Roche Holdings, Inc.
Annual Report 2011

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Management Report

1. Review of the twelve months ended December 31, 2011

Important events

In 2011 the Roche Holdings, Inc. (RHI) Group posted solid overall results and achieved significant progress with personalized healthcare solutions. Stable strong operating cash flows were generated by both the Pharmaceuticals and Diagnostics Division.

In August 2011 the U.S. Food and Drugs Administration (FDA) approved Zelboraf (vemurafenib) and the companion diagnostic for BRAF mutation-positive metastatic melanoma, a deadly form of skin cancer. Zelboraf is the first and only FDA-approved personalized medicine shown to improve survival in people with BRAF V600E mutation-positive metastatic melanoma, demonstrating the benefits of Roche's personalized healthcare approach.

Sales increased by 2% to $17.4 billion as the underlying growth of both the Pharmaceuticals and Diagnostics Division compensated for continued regulatory and external pressure. The effect of the U.S. healthcare reforms on the Pharmaceuticals Division in 2011 was a reduction in sales of $355 million, compared to $247 million in 2010.

The Operational Excellence program announced in November 2010 is on track and will be substantially completed by the end of 2012. The respective restructuring measures led to initial charges of $0.4 billion in the 2010 results. In 2011, additional restructuring costs of $0.6 billion were incurred almost entirely in the Pharmaceuticals Division for site closure and divestment costs. Several facilities including the sites at Palo Alto (California), Boulder (Colorado) and Madison (Wisconsin) have been divested in 2011. In the first half of 2011, the RHI Group announced that it will not divest the chemical production facility in Florence, South Carolina, given the unfavorable market for chemical production assets and the Roche Group's expected future capacity requirements for small molecules. Further disclosures are made in Notes 6 and 31 to the Consolidated Financial Statements.

As previously described in the 2009 and 2010 financial statements, effective March 26, 2009 the RHI Group obtained full ownership of Genentech, Inc. and by the end of 2010 the related integration and restructuring activities were completed. In 2011, the RHI Group continued to pay down $4.4 billion of the debt which had been issued to finance the Genentech transaction. Detailed disclosures are presented in Note 25 to the Consolidated Financial Statements.

In the first half of 2011 the Diagnostics Division acquired the U.S. company PVT Lab Systems, LLC based in Atlanta, Georgia, which provides customized automation and workflow solutions for *in vitro* diagnostic testing in large commercial and hospital laboratories. The total purchase consideration of this acquisition was $5 million paid in cash.

In November 2011 the Pharmaceuticals Division acquired the U.S. company Anadys Pharmaceuticals, Inc. (Anadys), based in San Diego, California. Anadys develops oral, small molecule therapeutics for the potential treatment of hepatitis C virus (HCV) infection. The total purchase consideration of this acquisition was $230 million paid in cash.

In 2011 the Board of Directors appointed Dr Alan Hippe to succeed Dr Erich Hunziker as Vice-Chairman and Roger Brown to succeed Frank D'Angelo as member of the Board of the RHI Group, following their resignations from the Board.

On January 25, 2012 the Roche Group announced that it would make an offer to acquire a 100% controlling interest in Illumina, Inc. (Illumina) for approximately $5.7 billion to further strengthen its position in the Life Science and Diagnostics market. The Roche Group intends to combine its existing Applied Science business with Illumina and move the business area's headquarters to San Diego, California. Roche's offer will be subject to customary conditions. On January 27, 2012 the Roche Group commenced the tender offer. Further details are given in Note 5 to the Consolidated Financial Statements.

Financial performance

RHI Group results

In 2011 the RHI Group's total sales increased by $0.3 billion to $17.4 billion, with the Pharmaceuticals Division representing 83% of total sales and the Diagnostics Division contributing 17%.

The RHI Group's operating profit increased by $0.6 billion to $6.7 billion while revenues grew by $0.6 billion to $21.1 billion. The increase in profitability was driven by the Operational Excellence program, tight cost management and resource prioritization, particularly in marketing and distribution and research and development. The main offsetting factors in the Pharmaceuticals Division were product-mix effects, start-up activities for product launches and some inventory write-offs, expenses related to the healthcare reforms as well as various one-off costs from the Operational Excellence program, such as site disposals and impairments of property, plant and equipment. Moreover, in 2010 the RHI Group received a one-time reimbursement of $286 million of marketing costs from related parties.

The RHI Group's operating profit margin increased by 2.3 percentage points, with the Pharmaceuticals Division improving by 2.5 percentage points and the Diagnostics Division by 3.4 percentage points.

The RHI Group's net income increased by $0.6 billion to $2.7 billion. This was achieved through a solid underlying operating performance despite additional restructuring costs and other one-off or non-recurring factors, lower financing costs resulting from continuous repayment of debt, partially offset by higher taxes.

Pharmaceuticals Division operating results

Sales in the Pharmaceuticals Division increased by 2% to $14.4 billion. There was strong growth for Lucentis in ophthalmology and in the key oncology products, especially Rituxan and Herceptin as well as Actemra in rheumatoid arthritis and Xolair in respiratory disease. These increased sales were partly offset by various factors. As expected, sales of Avastin were lower due to the regulatory and reimbursement uncertainty, beginning in 2010, regarding the use of Avastin in the metastatic breast cancer indication. In November 2011 the FDA issued a final decision revoking approval of Avastin for the treatment of metastatic breast cancer. This followed a recommendation in July 2010 by an FDA expert panel, the agency's initial notice of revocation in December 2010, and an appeal in 2011 by Roche and Genentech against removal of the indication. The FDA decision does not affect the medicine's other approved indications in the United States. The U.S. healthcare reforms resulted in a reduction in sales of $355 million through increased rebates on prescription drugs affecting all major products, compared to $247 million in 2010.

Cost of sales increased in comparison to 2010, as a result of product mix effects, Operational Excellence costs, start-up activities for product launches and some inventory write-offs. These increases were partially compensated by lower royalty expenses, mainly related to favorable contractual changes on U.S. sales of Boniva and lower sales of Avastin. Royalty expenses for Rituxan were also lower due to the expiry of the royalty obligation on a country by country basis, partially offset by back royalty expenses related to the Rituxan arbitration (see Note 23 to the Consolidated Financial Statements). Expenses for collaboration and profit-sharing agreements were stable, while higher expenses for Xolair and Tarceva were in part offset by the expected reimbursement of part of the costs for the above mentioned Rituxan arbitration. Impairments of $35 million were reported for intangible assets. Site closure and disposal costs in the manufacturing and logistics area of $61 million were recorded as part of the Operational Excellence program.

Marketing and distribution expenses increased in comparison to 2010. While a reduction was achieved through tight cost management and the savings from the Operational Excellence program, it did not compensate for the non-recurring marketing cost-sharing reimbursements from related parties in 2010. Sales and marketing efforts focused on the oncology portfolio with the rollout of additional approved indications of Avastin, Rituxan and Herceptin and continued rollouts of Actemra in rheumatoid arthritis. Costs were also incurred for the continued support of Lucentis, Boniva and Pegasys. Costs of $18 million for the Operational Excellence program mainly consisted of employee termination costs.

Research and development costs were further reduced by 6% due to resource prioritization and savings from the Operational Excellence program as well as lower impairment charges for intangible assets. Research and development costs were 26.1% as a percentage of sales compared to 28.3% in 2010. Oncology remained the main focus area and there were higher investments in Inflammation, Central Nervous System (CNS) and Virology, which were offset by lower life cycle investments in Metabolism. In 2011 impairment charges of $36 million for intangible assets were recorded related to some assets acquired from alliance transactions or acquisitions. The majority of the large impairment in 2010 arose from project terminations from the Operational Excellence program. Furthermore, costs of $143 million were recorded as part of the Operational Excellence program, and relate primarily to site disposals and property, plant and equipment impairments. In addition, the Pharmaceuticals division spent $243 million on in-licensed and acquired pipeline compounds and technologies, which were capitalized as intangible assets.

General and administration costs in the Pharmaceuticals Division decreased by 24%, despite $168 million expenses incurred for the new Branded Pharmaceutical Product Fee. Lower restructuring as well as administration costs were incurred, including an organizational shift of certain Finance functions to Corporate. In addition, a gain from the sale of the Palo Alto site of $49 million was recorded. Costs for the Operational Excellence program of $330 million partly offset this. These costs consisted primarily of site disposal costs for the sites at Boulder and Madison and IT-related

expenses. Alliances and business combinations include $48 million of income from the reversal of provisions for contingent consideration from business combinations.
Therefore, the operating profit increased by $0.5 billion to $6.4 billion, driven primarily by higher sales and cost savings from the Operational Excellence program, despite further restructuring expenses incurred in 2011 and impacts of the healthcare reforms. Other positive factors were higher income from royalties, tight cost management and resource prioritization.

Diagnostics Division operating results

The Diagnostics business continued to increase sales with a growth of 3% to $3.0 billion. The main growth contributors were Professional Diagnostics leveraged by sales in Immunodiagnostics, and Tissue Diagnostics driven by sales in the advanced staining market.
Cost of sales decreased primarily following previous cost reduction initiatives, such as the centralization of logistics services, harmonization of technical services practices and renegotiations of supplier contracts, which continued to have a positive impact. These partly compensated for the higher depreciation, installation costs and technical service costs from the continued investments to further increase the installed instrument base. Royalty expenses decreased mainly due to patent expiration for certain in-licensed intellectual property.
Marketing and distribution costs increased reflecting higher costs in Molecular Diagnostics, notably the microbiology area and for the launch of the cobas HPV DNA test. In addition, higher marketing support was incurred for various advanced staining assay portfolio in Tissue Diagnostics and the serum work area segment in Professional Diagnostics.
Research and development costs increased driven by focused development of the NewGen instrument and new personalized healthcare oncology tests in Molecular Diagnostics. In 2011, there were lower favorable impacts from cost-sharing agreements with related parties compared to 2010.
General and administration costs increased mainly due to $9 million Operational Excellence costs and legal expenses.
As a result, the increase in operating profit was driven primarily by higher sales and royalty income while lower cost of sales resulted mainly from previous cost reduction initiatives. These were compensated in part by higher costs incurred in the other operating functions. Marketing and distribution costs increased for key product launches, while research and development cost increases were driven by developments in Molecular Diagnostics.

Corporate operating results

In 2011, general and administration costs increased by $36 million to $49 million primarily as a result of organizational shifts of certain finance functions to Corporate. The gain of $5 million recorded from the sale of its wholly-owned subsidiary Roche Vitamins, Inc. (RVI) partly offset this.

Treasury and taxation results

The RHI Group financed the Genentech transaction in 2009 by a combination of own funds, bonds, notes and commercial paper raising net proceeds of $40.3 billion through a series of debt offerings. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group. Following repayments in both 2009 and 2010 there were further repayments in 2011, namely redemptions on due date of U.S. dollar-denominated notes and partial early redemptions of U.S. dollar, euro, pound sterling and Swiss franc-denominated bonds and notes with a total cash outflow of $4.4 billion and a loss on early redemption of $142 million. Along with the bonds and notes issuances in 2009, the RHI Group entered into derivative contracts at that time to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than U.S. dollars. The gains on these derivative contracts are offset by foreign exchange losses on the bonds and notes issued in currencies other than U.S. dollars. Interest expense was lower than in 2010 reflecting the continued repayment of the debt. Further disclosures are made in Notes 3, 25 and 29 to the Consolidated Financial Statements. In 2011, the RHI Group's effective tax rate decreased by 1.8% to 35.6%. The main contributors to the decrease compared to 2010 are the increased equity compensation plan tax benefits and lower U.S. state tax impacts. These items were partially offset by an increase in non-deductible expenses as well as a lower research and development tax credit impact.

