer holds 32,614 Special Stock Awards (see Note 6).
c) Equity compensation awards: Roche Option Plan, S-SARs and Roche Performance Share Plan. See below.
d) Mr Hoffmann entered into a call options agreement with UBS on 365,000 Roche non-voting equity securities for the period 21 August 2008–20 August 2010.
e) Mr Hoffmann and Dr Oeri each hold 250,000 UBS Long/Short Certificates on Roche bearer shares (RO) versus Roche non-voting equity securities (ROG).
f) Mr de Vink holds 1,000 Roche American Depositary Receipts (ADRs).
g) Close relatives of Dr Julius hold 1,550 Roche non-voting equity securities *(Genussscheine)* (2008: zero).

Corporate Executive Committee

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

Shareholdings of members of the Corporate Executive Committee

	Shares		Non-voting equity securities *(Genussscheine)*		Other
	2009	2008	2009	2008	
S. Schwan	3	3	32,996	9,468	a), b), c)
S. Ayyoubi	3	3	12,113	7,161	a), b)
W.M. Burns	3	3	78,167	53,460	a), b)
E. Hunziker	3	3	60,635	43,839	a), b)
G.A. Keller	1,063	1,063	27,937	21,854	a), b), d)
J.K.C. Knowles	3	3	19,558	33,065	b)
J. Schwiezer	3	3	11,032	10,960	b)
P. Soriot	2	n/a	6,276	n/a	b)
Total	**1,083**	**1,081**	**248,714**	**179,807**	

a) Special Stock Awards held at 31 December 2009: Dr Schwan, Ms Ayyoubi, Mr Burns, Dr Hunziker and Dr Keller hold a total of 60,958 Special Stock Awards, respectively 20,450; 4,485; 13,046; 13,046; and 9,931, (see Note 6).
b) Equity compensation awards: Roche Option Plan, S-SARs and Roche Performance Share Plan. See below.
c) Close relatives of Dr Schwan hold 270 Roche non-voting equity securities *(Genussscheine)* (2008: 270).
d) Close relatives of Dr Keller hold 140 Roche non-voting equity securities *(Genussscheine)* (2008: 140).

At 31 December 2009 the Chairman of the Board of Directors and members of the Corporate Executive Committee held Stock-settled Stock Appreciation Rights (S-SARs, first issued in 2005) and Roche Option Plan awards (issued before 2005) as shown in the table below. The awards held by Dr Humer, the current Chairman of the Board of Directors, were issued to him in his previous capacity as a member of the Corporate Executive Committee. Each option entitles the holder to purchase one Roche non-voting equity security *(Genussschein)* at a specified strike price. The terms and vesting conditions of these awards are disclosed in Note 11 to the Consolidated Financial Statements and additional supplementary information is in the Remuneration Report, which is included in the Business Report (Part 1 of this Annual Report) on pages 75–85.

Roche Option Plan and S-SARs awards held at 31 December 2009

Year of issue	2009	2008	2007	2006	2005	2004	2003	Total
S. Schwan	175,362	105,576	29,190	15,696	4,983	1,864	1,635	334,306
S. Ayyoubi	43,842	21,117	3,243	2,517	3,957	2,360	–	77,036
W.M. Burns	109,602	105,576	48,651	26,160	34,074	14,874	–	338,937
E. Hunziker	96,450	92,907	48,651	26,160	34,074	20,915	–	319,157
G.A. Keller	65,763	63,345	24,327	15,696	3,150	4,000	–	176,281
J.K.C. Knowles	65,763	63,345	24,327	15,696	–	–	–	169,131
J. Schwiezer	43,842	42,231	9,819	5,565	8,871	5,610	–	115,938
P. Soriot	69,051	63,345	29,190	45,180	–	–	–	206,766
Total CEC	**669,675**	**557,442**	**217,398**	**152,670**	**89,109**	**49,623**	**1,635**	**1,737,552**
F.B. Humer	–	–	48,651	52,317	85,179	55,775	–	241,922
Total	**669,675**	**557,442**	**266,049**	**204,987**	**174,288**	**105,398**	**1,635**	**1,979,474**
Strike price (CHF)	145.40	195.80	229.60	195.00[a)]	123.00	129.50	77.80	–
Expiry date	Feb. 2016	Jan. 2015	Feb. 2014	Feb. 2013[a)]	Feb. 2012	Feb. 2011	Feb. 2010	–

a) Mr Soriot's 2006 awards include 21,636 awards that have a strike price of CHF 196.50 and expire in January 2013.

At 31 December 2009 the Chairman of the Board of Directors and members of the Corporate Executive Committee held PSP awards from the three PSP performance cycles 2007–2009, 2008–2010 and 2009–2011 as shown in the table below. The awards held by Dr Humer, the current Chairman of the Board of Directors, were issued to him in his previous capacity as a member of the Corporate Executive Committee. The terms and vesting conditions of these awards are disclosed in Note 11 to the Consolidated Financial Statements and additional supplementary information is in the Remuneration Report on pages 75–85 of the Business Report (Part 1 of this Annual Report). Each award will result in between zero and two non-voting equity securities *(Genussscheine)*, depending upon the achievement of the performance targets and the discretion of the Board of Directors. At the end of the 2007–2009 cycle the performance targets were not achieved and accordingly the participants received none of the originally targeted non-voting equity securities *(Genussscheine)*. The total target number of awards for the other outstanding cycles as at 31 December 2009 are shown in the table below.

Roche Performance Share Plan awards held at 31 December 2009

	PSP 2008–2010	PSP 2009–2011
S. Schwan	1,965	5,011
S. Ayyoubi	638	1,002
W.M. Burns	3,276	4,009
E. Hunziker	3,276	4,009
G.A. Keller	1,474	3,006
J.K.C. Knowles	2,211	–
J. Schwiezer	1,965	2,405
P. Soriot	1,638	2,104
Total	**16,443**	**21,546**
Allocation date	Feb. 2011	Feb. 2012

At 31 December 2008 the Chairman of the Board of Directors and members of the Corporate Executive Committee at that time held a total of 1,196,726 Stock-settled Stock Appreciation Rights and Roche Option Plan awards, and had outstanding a total of 58,464 awards granted under the Roche Performance Share Plan.

Appropriation of Available Earnings

Proposals to the Annual General Meeting | in CHF

	2009	2008
Available earnings		
Balance brought forward from previous year	590,269	1,832,184
Net profit for the year	5,385,342,397	3,498,521,585
Transfer from free reserve	–	813,050,000
Total available earnings	**5,385,932,666**	**4,313,403,769**
Appropriation of available earnings		
Distribution of an ordinary dividend of CHF 6.00 gross per share and non-voting equity security *(Genussschein)* as against CHF 5.00 last year	(5,175,376,200)	(4,312,813,500)
Transfer to free reserve	–	–
Total appropriation of available earnings	**(5,175,376,200)**	**(4,312,813,500)**
To be carried forward on this account	**210,556,466**	**590,269**

Report of the Statutory Auditor on the Financial Statements

Report of the Statutory Auditor on the Financial Statements to the Annual General Meeting of Roche Holding Ltd, Basel

As statutory auditor, we have audited the financial statements (income statement, balance sheet and notes on pages 138 to 148) of Roche Holding Ltd for the year ended 31 December 2009.

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

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

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

Opinion | In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

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

KPMG

KPMG AG

John A. Morris
Licensed Audit Expert
Auditor in Charge

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Licensed Audit Expert

Basel, 28 January 2010

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Next Annual General Meeting:
2 March 2010

Cautionary statement regarding forward-looking statements

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

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2009 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

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