Net income

Overall net income increased by 27% to $2.7 billion. This was primarily achieved through a solid underlying operating performance despite additional restructuring costs and other one-off or non-recurring factors, lower financing costs resulting from continuous repayment of debt despite partially offsetting higher taxes.

Cash flow

The strong cash flow from operating activities remained stable at $6.2 billion in 2011 compared to 2010 as a result of various factors. Net working capital increased in 2011, mainly due to an increase in trade receivables following strong

sales at the end of the year. This increase was lower than the increase in 2010 where there were large net working capital increases caused by payments of certain large year-end 2009 accruals. This net positive year-on-year effect was partly offset by cash outflows in 2011 for the utilization of provisions mainly related to the Operational Excellence program and higher income tax payments, which increased by $154 million to $1.5 billion. The cash flow from investing activities decreased by $0.5 billion to $0.4 billion in 2011. This was mainly due to the cash inflows from disposals of $0.3 billion, including the divestment of the Palo Alto site, lower investments in property, plant and equipment and lower payments for business combinations. The cash outflow from financing activities of $5.8 billion was mainly due to the repayment of $4.4 billion of notes as well as $1.6 billion of interest payments for the debt issued, partly offset by an increase in commercial paper and related party debt. In 2011, the total decrease in cash was $18 million.

Financial position

The increase in total assets mainly results from an increase in related party receivables as compared to December 31, 2010. This was partly offset by a decrease in property, plant and equipment due to the divestment of the sites at Palo Alto, Madison and Boulder including impairment and depreciation charges. The carrying value of debt, mainly from the financing of the Genentech transaction, was $42.7 billion compared to $45.2 billion at the end of 2010. The lower debt balance is mainly due to the redemption and repurchase of bonds and notes of $4.4 billion as explained above. This was partly offset as commercial paper debt increased by $0.9 billion to $1.1 billion and related party borrowings increased by a net of $1.0 billion. The post-employment benefit net liability increased by $0.6 billion to $1.8 billion primarily as a result of falling interest rates leading to the discounted defined benefit obligation being higher. The net tax asset increased mainly due to the deferred tax benefit from increased net pension liabilities recognized in other comprehensive income (equity) as well as the fact that taxes paid exceeded the total income tax expense for 2011.
In 2009 the Genentech transaction was accounted for in full as an equity transaction and, as a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced. In 2011, the negative equity situation improved by $2.1 billion to minus $26.0 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds and notes with a carrying value of $23.7 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. Furthermore, RHI has a commercial paper program under which it can issue up to $7.5 billion of unsecured commercial paper notes and a committed credit line of 3.9 billion euros is available as back-stop line jointly with other borrowers in the Roche Group.

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of the RHI Group's counterparties. The RHI Group's financial risk management is described in Note 28 to the Consolidated Financial Statements for the year ended December 31, 2011.

Uncertainties

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

The RHI Group's provisions and contingent liabilities are described in Note 23 to the Consolidated Financial Statements for the year ended December 31, 2011. In addition, key assumptions and sources of estimation uncertainty in the preparation of the financial statements are described in Note 1 to the Consolidated Financial Statements.

The difficulties in the financial markets and the economy have had a limited impact on the RHI Group's businesses so far. The effect of the U.S. healthcare reforms in the Pharmaceuticals Division in 2011 was a $355 million reduction in sales and $168 million for the newly imposed Branded Pharmaceutical Product Fee, which is recorded in general and administration expenses. However, developments are being closely monitored, including credit risk from three major U.S. wholesalers. As outlined above, the Operational Excellence program announced on November 17, 2010 is on track, which further aims at facing proactively and effectively external pressures. It will substantially be completed by the end of 2012.

Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the future results, financial situation development or performance of the RHI Group and the historical results given in the Management Report and the Consolidated Financial Statements for the twelve months ended December 31, 2011.

3. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge, as of the date of their approval of the audited consolidated financial statements as at January 31, 2012:

- the audited consolidated financial statements as at December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole and that
- the management report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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

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

Roche Holdings, Inc. Consolidated Financial Statements

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2011 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2]	**14,433**	**3,011**	**-**	**17,444**
Royalties and other operating income [2]	**3,367**	**280**	**-**	**3,647**
Cost of sales	**(4,578)**	**(1,875)**	**-**	**(6,453)**
Marketing and distribution	**(2,164)**	**(731)**	**-**	**(2,895)**
Research and development [2]	**(3,763)**	**(220)**	**-**	**(3,983)**
General and administration	**(918)**	**(121)**	**(49)**	**(1,088)**
Operating profit [2]	**6,377**	**344**	**(49)**	**6,672**
Associates [13]				**-**
Financial income [3]				**92**
Financial income – related parties [29]				**209**
Financing costs [3]				**(1,880)**
Financing costs – related parties [29]				**(933)**
Profit before taxes				**4,160**
Income taxes [4]				**(1,480)**
Net income				**2,680**
Attributable to				
- Roche Holdings, Inc. shareholder				**2,680**

Roche Holdings, Inc. consolidated income statement for the year ended December 31, 2010 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2]	14,178	2,920	-	17,098
Royalties and other operating income [2]	3,188	250	-	3,438
Cost of sales	(4,132)	(2,026)	-	(6,158)
Marketing and distribution	(2,103)	(672)	-	(2,775)
Research and development [2]	(4,008)	(142)	-	(4,150)
General and administration	(1,207)	(97)	(13)	(1,317)
Operating profit [2]	5,916	233	(13)	6,136
Associates [13]				-
Financial income [3]				261
Financial income – related parties [29]				55
Financing costs [3]				(2,098)
Financing costs – related parties [29]				(992)
Profit before taxes				3,362
Income taxes [4]				(1,258)
Net income				2,104
Attributable to				
- Roche Holdings, Inc. shareholder				2,104

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

	Year ended December 31,	
	2011	2010
Net income recognized in income statement	**2,680**	2,104
Other comprehensive income		
Available-for-sale investments [26]	**(46)**	(4)
Cash flow hedges [26]	**79**	(184)
Defined benefit post-employment plans [26]	**(393)**	13
Other comprehensive income, net of tax	**(360)**	(175)
Total comprehensive income	**2,320**	1,929
Attributable to		
- Roche Holdings, Inc. shareholder [26]	**2,320**	1,929

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

	December 31, 2011	December 31, 2010	December 31, 2009
Non-current assets			
Property, plant and equipment [10]	**5,499**	6,205	6,274
Goodwill [11]	**5,758**	5,730	5,537
Intangible assets [12]	**3,175**	3,146	3,106
Associates [13]	**-**	-	-
Financial long-term assets [14]	**119**	112	130
Financial long-term assets – related parties [29]	**54**	89	95
Other long-term assets [14]	**335**	328	317
Other long-term assets – related parties [29]	**169**	338	169
Deferred income tax assets [4]	**2,313**	2,077	2,079
Post-employment benefit assets [8]	**146**	111	116
Total non-current assets	**17,568**	18,136	17,823
Current assets			
Inventories [15]	**1,720**	1,679	1,726
Accounts receivable – trade [16]	**1,926**	1,732	1,862
Accounts receivable – related parties [22, 29]	**5,265**	4,772	6,588
Current income tax assets [4]	**34**	39	101
Other current assets [17]	**497**	534	560
Other current assets – related parties [29]	**171**	-	-
Marketable securities [18]	**215**	228	269
Cash and cash equivalents [19]	**-**	-	10
Total current assets	**9,828**	8,984	11,116
Total assets	**27,396**	27,120	28,939
Non-current liabilities			
Long-term debt [25]	**(23,033)**	(27,793)	(33,012)
Long-term debt – related parties [25, 29]	**(15,030)**	(10,080)	(8,400)
Deferred income tax liabilities [4]	**(580)**	(666)	(475)
Post-employment benefit liabilities [8]	**(1,929)**	(1,333)	(1,340)
Provisions [23]	**(406)**	(388)	(249)
Other non-current liabilities [24]	**(64)**	(88)	(116)
Other non-current liabilities – related parties [29]	**(188)**	(101)	(72)
Total non-current liabilities	**(41,230)**	(40,449)	(43,664)
Current liabilities			
Short-term debt [25]	**(3,442)**	(2,204)	(5,929)
Short-term debt – related parties [25, 29]	**(1,170)**	(5,135)	(1,415)
Current income tax liabilities [4]	**(582)**	(520)	(874)
Provisions [23]	**(1,314)**	(1,580)	(1,136)
Accounts payable – trade and other [20]	**(490)**	(533)	(622)
Accounts payable – related parties [29]	**(835)**	(891)	(993)
Accrued and other current liabilities [21]	**(3,820)**	(3,868)	(4,447)
Other current liabilities – related parties [29]	**(525)**	(86)	(156)
Total current liabilities	**(12,178)**	(14,817)	(15,572)
Total liabilities	**(53,408)**	(55,266)	(59,236)
Total net assets	**(26,012)**	(28,146)	(30,297)
Equity			
Capital and reserves attributable to Roche Holdings, Inc. shareholder [26]	**(26,012)**	(28,146)	(30,297)

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

	Year ended December 31,	
	2011	2010
Cash flows from operating activities		
Cash generated from operations [27]	**8,845**	8,781
(Increase) decrease in working capital	**(381)**	(790)
(Increase) decrease in working capital related parties	**47**	85
Payments made for defined benefit post-employment plans [8]	**(125)**	(25)
Utilization of provisions [23]	**(657)**	(520)
Other operating cash flows	**-**	(9)
Cash flows from operating activities, before income taxes paid	**7,729**	7,522
Income taxes paid	**(1,526)**	(1,372)
Total cash flows from operating activities	**6,203**	6,150
Cash flows from investing activities		
Purchase of property, plant and equipment	**(509)**	(651)
Purchase of intangible assets	**(247)**	(181)
Disposal of property, plant and equipment	**329**	23
Disposal of intangible assets	**49**	22
Divestment of subsidiary [31]	**(21)**	-
Business combinations [5]	**(233)**	(340)
Interest received	**3**	1
Proceeds from repayment of loans issued to related parties	**35**	7
Interest received from related parties [29]	**12**	9
Sales of marketable securities	**142**	150
Purchases of marketable securities	**(2)**	-
Other investing cash flows	**(4)**	19
Total cash flows from investing activities	**(446)**	(941)
Cash flows from financing activities		
Proceeds from issue of bonds and notes [25]	**-**	-
Proceeds from issue of related party debt [25]	**14,290**	11,165
Redemption and repurchase of bonds and notes [25]	**(4,423)**	(8,186)
Repayment of related party debt [25]	**(13,305)**	(5,765)
Increase (decrease) in commercial paper [25]	**910**	(83)
Increase (decrease) in other debt	**(16)**	(32)
Hedging arrangements	**-**	(19)
Hedging arrangements related parties	**388**	(156)
Interest paid	**(1,601)**	(1,694)
Interests and other financing related parties [29]	**(918)**	(928)
Recharges and prepayments to related parties for equity compensation plans [9]	**(20)**	(188)
(Increase) decrease of cash pool balance with related parties [29]	**(1,080)**	579
Total cash flows from financing activities	**(5,775)**	(5,307)
Increase (decrease) in cash and cash equivalents	**(18)**	(98)
Cash and cash equivalents at January 1	**(88)**	10
Cash and cash equivalents at December 31 [a), 19]	**(106)**	(88)

a) Cash overdrafts of $106 million (2010: $88 million) are included within current liabilities in the balance sheet.

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserve	Total
Year ended December 31, 2010					
At January 1, 2010	1	(30,449)	88	63	(30,297)
Net income recognized in income statement	-	2,104	-	-	2,104
Available-for-sale investments	-	-	(4)	-	(4)
Cash flow hedges	-	-	-	(184)	(184)
Defined benefit post-employment plans	-	13	-	-	13
Total comprehensive income	-	2,117	(4)	(184)	1,929
Dividends [26]	-	-	-	-	-
Equity compensation plans [26]	-	222	-	-	222
Other movements	-	(75)	53	22	-
At December 31, 2010	1	(28,185)	137	(99)	(28,146)
Year ended December 31, 2011					
At January 1, 2011	**1**	**(28,185)**	**137**	**(99)**	**(28,146)**
Net income recognized in income statement	**-**	**2,680**	**-**	**-**	**2,680**
Available-for-sale investments	**-**	**-**	**(46)**	**-**	**(46)**
Cash flow hedges	**-**	**-**	**-**	**79**	**79**
Defined benefit post-employment plans	**-**	**(393)**	**-**	**-**	**(393)**
Total comprehensive income	**-**	**2,287**	**(46)**	**79**	**2,320**
Dividends [26]	**-**	**-**	**-**	**-**	**-**
Equity compensation plans [26]	**-**	**(186)**	**-**	**-**	**(186)**
At December 31, 2011	**1**	**(26,084)**	**91**	**(20)**	**(26,012)**

Notes to the Roche Holdings, Inc. Consolidated Financial Statements

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

1. Summary of significant accounting policies

Basis of preparation of the consolidated financial statements

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

The consolidated financial statements of the RHI Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). They have been prepared using the historical cost convention except that, as disclosed in the accounting policies below, certain items, including derivatives and available-for-sale investments, are shown at fair value. They were approved for issue by the Board of Directors on January 31, 2012.

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

Effective March 26, 2009, the purchase of the non-controlling interests in Genentech was completed. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced by approximately $47 billion and at December 31, 2011 the RHI Group had a negative equity of $26.0 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds and notes with a carrying value of $23.7 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. Accordingly, management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In 2011, the RHI Group generated an operating profit of $6.7 billion and a stable positive operating cash flow of $6.2 billion.

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

Consolidation policy

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

The subsidiaries are those companies controlled, directly or indirectly, by Roche Holdings, Inc., where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is normally evidenced when Roche Holdings, Inc. owns, either directly or indirectly, more than 50% of the voting rights or currently exercisable potential voting rights of a company's share capital. Special Purpose Entities are consolidated where the substance of the relationship is that the Special Purpose Entity is controlled by the RHI Group. Companies acquired during the year are consolidated from the date on which control is transferred to the RHI Group, and subsidiaries to be divested are included up to the date on which control passes from the RHI Group. Inter-company balances, transactions and resulting unrealized income are eliminated in full. Changes in ownership interests in

subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

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

Segment reporting

The determination of the RHI Group's operating segments is based on the organization units for which information is reported to the RHI Group's management. The RHI Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenue from the sale or licensing of products or technology to third parties. Certain corporate activities that cannot be reasonably allocated to the other reportable business segments based on RHI's management and organizational structure are reported as 'Corporate'.

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

Foreign currency translation

RHI and its subsidiaries use the U.S. dollar as the functional and presentation currency. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges, which are recorded in other comprehensive income.

Revenues

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

Cost of sales

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

Research and development

Internal research costs are those costs incurred for the purpose of gaining new scientific or technical knowledge and understanding. These costs are expensed as incurred.
Internal development costs are those costs incurred for the application of research findings or other knowledge to plan and develop new products for commercial production. Such costs would qualify for capitalization as intangible assets only if all of the following criteria can be demonstrated:

- The technical feasibility of completing the development project successfully so that it will be available for use or sale.
- The intention to complete the development project.
- The ability to use or sell the results of the development project.
- That the development project would generate economic benefits. This would normally be evidenced by the existence and size of a market for the results of the project itself or the products that would result from the project.
- The availability of adequate technical, financial and other resources to complete the development project.
- The ability to measure the development expenditure reliably that would qualify for capitalization as an intangible asset.

The development projects undertaken by the RHI Group are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalization are not met prior to obtaining marketing approval by the regulatory authorities in major markets. Internal development costs that do not meet these criteria are therefore expensed as incurred.

Post-marketing studies after regulatory approval, such as phase IV costs in the pharmaceuticals business, are expensed as incurred. They generally involve safety surveillance and ongoing technical support of a drug after it receives marketing approval to be sold. They may be required by regulatory authorities or may be undertaken for safety or commercial reasons. The safety surveillance is designed to detect any rare or long-term adverse effects over a much larger patient population and longer time period than was possible during earlier stages of development. The costs of such post-marketing studies are not capitalized as intangible assets, as in the opinion of management; they do not generate separately identifiable incremental future economic benefits that can be reliably measured.

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

In-process research and development resources acquired either through in-licensing arrangements, business combinations or separate purchases are capitalized as intangible assets if they are controlled by the RHI Group, are separately identifiable and are expected to generate future economic benefits, even if uncertainty exists as to whether the research and development will ultimately result in a marketable product. Consequently, upfront and milestone payments to third parties for pharmaceutical products or compounds before regulatory marketing approval are recognized as intangible assets. Assets acquired through such arrangements are measured on the basis set out below in the 'Intangible assets' policy and are reviewed for impairment as set out below in the 'Impairment of property, plant and equipment and intangible assets' policy. Subsequent internal research and development costs incurred post-acquisition are treated in the same way as other internal research and development costs. Once available for use, such intangible assets are amortized on a straight-line basis over the period of the expected benefit and are reviewed for impairment at each reporting date. If research and development are embedded in contracts for strategic alliances, the RHI Group carefully assesses whether upfront or milestone payments constitute funding of research and development work or acquisition of an asset.

Licensing, milestone and other upfront receipts

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

Employee benefits

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

Pensions and other post-employment benefits

Most employees are covered by defined benefit and defined contribution post-employment plans sponsored by RHI Group companies. RHI's contributions to defined contribution plans are charged to the appropriate income statement heading within the operating results in the year to which they relate. The accounting and reporting of defined benefit plans are based on recent actuarial valuations. The defined benefit obligations and service costs are calculated using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of remuneration growth and long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds. Past service costs are allocated over the average period until the benefits become vested. Current and past service costs are charged to the appropriate income statement heading within the operating results. Pension plan administration and funding is overseen at a corporate level and any settlement gains and losses resulting from changes in funding arrangements are reported as general and administration expenses within the 'Corporate' segment. The expected returns on plan assets and interest costs are charged to financial income and financing costs, respectively. Actuarial gains and losses, which consist of differences between assumptions and actual experiences and the effects of changes in actuarial assumptions, are recorded directly in other comprehensive income. Pension assets and liabilities in different defined benefit plans are not offset unless the RHI Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan. The recognition of pension assets is limited to the total of the present value of any future refunds from the plans or reductions in future contributions to the plans and any cumulative unrecognized past service costs. Adjustments arising from the limit on the recognition of assets for defined benefit plans are recorded directly in other comprehensive income.

Equity compensation plans

Certain employees of the RHI Group participate in equity compensation plans, including separate plans at Genentech (prior to the Genentech transaction). The fair value of all equity compensation awards granted to employees is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results. For equity-settled plans, an increase in equity is recorded for this expense and any subsequent cash flows from exercises of vested awards are recorded as changes in equity. For cash-settled plans, a liability is recorded, which is measured at fair value at each reporting date with any movements in fair value being recorded to the appropriate income statement heading within the operating results. Any subsequent cash flows from exercise of vested awards are recorded as a reduction of the liability.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction. Interest and other borrowing costs incurred with respect to qualifying assets are capitalized and included in the carrying value of the assets.

Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:

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

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

Leases

Where the RHI Group is the lessee, leases of property, plant and equipment where the RHI Group has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the start of the lease at fair value, or the present value of the minimum lease payments, if lower. The rental obligation, net of finance charges, is reported within debt. Assets acquired under finance leases are depreciated in accordance with RHI's policy

on property, plant and equipment. If there is no reasonable certainty that the RHI Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life. The interest element of the lease payment is charged against income over the lease term based on the effective interest rate method. Leases where substantially all of the risks and rewards of ownership are not transferred to the RHI Group are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Where the RHI Group is the lessor, which primarily occurs in the Diagnostics Division, assets subject to finance leases are initially reported as receivables at an amount equal to the net investment in the lease. Assets subject to operating leases are reported within property, plant and equipment. Lease income from finance leases is subsequently recognized as earned income over the term of the lease based on the effective interest rate method. Lease income from operating leases is recognized over the lease term on a straight-line basis.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The consideration transferred in a business combination is measured at fair value at the date of acquisition. This consideration includes the cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the RHI Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within general and administration expenses. At the date of acquisition the RHI Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the RHI Group does not acquire 100% ownership of the acquired business, non-controlling 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 RHI Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business in the functional currency of that business. When the initial accounting for a business combination is incomplete at the end of a reporting period, provisional amounts are used. During the measurement period, the provisional amounts are retrospectively adjusted and additional assets and liabilities may be recognized, to reflect new information obtained about the facts and circumstances that existed at the acquisition date which would have affected the measurement of the amounts recognized at that date, had they been known. The measurement period does not exceed twelve months from the date of acquisition. Goodwill is not amortized, but is assessed for possible impairment at each reporting date and is additionally tested annually for impairment. Goodwill may also arise upon investments in associates, being the surplus of the cost of investment over the RHI Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

Intangible assets

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

Estimated useful lives of major classes of amortizable intangible assets are as follows:

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

Impairment of property, plant and equipment and intangible assets

An impairment assessment is carried out when there is evidence that an asset may be impaired. In addition intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows, generally over a five-year period, with extrapolating projections for subsequent years. These are discounted using an appropriate long-term pre-tax interest rate. When an impairment

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

Impairment of goodwill

Goodwill is assessed for possible impairment at each reporting date and is additionally tested annually for impairment. Goodwill is allocated to cash-generating units as described in Note 11. 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 11.

Inventories

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

Accounts receivable

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates and similar allowances. An allowance for doubtful accounts is recorded for the difference between the carrying value and the estimated recoverable amount where there is objective evidence that the RHI Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the ageing of customer balances, specific credit circumstances and the RHI's historical experience, taking also into account economic conditions. Expenses for doubtful trade receivables are recognized in the consolidated income statement within marketing and distribution expenses. Trade discounts, cash discounts, volume rebates and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and RHI's experience. 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. Cash overdrafts that are repayable on demand and form an integral part of the RHI Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Provisions

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

Fair values

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flows method if quoted prices in an active market are not available ('fair value hierarchy'). Valuation techniques will incorporate observable market data about market conditions and other factors that are likely to affect the fair value of a financial instrument. Valuation techniques are typically used for derivative financial instruments. The fair values of financial assets and liabilities at the reporting date are not materially different from their reported carrying values unless specifically mentioned in the Notes to the Consolidated Financial Statements. Information on fair value hierarchy is included in Note 28 on risk management.

Financial assets

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

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

Financial assets are individually assessed for possible impairment at each reporting date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. In addition any available-for-sale equity securities that have a market value of more than 25% below their original cost, net of any previous impairment, will be considered as impaired. Any available-for-sale equity securities that have a market value below their original cost, net of any previous impairment, for a sustained six-month period will also be considered as impaired. Any decreases in the market price of less than 25% of original cost, net of any previous impairment, which are also for less than a sustained six-month period are not by themselves considered as objective evidence of impairment. Such movements in fair value are recorded in other comprehensive income until there is objective evidence of impairment or until the asset is sold or otherwise disposed of. For financial assets carried at amortized cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in other comprehensive income for the difference between the original cost, net of any previous impairment, and the fair value. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For debt securities measured at amortized cost or available-for-sale, the reversal is recognized in income. For equity securities held available-for-sale, the reversal is recognized directly in other comprehensive income.

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

Derivatives

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

Hedge accounting

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

profit or loss. A 'hedge of a net investment in a foreign operation' is a hedge of the foreign currency exposure on a net investment in a foreign operation.

To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence (for cash flow hedges), hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular any derivatives are reported at fair value, with changes in fair value included in financial income.

For qualifying fair value hedges, the hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Any changes in the fair values are reported in financial income.

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in other comprehensive income, 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income. Any remaining ineffective portion is recorded in financial income where the hedging instrument is a derivative and in other comprehensive income 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 other comprehensive income are reclassified to income.

Debt

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

Taxation

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

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

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

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

Discontinued businesses and non-current assets-held-for-sale

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

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

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

Management judgments made in applying accounting policies

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

Revenue recognition: The nature of RHI's business is such that many sales transactions do not have a simple structure. Sales agreements may consist of multiple components occurring at different times. RHI is also party to various out-licensing agreements, which can involve upfront and milestone payments that may occur over several years. These agreements may also involve certain future obligations. Revenue is only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred and when the RHI Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligation has been fulfilled. For some transactions this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

Consolidation of subsidiaries and associates: The RHI Group periodically undertakes transactions that may involve obtaining the right to control or significantly influence the operations of other companies. These transactions include the acquisition of all or part of the equity of other companies, the purchase of certain assets and assumption of certain liabilities and contingent liabilities of other companies, and entering into alliance agreements with other companies. Also included are transactions involving Special Purpose Entities and similar vehicles. In all such cases management makes an assessment as to whether the RHI Group has the right to control or significantly influence the other company's operations, and based on this assessment the other company is consolidated as a subsidiary or associated company. In making this assessment management considers the underlying economic substance of the transaction and not only the contractual terms.

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

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

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

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

Key assumptions and sources of estimation uncertainty

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

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

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

Revenue recognition: There may be circumstances such that the level of sales returns, and hence revenues, cannot be reliably measured. In such cases sales are only recognized when the right of return expires, which is generally upon prescription of the products to patients. In order to estimate this, management uses publicly available information about prescriptions as well as information provided by wholesalers and other intermediaries.

Sales allowances: The RHI Group has provisions and accruals for expected sales returns, charge-backs and other rebates, including Medicaid in the United States, which at December 31, 2011 was $1,298 million. Such estimates are based on analyses of existing contractual or legislatively-mandated obligations, historical trends and RHI's experience. Management believes that the total provisions and accruals for these items are adequate, based upon currently available information. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions and accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods.

Allowances for doubtful accounts receivable: The RHI Group has provisions and accruals for doubtful receivables, which at December 31, 2011 total $24 million (see Note 16). Such estimates are based on analyses of ageing of customer balances, specific credit circumstances, historical trends and the RHI's experience, taking also into account economic conditions. Management believes that the total provisions and accruals for these items are adequate, based upon currently available information. As these provisions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions and accruals recognized in the balance sheet in future periods and consequently the marketing and distribution expenses recognized in the income statement in future periods.

Property, plant and equipment and intangible assets, including goodwill: The RHI Group has property, plant and equipment with a carrying value of $5,499 million as disclosed in Note 10. Goodwill has a carrying value of $5,758 million (see Note 11) and intangible assets have a carrying value of $3,175 million (see Note 12). All of these assets are reviewed annually for impairment as described above. To assess whether any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence or lower than anticipated sales of products with capitalized rights could result in shortened useful lives or impairment. Changes in the discount rates used could also lead to impairments.

Pensions and other post-employment benefits: Many of RHI's employees participate in post-employment defined benefit plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, RHI's independent actuaries use statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. At December 31, 2011 the present value of RHI's defined benefit obligation is $4,470 million for funded plans and $371 million for unfunded plans (see Note 8). The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants, and other changes in

the factors being assessed. These differences could impact the assets or liabilities recognized in the balance sheet in future periods.

Legal provisions: The RHI Group is party to various legal proceedings including claims arising from trade, and the most significant matters are described in Note 23. Legal provisions at December 31, 2011 total $739 million. Management believes that the total provisions for legal proceedings are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued. Additional claims could be made which might not be covered by existing provisions or by insurance. There can be no assurance that there will not be an increase in the scope of these matters or that any future lawsuits, claims, proceedings or investigations will not be material. Such changes that arise could impact the provisions recognized in the balance sheet in future periods.

Environmental provisions: The RHI Group has provisions for environmental remediation costs, which at December 31, 2011 total $164 million, as disclosed in Note 23. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites, including landfills, 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 the problematic materials attributable to the RHI Group at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties. Management believes that the total provisions for environmental matters are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued. The effect of the resolution of environmental matters on the results of operations cannot be predicted due to uncertainty concerning both the amount and the timing of future expenditures. Such changes that arise could impact the provisions recognized in the balance sheet in future periods.

Income taxes: At December 31, 2011 the net liability for current income taxes is $548 million and the net asset for deferred income taxes is $1,733 million, as disclosed in Note 4. Significant estimates are required to determine the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in overall levels of pre-tax earnings. Such changes that arise could impact the assets and liabilities recognized in the balance sheet in future periods.

Changes in accounting policies

Changes in IFRS implemented in 2011: The RHI Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position.

New and revised standards: During 2011 the following new standards were issued by the International Accounting Standards Board (IASB), which should be implemented at the latest by 2013:

- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- IAS 19 (revised) 'Employee Benefits'

In addition further revisions were issued to IFRS 9 'Financial Instruments'. The implementation date of this standard has now been deferred to 2015 at the latest.

The RHI Group is currently assessing the potential impacts of these and other new and revised standards and interpretations that will be effective from January 1, 2012 and beyond, and which the RHI Group has not early adopted. Except as noted below, based on the analysis to date the RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position.

Amongst other matters, the revised version of IAS 19 'Employee Benefits' includes the following changes to the existing standard:

- Eliminating the option to defer the recognition of actuarial gains and losses from defined benefit post-employment plans, known as the 'corridor method'. The RHI Group does not currently apply this option, but rather uses the option to recognize such gains and losses directly in other comprehensive income. The option currently applied by the RHI Group will henceforth be a requirement under the revised standard and therefore this change will have no impact on the RHI Group's financial statements.
- The current method of including the expected income from plan assets at an estimated asset return would be replaced by using the discount rate that is used to discount the defined benefit obligation. Based on an initial review the RHI Group estimates that, had this method been applied to the 2011 consolidated financial statements, net financial income would have been approximately $71 million lower than that published. Operating profit would not be materially affected.

2. Operating segment information

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues from external customers and related parties								
Sales	**14,433**	14,178	**3,011**	2,920	**-**	-	**17,444**	17,098
Royalties and other operating income	**3,367**	3,188	**280**	250	**-**	-	**3,647**	3,438
Total	**17,800**	17,366	**3,291**	3,170	**-**	-	**21,091**	20,536
Segment results								
Operating profit	**6,377**	5,916	**344**	233	**(49)**	(13)	**6,672**	6,136
Capital expenditure								
Business combinations	**269**	451	**4**	113	**-**	-	**273**	564
Additions to property, plant and equipment	**348**	490	**140**	154	**-**	-	**488**	644
Additions to intangible assets	**243**	176	**7**	5	**-**	-	**250**	181
Total capital expenditure	**860**	1,117	**151**	272	**-**	-	**1,011**	1,389
Research and development								
Research and development costs	**3,763**	4,008	**220**	142	**-**	-	**3,983**	4,150
Other segment information								
Depreciation of property, plant and equipment	**491**	490	**147**	143	**-**	-	**638**	633
Amortization of intangible assets	**77**	69	**171**	177	**-**	-	**248**	246
Impairment of property, plant and equipment	**82**	57	**3**	2	**-**	-	**85**	59
Impairment of goodwill	**-**	-	**-**	-	**-**	-	**-**	-
Impairment of intangible assets	**71**	227	**30**	16	**-**	-	**101**	243
Impairment of net assets-held-for-sale	**132**	-	**-**	-	**-**	-	**132**	-
Equity compensation plan expenses	**294**	172	**22**	20	**1**	2	**317**	194

Net operating assets *in millions of USD*

	Assets			Liabilities			Net assets		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Pharmaceuticals	**12,438**	12,877	13,004	**(4,741)**	(5,140)	(5,423)	**7,697**	7,737	7,581
Diagnostics	**7,378**	7,481	7,449	**(879)**	(868)	(766)	**6,499**	6,613	6,683
Corporate	**14**	7	170	**(42)**	(43)	(203)	**(28)**	(36)	(33)
Total operating	**19,830**	20,365	20,623	**(5,662)**	(6,051)	(6,392)	**14,168**	14,314	14,231
Non-operating	**7,566**	6,755	8,316	**(47,746)**	(49,215)	(52,844)	**(40,180)**	(42,460)	(44,528)
RHI Group	**27,396**	27,120	28,939	**(53,408)**	(55,266)	(59,236)	**(26,012)**	(28,146)	(30,297)

Non-operating assets and liabilities consist primarily of balances related to treasury, pensions and taxation matters.

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

Major customers

Substantially all of the RHI Group's third party sales are to customers in the United States. The U.S. national wholesale distributors, AmerisourceBergen Corp., Cardinal Health, Inc. and McKesson Corp. each contributed more than 10% of the RHI Group's revenues. The total amounts of revenues are approximately $6 billion (2010: $6 billion), $3 billion (2010: $3 billion) and $5 billion (2010: $4 billion), respectively. These revenues arose primarily in the Pharmaceuticals segment.

3. Financial income and financing costs

Financial income *in millions of USD*

	Year ended December 31, 2011	2010
Gains on sale of equity securities	**110**	100
(Losses) on sale of equity securities	**(1)**	-
Write-downs and impairments of equity securities	**(6)**	(2)
Net income from equity securities	**103**	98
Interest income	**3**	1
Gains on sale of debt securities	**2**	-
Net interest income and income from debt securities	**5**	1
Expected return on plan assets of defined benefit plans [8]	**226**	209
Foreign exchange gains (losses), net	**(237)**	(54)
Gains (losses) on foreign currency derivatives, net	**-**	-
Net foreign exchange (losses)	**(237)**	(54)
Net other financial income (expense)	**(5)**	7
Total financial income	**92**	261

Net foreign exchange losses of $237 million were largely offset by a net gain of $194 million made on foreign exchange derivatives with related parties (see Note 29). The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside the RHI Group has entered with third party financial institutions.

Financing costs *in millions of USD*

	Year ended December 31, 2011	2010
Interest expense	**(1,471)**	(1,573)
Amortization of debt discount [25]	**(35)**	(43)
Gains (losses) on debt derivatives, net	**-**	-
Gains (losses) on redemption and repurchase of bonds and notes, net [25]	**(142)**	(244)
Time cost of provisions [23]	**(15)**	(16)
Interest cost of defined benefit plans [8]	**(217)**	(222)
Total financing costs	**(1,880)**	(2,098)

Net financial income *in millions of USD*

	Year ended December 31, 2011	2010
Financial income	**92**	261
Financing costs	**(1,880)**	(2,098)
Net financial income	**(1,788)**	(1,837)
Financial result from Treasury management	**(1,797)**	(1,824)
Financial result from Pension management	**9**	(13)
Net financial income	**(1,788)**	(1,837)

4. Income taxes

Income tax expenses *in millions of USD*

	2011	2010
Current income taxes	**(1,599)**	(1,123)
Adjustments recognized for current tax of prior periods	**4**	23
Deferred income taxes	**115**	(158)
Total income (expense)	**(1,480)**	(1,258)

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

Reconciliation of RHI's effective tax rate

	2011	2010
Average expected tax rate	**35.0%**	35.0%
Tax effect of		
- Non-taxable income/non-deductible expenses	**+1.6%**	+0.2%
- Equity compensation plans	**-0.3%**	+1.8%
- Research, development and other manufacturing tax credits	**-4.6%**	-6.2%
- U.S. state tax impacts	**+3.0%**	+4.5%
- Other differences	**+0.9%**	+2.1%
RHI's effective tax rate	**35.6%**	37.4%

The RHI Group's effective tax rate decreased by 1.8 percentage points to 35.6% in 2011 (2010: 37.4%). The main contributors to the decrease in the effective tax rate compared to 2010 were the increased equity compensation plan tax benefits and lower U.S. state tax impacts. These items were partially offset by an increase in non-deductible expenses as well as a lower research and development tax credit impact.

Non-deductible expenses in 2011 increased from 2010 mainly due to the newly introduced U.S. Branded Pharmaceutical Product Fee. The impact from equity compensation plans on the effective tax rate 2011 was a decrease of 0.3%, while in 2010 it was an increase of 1.8%. This is mainly due to the increase in the price of the underlying equity. Changes in U.S. State Tax legislation resulted in a lower U.S. state tax rate compared to 2010.

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

			2011			2010
	Pre-tax amount	Tax benefit	After-tax amount	Pre-tax amount	Tax benefit	After-tax amount
Available-for-sale investments	**(67)**	**21**	**(46)**	(8)	4	(4)
Cash flow hedges	**122**	**(43)**	**79**	(287)	103	(184)
Defined benefit post-employment plans	**(615)**	**222**	**(393)**	20	(7)	13
Other comprehensive income	**(560)**	**200**	**(360)**	(275)	100	(175)

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

	2011	2010	2009
Current income taxes			
- Assets	**34**	39	101
- Liabilities	**(582)**	(520)	(874)
Net current income tax assets (liabilities)	**(548)**	(481)	(773)
Deferred income taxes			
- Assets	**2,313**	2,077	2,079
- Liabilities	**(580)**	(666)	(475)
Net deferred income tax assets (liabilities)	**1,733**	1,411	1,604

Movements in amounts recorded on the balance sheet for current income taxes are shown in the table below:

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

	2011	2010
Net current income tax asset (liability) at 1 January	**(481)**	(773)
Income taxes paid	**1,526**	1,372
(Charged) credited to the income statement		
- Current income taxes	**(1,599)**	(1,123)
- Adjustments recognized for current tax of prior periods	**4**	23
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	**1**	15
Other	**1**	5
Net current income tax assets (liabilities) at December 31	**(548)**	(481)

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

Unrecognized tax losses: expiry

	Amount (mUSD)	2011 Applicable tax rate	Amount (mUSD)	2010 Applicable tax rate
Within one year	**-**	**-**	-	-
Between one and five years	**-**	**-**	-	-
More than five years	**1,883**	**4%**	923	4%
Total unrecognized tax losses	**1,883**	**4%**	923	4%

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

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries, as such amounts are currently regarded as permanently reinvested. These unremitted earnings were $6.3 billion at 31 December 2011 (2010: $5.1 billion).

Movements in amounts recorded on the balance sheet for deferred income taxes are shown in the table below:

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

	Property, plant and equipment, and intangible assets	Other temporary differences	Total
Year ended December 31, 2010			
At January 1, 2010	(1,162)	2,766	1,604
Business combinations [5]	(148)	31	(117)
(Charged) credited to the income statement	27	(185)	(158)
(Charged) credited to equity from other comprehensive income [26]	-	100	100
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	-	(18)	(18)
At December 31, 2010	(1,283)	2,694	1,411
Year ended December 31, 2011			
At January 1, 2011	**(1,283)**	**2,694**	**1,411**
Business combinations [5]	**(72)**	**34**	**(38)**
(Charged) credited to the income statement	**152**	**(37)**	**115**
(Charged) credited to equity from other comprehensive income [26]	**-**	**200**	**200**
(Charged) credited to equity from equity compensation plans and other transactions with shareholders	**-**	**45**	**45**
At December 31, 2011	**(1,203)**	**2,936**	**1,733**

5. Business combinations

Acquisitions – 2011

PVT Lab Systems, LLC: Effective April 29, 2011 the RHI Group acquired a 100% controlling interest in the privately owned company PVT Lab Systems, LLC based in Atlanta, Georgia in the United States. PVT Lab Systems, LLC provides customized automation and workflow solutions for *in vitro* diagnostics testing in large commercial and hospital laboratories. PVT Lab Systems, LLC is reported as part of the Diagnostics operating segment. The acquisition complements and strengthens the RHI Group's portfolio in the clinical diagnostic market. The purchase consideration was $5 million paid in cash.

Anadys Pharmaceuticals: Effective November 23, 2011 the RHI Group acquired an 100% controlling interest in Anadys Pharmaceuticals, Inc. (Anadys), a publicly owned U.S. company based in San Diego, California. Prior to the acquisition, Anadys was listed on the NASDAQ under the symbol "ANDS". Anadys develops oral, small molecule therapeutics for the potential treatment of hepatitis C virus (HCV) infection and is reported as part of the RHI Pharmaceuticals operating segment. The acquisition will further augment the RHI Group's HCV portfolio. The total purchase consideration was $230 million paid in cash.

The combined purchase consideration of $235 million has been allocated as shown in the table below.

Acquisitions – 2011: net assets acquired *in millions of USD*

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Intangible assets			
- Product intangibles: not available for use	**-**	**173**	**173**
- Marketing intangibles	**-**	**4**	**4**
Inventories	**3**	**-**	**3**
Deferred income taxes	**-**	**(38)**	**(38)**
Cash	**2**	**-**	**2**
Other net assets (liabilities)	**(6)**	**1**	**(5)**
Net identifiable assets (liabilities)	**(1)**	**140**	**139**
Goodwill			**96**
Purchase consideration			**235**

Goodwill represents a control premium and synergies that can be obtained from the Group's existing business. None of the goodwill recognized is expected to be deductible for income tax purposes. The fair value of other net assets (liabilities) includes receivables with a fair value of $2 million.

Directly attributable transactions costs, directly attributable acquisition and integration costs were not material for the PVT acquisition. Directly attributable transaction costs of $4 million were incurred in the acquisition of Anadys. These are reported within general and administration expenses in the current period as part of the operating result of the Roche Pharmaceuticals operating segment.

Acquisitions – 2011: impact on results *in millions of USD*

	Revenues from external customers	Inventory fair value adjustment	Amortization of intangible assets	Operating profit	Net income
Impact on reported results					
Anadys	-	-	-	(2)	(1)
Pharmaceuticals Division	-	-	-	(2)	(1)
PVT Lab Systems, LLC	4	-	(1)	-	-
Diagnostics Division	4	-	(1)	-	-
RHI Group	4	-	(1)	(2)	(1)
Estimated impact on results if acquisition assumed effective January 1, 2011					
Anadys	-	-	-	(27)	(16)
Pharmaceuticals Division	-	-	-	(27)	(16)
PVT Lab Systems, LLC	8	-	(2)	2	1
Diagnostics Division	8	-	(2)	2	1
RHI Group	8	-	(2)	(25)	(15)

The figures exclude the directly-attributable transaction costs for the Anadys acquisition referred to above. They also exclude integration costs related to acquisitions by the Diagnostics Division because they are not material. Corresponding tax impacts are also excluded.

Acquisitions – 2011: net cash outflow *in millions of USD*

	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(235)	2	(233)

Future acquisitions

Illumina: On January 25, 2012 the Roche Group announced that it would make an offer to acquire a 100% controlling interest in Illumina, Inc. ('Illumina'), for approximately $5.7 billion in cash. Illumina is a publicly owned U.S. company listed on the NASDAQ under the symbol 'ILMN'. Illumina is a leading provider of integrated systems for DNA sequencing and is based in San Diego, California. The Roche Group intends to combine its existing Applied Science business with Illumina to further strengthen its position in the Life Science and Diagnostics market and move the business area's headquarters to San Diego, California. Illumina would be reported as part of the Diagnostics operating segment. The offer will be subject to customary conditions. On January 27, 2012 the Roche Group commenced the tender offer.

Acquisitions – 2010

Marcadia: Effective December 29, 2010 the RHI Group acquired a 100% controlling interest in Marcadia Biotech, Inc., ('Marcadia'), a privately owned U.S. company based in Carmel, Indiana. Marcadia is a biopharmaceutical company focused on developing a broad portfolio of drug candidates for the treatment of diabetes and obesity. Marcadia is now reported as part of the Pharmaceuticals operating segment. The total purchase consideration was $377 million, of which $287 million were paid in cash and $90 million arose from a contingent consideration arrangement. The payment from this arrangement is based on the achievement of two separate performance milestones that may arise between 2013 and 2015 and the range of outcomes, undiscounted, is between zero and $250 million. A liability of $90 million was recognized at the acquisition date, based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. As at December 31, 2011 the amount recognized for this arrangement was $48 million, based on the most recent management estimates. The accounting for the Marcadia acquisition, which was provisional

at the end of 2010, was finalized during the first half of 2011. There were no adjustments made in 2011 to the provisional acquisition accounting reported in the 2010 Annual Financial Statements.

BioImagene: Effective September 3, 2010 the RHI Group acquired a 100% controlling interest in BioImagene, Inc., ('BioImagene'), a privately owned U.S. company, based in Sunnyvale, California. BioImagene is engaged in the digital pathology workflow and analysis field and is reported as part of the Diagnostics operating segment. The total purchase consideration was $85 million in cash.

There was another minor business combination in the Diagnostics business with a total purchase consideration of $2 million in cash.

The combined purchase consideration of $464 million, consisting of $374 million in cash and $90 million from contingent consideration arrangements, has been allocated as shown in the table below:

Acquisitions – 2010: net assets acquired *in millions of USD*

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	1	–	1
Intangible assets			
– Product intangibles: in use	–	110	110
– Product intangibles: not available for use	–	257	257
– Technology intangibles: in use	–	3	3
Inventories	2	–	2
Deferred income taxes	10	(127)	(117)
Cash	34	–	34
Other net assets (liabilities)	(19)	–	(19)
Net identifiable assets (liabilities)	28	243	271
Goodwill			193
Purchase consideration			464

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

The fair value of other net assets (liabilities) includes receivables with a fair value of $6 million.

Directly attributable transaction costs of $2 million 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 and Diagnostics operating segment ($1 million each).

Acquisitions – 2010: net cash outflow *in millions of USD*

	Cash consideration paid	Cash in acquired company	Net cash outflow
Total acquisitions	(374)	34	(340)

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from business combination arrangements. The provisions for these arrangements are recorded as part of other provisions (see Note 23) and are set out in the table below. Provisions are discounted by between 6% and 7% where the time value of money is material.

Provisions for contingent consideration arrangements *in millions of USD*

	2011	2010
At January 1	**90**	-
Additional provisions created	-	-
Unused amounts reversed	(48)	-
Utilized during the year	-	-
Unwinding of discount	6	-
Business combinations		
- Marcadia	-	90
At December 31	48	90
Expected outflow of resources		
- Within one year	-	-
- Between one to two years	48	-
- Between two to three years	-	90
- More than three years	-	-
Total provisions	48	90

6. Global restructuring plans

Operational Excellence

On November 17, 2010 the Roche Group announced details concerning the Operational Excellence global restructuring plan. The plan is aimed at adapting cost structures to an increasingly challenging market environment and achieving significant efficiency and productivity gains. The planned measures will enable sustained investment in research and product development and thus strengthen the Roche Group's long-term innovation capability.

Effective June 13, 2011 the RHI Group completed the sale of the site at Palo Alto, California, to a third party. The consideration was $225 million in cash, of which $10 million will be paid in 2012. As a result a gain of $49 million was recorded in 2011 within general and administration expenses. The closure or transfer of the research and development activities to other RHI sites from Palo Alto was completed by the end of 2010. The subsidiary Roche Palo Alto LLC, which retains certain residual obligations, was not divested.

During 2011, the RHI Group completed the divestment of certain subsidiaries as part of the Operational Excellence program. Effective August 31, 2011, the RHI Group completed the sale of the manufacturing site at Boulder, Colorado. The consideration includes certain contingent consideration arrangements based on the future performance of the site. As at June 30, 2011 the net assets sold at Boulder were considered a disposal group and were written down to their fair value less costs to sell. As a result, an impairment charge of $130 million was charged to general and administration expenses, of which $110 million related to property, plant and equipment, and a majority of the residual to inventories. In the second half of 2011, an additional impairment of $2 million and a further loss of $17 million were recognized from this disposal.

Effective October 21, 2011 the RHI Group sold the research and development site in Madison, Wisconsin, including selected research assets. The consideration included an equity stake and contingent consideration arrangements based on the future achievement of specified research and development project milestones.

The total consideration received for these subsidiary divestments was $2 million. This consisted of marketable securities with a fair value of $2 million. The total loss on divestment of subsidiaries was $90 million and is included in general and administration expenses in the Pharmaceuticals operating segment (see Note 31).

The RHI Group has announced that it will not divest the chemical production facility in Florence, South Carolina, given the unfavorable market for chemical production assets and the Group's expected future capacity requirements for small molecules.

The Group currently anticipates that these restructuring activities will be substantially completed by the end of 2012.

Operational Excellence: restructuring costs *in millions of USD*

	2011	2010
Employee-related costs		
- Termination costs	**58**	278
- Pensions and other post-employment benefits	**(7)**	(72)
- Other employee-related costs	**18**	7
Total employee-related costs	**69**	213
Site closure costs		
- Impairment of property, plant and equipment	**80**	17
- Accelerated depreciation of property, plant and equipment	**28**	-
- (Gains) Losses on disposal of property, plant and equipment	**(29)**	-
- Environmental remediation costs	**-**	1
- Other site closure costs	**3**	31
Total site closure costs	**82**	49
Divestment of products and businesses		-
- Impairment of net assets-held-for-sale	**132**	-
- (Gains) losses on divestment of subsidiaries [31]	**90**	-
Total costs on divestment of products and businesses	**222**	-
Impairment of intangible assets	**-**	129
Other reorganization expenses	**188**	16
Total	**561**	407

Classification of Operational Excellence restructuring costs *in millions of USD*

			2011			2010
	Depreciation, amortization and impairment	Other costs	Total	Depreciation, amortization and impairment	Other costs	Total
Cost of sales						
- Pharmaceuticals	**9**	**52**	**61**	11	18	29
- Diagnostics	**-**	**-**	**-**	-	-	-
Marketing and distribution						
- Pharmaceuticals	**-**	**18**	**18**	-	79	79
- Diagnostics	**-**	**-**	**-**	-	-	-
Research and development						
- Pharmaceuticals	**87**	**56**	**143**	129	147	276
- Diagnostics	**-**	**-**	**-**	-	-	-
General and administration						
- Pharmaceuticals	**144**	**186**	**330**	5	18	23
- Diagnostics	**-**	**9**	**9**	-	-	-
Total	**240**	**321**	**561**	145	262	407
Total by operating segment						
- Pharmaceuticals	**240**	**312**	**552**	145	262	407
- Diagnostics	**-**	**9**	**9**	-	-	-
Total	**240**	**321**	**561**	145	262	407

Genentech transaction: restructuring and integration

On July 21, 2008 the Roche 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 RHI Group's combined pharmaceuticals operations in the United States. On July 21, 2008 the Roche Group also announced that Roche's pharmaceuticals business in the U.S. would close manufacturing operations at its site in Nutley, New Jersey, and commercial operations would be moved to Genentech. The research site at Palo Alto, California, would be closed with the research activities being transferred to Nutley and to Genentech. Subsequent to these announcements, initial restructuring activities started at the Nutley and Palo Alto sites in 2008. The Genentech transaction was completed effective March 26, 2009. Following this the Pharmaceuticals Division initiated a detailed integration program to align

the Genentech business and the rest of Roche's pharmaceuticals business. These restructuring activities were completed by the end of 2010.

Genentech transaction: restructuring and integration costs *in millions of USD*

	2011	2010
Employee-related costs		
- Termination costs	-	16
- Pensions and other post-employment benefits	-	6
- Other retention plans and other employee benefits	-	13
- Other employee-related costs	-	73
Total employee-related costs	-	108
Site closure costs		
- Impairment of property, plant and equipment	-	1
- Accelerated depreciation of property, plant and equipment	-	24
- Other site closure costs	-	56
Total site closure costs	-	81
Impairment of intangible assets		-
Other reorganization expenses	-	217
Total	-	406

7. Employee benefits

Employee remuneration *in millions of USD*

	2011	2010
Wages and salaries	**2,945**	3,247
Social security costs	**175**	202
Defined contribution post-employment plans	**201**	158
Operating expenses for defined benefit post-employment plans [8]	**80**	30
Equity compensation plans [9]	**317**	194
Termination costs		
- Operational Excellence [6]	**58**	278
- Genentech transaction: restructuring and integration [6]	**-**	16
Other employee benefits	**325**	268
Employees' remuneration included in operating results	**4,101**	4,393
Expected return on plan assets for defined benefit post-employment plans [8]	**(226)**	(209)
Interest cost for defined benefit post-employment plans [8]	**217**	222
Total employees' remuneration	**4,092**	4,406

Other employee benefits consist mainly of life insurance schemes and certain other insurance schemes providing medical coverage and other long-term and short-term disability benefits. The charges for employee benefits in the operating results are included in the relevant expenditure line by function. The expected return on plan assets and interest costs from defined benefit plans are included as part of financial income and financing costs, respectively (see Note 3).

8. Pensions and other post-employment benefits

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

if RHI's potential obligation is relatively minor or has a relatively remote possibility of arising. Consequently most of RHI's post-employment benefit plans are classified as 'defined benefit plans' for the purpose of these financial statements.

Defined contribution plans

Defined contribution plans typically consist of payments by employees and by the RHI Group to funds administered by third parties. Payments by the RHI Group were $201 million (2010: $158 million). No assets or liabilities are recognized in RHI's balance sheet in respect of such plans, apart from regular prepayments and accruals of the contributions withheld from employees' wages and salaries and of RHI's contributions.

Defined benefit plans

RHI's plans are usually established as trusts independent of the RHI Group and are funded by payments from the RHI Group and by employees. In some cases, the plan is unfunded and the RHI Group pays pensions to retired employees directly from its own financial resources.

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

Defined benefit plans: expenses *in millions of USD*

			2011			2010
	Pension plans	Other post-employment benefit plans	Total	Pension plans	Other post-employment benefit plans	Total
Current service cost	**68**	**13**	**81**	76	19	95
Past service cost	**(13)**	**19**	**6**	11	12	23
(Gain) loss on curtailments	**(7)**	**-**	**(7)**	(72)	(16)	(88)
(Gain) loss on settlement	**-**	**-**	**-**	-	-	-
Total operating expenses	**48**	**32**	**80**	15	15	30
Expected return on plan assets	**(194)**	**(32)**	**(226)**	(177)	(32)	(209)
Interest cost	**167**	**50**	**217**	166	56	222
Total financial (income) expense	**(27)**	**18**	**(9)**	(11)	24	13
Total expense recognized in income statement	**21**	**50**	**71**	4	39	43

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

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

	Funded plans	Unfunded plans	2011 Total	Funded plans	Unfunded plans	2010 Total
Fair value of plan assets	**2,923**	**-**	**2,923**	2,856	-	2,856
Defined benefit obligation	**(4,470)**	**(371)**	**(4,841)**	(3,754)	(418)	(4,172)
Over (under) funding	**(1,547)**	**(371)**	**(1,918)**	(898)	(418)	(1,316)
Unrecognized past service costs	**4**	**(15)**	**(11)**	-	(17)	(17)
Reimbursement rights	**146**	**-**	**146**	88	23	111
Net recognized asset (liability)	**(1,397)**	**(386)**	**(1,783)**	(810)	(412)	(1,222)
Reported as						
- Defined benefit plans	**-**	**-**	**-**	-	-	-
- Reimbursement rights	**146**	**-**	**146**	88	23	111
Post-employment benefit assets	**146**	**-**	**146**	88	23	111
Post-employment benefit liabilities	**(1,543)**	**(386)**	**(1,929)**	(898)	(435)	(1,333)
Net recognized asset (liability)	**(1,397)**	**(386)**	**(1,783)**	(810)	(412)	(1,222)

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

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

	Fair value of plan assets	Reimburse-ment rights	2011 Total	Fair value of plan assets	Reimburse-ment rights	2010 Total
At January 1	**2,856**	**111**	**2,967**	2,641	116	2,757
Expected return on plan assets	**220**	**6**	**226**	202	7	209
Actuarial gains (losses)	**(80)**	**24**	**(56)**	190	(8)	182
Employer contributions	**105**	**-**	**105**	-	(2)	(2)
Employee contributions	**-**	**-**	**-**	-	-	-
Benefits paid - funded plans	**(178)**	**-**	**(178)**	(177)	-	(177)
Past service cost	**-**	**5**	**5**	-	-	-
Curtailments	**-**	**-**	**-**	-	(2)	(2)
Settlements	**-**	**-**	**-**	-	-	-
At December 31	**2,923**	**146**	**3,069**	2,856	111	2,967

	2011	2010
Invested as		
- Shares and other equity instruments	**1,568**	1,731
- Bonds, debentures and other debt instruments	**999**	781
- Property	**233**	225
- Other assets	**269**	230
Total	**3,069**	2,967

Besides the reimbursement rights, other assets consist mainly of cash, special bonds or equity funds, alternatives, mortgages, commodities and insurance policies.

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

			2011			2010
	Pension plans	Other post-employ-ment benefit plans	Total	Pension plans	Other post-employ-ment benefit plans	Total
At January 1	**3,220**	**952**	**4,172**	2,958	1,023	3,981
Current service cost	**68**	**13**	**81**	76	19	95
Interest cost	**167**	**50**	**217**	166	56	222
Employee contributions	**-**	**-**	**-**	-	-	-
Actuarial (gains) losses	**384**	**175**	**559**	228	(66)	162
Benefits paid – funded plans	**(140)**	**(38)**	**(178)**	(131)	(46)	(177)
Benefits paid – unfunded plans	**(12)**	**(8)**	**(20)**	(16)	(11)	(27)
Past service cost	**(14)**	**31**	**17**	11	(5)	6
Curtailments	**(7)**	**-**	**(7)**	(72)	(18)	(90)
Settlements	**-**	**-**	**-**	-	-	-
At December 31	**3,666**	**1,175**	**4,841**	3,220	952	4,172
Of which						
- Funded plans	**3,473**	**997**	**4,470**	3,049	705	3,754
- Unfunded plans	**193**	**178**	**371**	171	247	418

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible estimates of variables that determine the ultimate cost of providing post-employment benefits. They are set on an annual basis by local management and actuaries and are subject to approval by Roche Group corporate management and the Roche Group's actuaries. Actuarial assumptions consist of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as interest rates, returns on investments, salary and benefit levels, inflation rates and costs of medical benefits. The Roche Group operates defined benefit plans in many countries and the actuarial assumptions vary based upon local economic and social conditions.

Demographic assumptions: The most significant demographic assumptions relate to mortality rates. The Roche Group's actuaries use mortality tables which take into account historic patterns and expected changes, such as further increases in longevity. The mortality table used for the U.S. was RP2000 projected to 2017.

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

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

Defined benefit plans: financial actuarial assumptions

		2011		2010
	Weighted average	Range	Weighted average	Range
Discount rates	**4.57%**	**4.57%**	5.40%	5.40%
Expected rates of return on plan assets	**7.94%**	**7.50%-8.00%**	7.93%	7.50%-8.00%
Expected rates of salary increases	**4.91%**	**3.50%-5.30%**	6.20%	3.00%-6.50%
Expected rates of pension increases	**1.50%**	**1.50%**	1.50%	1.50%
Expected inflation rates	**3.00%**	**3.00%**	3.00%	3.00%
Immediate medical cost trend rate	**7.80%**	**7.80%**	8.00%	8.00%
Ultimate medical cost trend rate (in 2029)	**4.50%**	**4.50%**	4.50%	4.50%

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. The currency and term of the bonds are 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.

Defined benefit plans: sensitivity of discount rate *in millions of USD*

		2011		2010
	+0.25%	-0.25%	+0.25%	-0.25%
Current service cost and interest cost	**(2)**	**2**	(1)	1
Defined benefit obligation	**(156)**	**164**	(132)	138

Expected returns on plan assets are based on market expectations of expected returns on the assets in funded plans over the duration of the related obligation. This takes into account the split of the plan assets between equities, bonds, property and other investments. The calculation includes assumptions concerning expected dividend and interest income, realized and unrealized gains on plan assets and taxes and administration costs borne by the plan. These are based on long-term market expectations and the actual performance is continually monitored by Roche Group corporate management. Due to the long-term nature of the obligations, the assumptions used for matters such as returns on investments may not necessarily be consistent with recent historical patterns. The expected return on plan assets included in the income statement is calculated by multiplying the expected rate of return by the fair value of plan assets. The difference between the expected return and the actual return in any twelve-month period is an actuarial gain/loss and is recorded directly to other comprehensive income. The actual return on plan assets was a gain of $140 million (2010: gain of $392 million).

Expected rates of salary increases, which are used to calculate the defined benefit obligation and the current service cost included in the income statement, are based on the latest expectation and historical behavior within RHI Group companies. Expected inflation rates are derived by looking at the level of inflation implied by the financial markets in conjunction with the economists' price inflation forecasts, historic price inflation as well as other economic variables and circumstances.

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

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

		2011		2010
	+1%	-1%	+1%	-1%
Current service cost and interest cost	**8**	**(7)**	9	(8)
Defined benefit obligation	**138**	**(111)**	106	(88)

Funding summary

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

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

	2011	2010	2009	2008	2007
Funded plans					
- Fair value of plan assets	**2,923**	2,856	2,641	2,259	3,107
- Defined benefit obligation	**(4,470)**	(3,754)	(3,590)	(3,276)	(3,169)
- Over (under) funding	**(1,547)**	(898)	(949)	(1,017)	(62)
Unfunded plans					
- Defined benefit obligation	**(371)**	(418)	(391)	(315)	(348)
Increase (decrease) in funding status arising from experience adjustments					
- Fair value of plan assets	**(80)**	190	213	(990)	67
- Defined benefit obligation	**(39)**	99	7	63	(86)
Increase (decrease) in funding status arising from changes in actuarial assumptions					
- Fair value of plan assets	**-**	-	-	-	-
- Defined benefit obligation	**(520)**	(261)	(294)	(9)	158

Cash flows

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

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

	2011	2010
Employer contributions, net of reimbursements – funded plans	**(105)**	2
Benefits paid – unfunded plans	**(20)**	(27)
Total cash inflow (outflow)	**(125)**	(25)

Based on the most recent actuarial valuations, the RHI Group expects that employer contributions for funded plans in 2012 will be approximately $105 million. Benefits paid for unfunded plans are estimated to be approximately $18 million.

Amounts recorded in other comprehensive income

The actuarial gains and losses recognized in the statement of comprehensive income were losses of $615 million (2010: gains of $20 million), pre-tax. The total amount at December 31, 2011 was an accumulated loss of $1,221 million (2010: accumulated loss of $606 million).

9. Employee stock options and other equity compensation benefits

The Roche Group operates several equity compensation plans. Effective January 1, 2005 RHI adopted IFRS 2: 'Share-based Payment'. Amongst other matters, the standard requires that the fair value of all equity compensation plan awards granted to employees be estimated at grant date and recorded as an expense over the vesting period. The expense is charged against the appropriate income statement heading.

Expenses for equity compensation plans *in millions of USD*

	2011	2010
Cost of sales	**57**	28
Marketing and distribution	**87**	53
Research and development	**116**	70
General and administration	**57**	43
Total operating expenses	**317**	194
Equity compensation plans		
Roche Stock-settled Stock Appreciation Rights	**206**	133
Restricted Stock Unit Plan	**107**	68
Roche Performance Share Plan	**3**	2
Roche Stock Appreciation Rights	**1**	(9)
Total equity compensation plans	**317**	194
Total operating expenses	**317**	194
of which		
- Equity-settled	**316**	203
- Cash-settled	**1**	(9)

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

	2011	2010
Equity-settled plans		
Recharges and prepayments to related parties for other equity compensation plans	**(20)**	(188)
Cash-settled plans		
- reported in statement of cash flows as part of movements in net working capital (accrued liabilities)		
Roche Stock Appreciation Rights	**(6)**	(18)

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

Roche Stock-settled Stock Appreciation Rights: With the introduction of Roche Long-Term in 2005, the Roche Group offers Stock-settled Stock Appreciation Rights (S-SARs) to certain directors, management and employees selected at the discretion of the Roche Group. The S-SARs give employees the right to receive non-voting equity securities (Genussscheine) reflecting the value of any appreciation in the market price of the non-voting equity securities between the grant date and the exercise date. The rights, which are non-tradable equity-settled awards, have a seven-year duration and vest on a phased basis over three years, subject to continued employment.

Roche S-SARs - movement *in number of rights outstanding*

	Number of rights (thousands)	2011 Weighted average exercise price (CHF)	Number of rights (thousands)	2010 Weighted average exercise price (CHF)
Outstanding at January 1	**28,347**	**161.83**	17,712	171.80
Granted	**13,984**	**140.22**	13,376	150.61
Forfeited	**(3,671)**	**160.19**	(1,983)	181.33
Exercised	**(1,193)**	**133.44**	(669)	142.39
Expired	**-**	**-**	-	-
Transfer of expatriate employees	**(269)**	**174.64**	(89)	171.51
Outstanding at December 31	**37,198**	**154.69**	28,347	161.83
- of which exercisable	13,755	169.89	7,985	179.46

Roche S-SARs – terms of rights outstanding at December 31, 2011

	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	90	0.23	129.05	90	129.05
2006	763	1.17	195.11	763	195.11
2007	1,067	2.17	229.50	1,067	229.50
2008	2,311	3.12	193.11	2,311	193.11
2009	8,273	4.59	160.15	5,484	160.29
2010	11,773	5.69	149.99	3,908	150.39
2011	12,921	6.19	140.23	132	140.10
Total	**37,198**	**5.25**	**154.69**	**13,755**	**169.89**

The weighted average fair value of the rights granted in 2011 was calculated using a binomial model. The resulting weighted average fair value per right is 11.78 Swiss francs, giving a total fair value of 165 million Swiss francs which is charged over the vesting period of three years.

Roche Restricted Stock Unit Plan: For the first time in September 2009 the Roche Group issued Restricted Stock Units (RSUs) awards to certain directors, management and employees selected at the discretion of the Roche Group. 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 2011 was 119.65 Swiss francs 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*

	2011 Number of awards (thousands)	2010 Number of awards (thousands)
Outstanding at January 1	**2,476**	1,247
Granted	**16**	1,350
Forfeited	**(262)**	(106)
Transferred to participants	**(18)**	(4)
Transfer of expatriate employees	**(1)**	(11)
Outstanding at December 31	**2,211**	2,476
- of which exercisable	**-**	4

Roche Performance Share Plan: The Roche Group offers future non-voting equity security awards (or, at the discretion of the Roche Group Board of Directors, their cash equivalent) to certain directors and key senior managers. The program was established at the beginning of 2002 and currently operates in annual three-year cycles. The terms of the currently outstanding awards are set out in the table below. The amount of non-voting equity securities allocated will depend upon the individual's salary level, the achievement of performance targets linked to the Roche Group's Total Shareholder Return (shares and non-voting equity securities combined) relative to the Roche Group's peers during the three-year period from the date of the grant, and the discretion of the Roche Group Board of Directors. These are non-

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

Roche Performance Share Plan – terms of outstanding awards at December 31, 2011

	2009-2011	2010-2012	2011-2013
Number of awards (thousands)	13	16	39
Vesting period	3 years	3 years	3 years
Allocated to recipients in	Feb. 2012	Feb. 2013	Feb. 2014
Fair value per unit (CHF)	156.06	173.39	124.17

The weighted average fair value of the 41,894 awards granted in 2011 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 0.7390%. The valuation also takes into account the defined rank and performance structure which determines the payout of the plan.

Roche Stock Appreciation Rights: Some employees of the RHI Group receive Stock Appreciation Rights (SARs) as part of their compensation. The SARs, which were non-tradable cash-settled awards, could be exercised after a vesting period of between one and three years for a cash payment, based upon the amount by which the market price of the Roche Group's American Depositary Receipts (ADRs) at the point of exercise exceeds the strike price (grant price at issuance). Following the implementation of Roche Long-Term (see above), the Roche Group has not awarded any further cash-settled SARs and no awards have been made since 2004.

Roche Stock Appreciation Rights *in millions of USD*

	2011	2010
Liability at December 31	-	5
Intrinsic value of vested rights at December 31	-	5

There were no outstanding awards at the end of 2011.

Issues of rights in 2011: Issues of rights in 2011, including the methodology used to calculate fair value and the main inputs to the valuation models, are described below.

Issues of equity compensation plans in 2011

	Roche S-SAR
Number of rights granted	13,984 thousand
Underlying equity	Roche non-voting equity securities
Currency	Swiss francs
Vesting period	Progressively over 3 years
Contractual life	7 years
Weighted average fair value of rights issued	11.78
Option pricing model used	Binomial
Inputs to option pricing model	
- Share price at grant date	140.22
- Exercise price	140.22
- Expected volatility	23.72%
- Expected dividend yield	8.68%
- Early exercise factor	1.176
- Expected exit rate	9.50%

Volatility for Roche S-SAR was determined primarily by reference to historically observed prices of the underlying equity. Risk-free interest rates are derived from zero coupon swap rates at the grant date taken from Datastream. The early exercise factor describes the ratio between the expected market price at the exercise date and the exercise price at which early exercises can be expected, based on historically observed behavior.

10. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At January 1, 2010					
Cost	505	5,484	4,939	368	11,296
Accumulated depreciation and impairment	-	(1,945)	(3,073)	(4)	(5,022)
Net book value	505	3,539	1,866	364	6,274
Year ended December 31, 2010					
At January 1, 2010	505	3,539	1,866	364	6,274
Additions	-	7	185	452	644
Disposals	-	-	(25)	-	(25)
Business combinations [5]	-	-	1	-	1
Transfers	-	229	172	(401)	-
Depreciation charge	-	(255)	(378)	-	(633)
Impairment charge	-	15	(49)	(25)	(59)
Other	-	3	-	-	3
At December 31, 2010	505	3,538	1,772	390	6,205
Cost	505	5,620	5,095	417	11,637
Accumulated depreciation and impairment	-	(2,082)	(3,323)	(27)	(5,432)
Net book value	505	3,538	1,772	390	6,205
Year ended December 31, 2011					
At January 1, 2011	**505**	**3,538**	**1,772**	**390**	**6,205**
Additions	**-**	**11**	**179**	**298**	**488**
Disposals	**(68)**	**(197)**	**(36)**	**-**	**(301)**
Business combinations [5]	**-**	**-**	**-**	**-**	**-**
Divestment of subsidiaries [31]	**-**	**(2)**	**(3)**	**(2)**	**(7)**
Transfers	**-**	**169**	**187**	**(356)**	**-**
Reclassification to assets-held-for-sale [6]	**-**	**(15)**	**(72)**	**(25)**	**(112)**
Depreciation charge	**-**	**(242)**	**(396)**	**-**	**(638)**
Impairment charge	**-**	**(52)**	**(29)**	**(4)**	**(85)**
Other	**-**	**-**	**(51)**	**-**	**(51)**
At December 31, 2011	**437**	**3,210**	**1,551**	**301**	**5,499**
Cost	**437**	**5,319**	**4,831**	**317**	**10,904**
Accumulated depreciation and impairment	**-**	**(2,109)**	**(3,280)**	**(16)**	**(5,405)**
Net book value	**437**	**3,210**	**1,551**	**301**	**5,499**

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 $5 million (2010: $13 million) are reported as part of 'Cost of sales', impairment charges of $80 million (2010: impairment charges of $41 million including impairment reversals of $15 million) are reported in 'Research and development'. In 2011 there were no impairment charges reported within 'General and administration' (2010: impairment charges of $5 million).

In 2011 no borrowing costs were capitalized as property, plant and equipment (2010: $5 million using a rate of 4.79%).

Leasing arrangements where the RHI Group is the lessee

Finance leases: As at December 31, 2011 the capitalized cost of property, plant and equipment under finance leases was $257 million (2010: $257 million) and the net book value of these assets was $168 million (2010: $186 million). The

carrying value of the leasing obligation was $238 million (2010: $253 million), which is reported as part of Debt (see Note 25).

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

	Future minimum lease payments		Present value of future minimum lease payments	
	2011	2010	2011	2010
Within one year	**32**	**31**	**17**	**15**
Between one and five years	**140**	**134**	**94**	**83**
More than five years	**138**	**179**	**127**	**155**
Total	**310**	**344**	**238**	**253**
Future finance charges	**-**	**-**	**72**	**91**
Total future minimum lease payments (undiscounted)	**310**	**344**	**310**	**344**

Operating leases: RHI Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the RHI Group. Total operating lease rental expense was $84 million (2010: $94 million).

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

	2011	2010
Within one year	**68**	71
Between one and five years	**182**	178
More than five years	**91**	109
Total minimum payments	**341**	358

Leasing arrangements where the RHI Group is the lessor

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

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

	Gross investment in lease		Present value of future minimum lease payments	
	2011	2010	2011	2010
Within one year	**24**	19	**21**	16
Between one and five years	**60**	40	**55**	36
More than five years	**-**	-	**-**	-
Total	**84**	59	**76**	52
Unearned finance income	**(8)**	(6)	**n/a**	n/a
Unguaranteed residual value	**n/a**	n/a	**-**	1
Net investment in lease	**76**	53	**76**	53

The accumulated allowance for uncollectible minimum lease payments was $2 million (2010: $2 million). There were no contingent rents recognized in income.

Operating leases: Certain assets, mainly some Diagnostics instruments, are leased to third parties through operating lease arrangements. Such assets are reported within property, plant and equipment. Lease income from operating leases is recognized over the lease term on a straight-line basis.
At December 31, 2011, machinery and equipment with an original cost of $384 million (2010: $357 million) and a net book value of $163 million (2010: $181 million) was being leased to third parties. There was no contingent rent recognized as income.

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

	2011	2010
Within one year	**16**	74
Between one and five years	**32**	148
More than five years	**-**	-
Total minimum payments	**48**	222

Capital commitments

The RHI Group has non-cancellable capital commitments for the purchase or construction of property, plant and equipment totaling $81 million (2010: $113 million).

11. Goodwill

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

	2011	2010
At January 1	**5,730**	5,537
Business combinations [5]	**96**	193
Divestment of subsidiaries [31]	**(68)**	-
Impairment charge	**-**	-
At December 31	**5,758**	5,730
Allocated to the following cash-generating units		
- Pharmaceuticals	**1,960**	1,932
Total Pharmaceuticals Division	**1,960**	1,932
Diagnostics Division		
- Diabetes Care	**2**	2
- Professional Diagnostics	**1,465**	1,465
- Molecular Diagnostics	**-**	-
- Applied Science	**233**	233
- Tissue Diagnostics	**796**	796
- Strategic goodwill (held at divisional level and not allocated to business areas)	**1,302**	1,302
Total Diagnostics Division	**3,798**	3,798

There are no accumulated impairment losses in goodwill.

Goodwill impairment testing

Pharmaceuticals Division: For the Pharmaceuticals Division, the recoverable amount used in the impairment testing is based on value in use. The cash flow projections used are based on the most recent business plans approved by management. These assume no significant changes in the organization of the division and include management's latest estimates on sales volume and pricing, and production and other operating costs. These reflect past experience and are projected over five years. These valuations also include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 6.57%, which is derived from a capital asset pricing model using data from Swiss capital markets, including Swiss Federal Government twenty-year bonds and the Swiss Market Index. Cost of debt is calculated based on the weighted average effective interest rate of the bonds and notes issued. A weighted average tax rate of 25.23% is used in the calculations and the corresponding pre-tax discount rate is 8.8%. Management believes that any reasonably possible change in any of the key assumptions would not cause the carrying value of goodwill to exceed the recoverable amount.

Diagnostics Division: The division's business areas are the cash-generating units used for the testing of goodwill. The goodwill arising from the Corange/Boehringer Mannheim acquisition and part of the goodwill from the Ventana acquisition is recorded and monitored at a divisional level as it relates to the strategic development of the whole division and cannot be meaningfully allocated to the division's business areas. Therefore the cash-generating unit for this goodwill is the entire division. The recoverable amount used in the impairment testing is based on value in use. The cash flow projections used are based on the most recent business plans approved by management. These assume no significant changes in the organization of the division and include management's latest estimates on sales volume and pricing, and production and other operating costs. These reflect past experience and are projected over five years. The estimates for the Tissue Diagnostics business area are projected over ten years, which management believes reflects the long-term nature of this business. These valuations also include a terminal value beyond these years, assuming no further growth. The discount rate used is based on an after-tax rate of 6.57%, which is derived from a capital asset pricing model using data from Swiss capital markets, including Swiss Federal Government twenty-year bonds and the Swiss Market Index. Cost of debt is calculated based on the weighted average effective interest rate of the bonds and notes issued. A weighted average tax rate of 18.80% is used in the calculations and the corresponding pre-tax discount rate is 8.1%. 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.

12. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At January 1, 2010					
Cost	4,962	1,644	-	616	7,222
Accumulated amortization and impairment	(3,255)	(283)	-	(578)	(4,116)
Net book value	1,707	1,361	-	38	3,106
Year ended December 31, 2010					
At January 1, 2010	1,707	1,361	-	38	3,106
Business combinations [5]	110	257	-	3	370
Additions	31	150	-	-	181
Disposals	(10)	(12)	-	-	(22)
Transfers	16	(16)	-	-	-
Amortization charge	(239)	-	-	(7)	(246)
Impairment charge	(16)	(203)	-	(24)	(243)
At December 31, 2010	1,599	1,537	-	10	3,146
Cost	5,110	2,022	-	620	7,752
Accumulated amortization and impairment	(3,511)	(485)	-	(610)	(4,606)
Net book value	1,599	1,537	-	10	3,146
Allocation by operating segment					
- Pharmaceuticals	549	965	-	6	1,520
- Diagnostics	1,050	572	-	4	1,626
Total RHI Group	1,599	1,537	-	10	3,146
Year ended December 31, 2011					
At January 1, 2011	**1,599**	**1,537**	**-**	**10**	**3,146**
Business combinations [5]	**-**	**173**	**4**	**-**	**177**
Additions	**41**	**209**	**-**	**-**	**250**
Disposals	**(3)**	**(46)**	**-**	**-**	**(49)**
Transfers	**99**	**(99)**	**-**	**-**	**-**
Amortization charge	**(244)**	**-**	**(1)**	**(3)**	**(248)**
Impairment charge	**(60)**	**(41)**	**-**	**-**	**(101)**
At December 31, 2011	**1,432**	**1,733**	**3**	**7**	**3,175**
Cost	**5,243**	**1,985**	**4**	**581**	**7,813**
Accumulated amortization and impairment	**(3,811)**	**(252)**	**(1)**	**(574)**	**(4,638)**
Net book value	**1,432**	**1,733**	**3**	**7**	**3,175**
Allocation by operating segment					
- Pharmaceuticals	**530**	**1,205**	**-**	**4**	**1,739**
- Diagnostics	**902**	**528**	**3**	**3**	**1,436**
Total RHI Group	**1,432**	**1,733**	**3**	**7**	**3,175**

Significant intangible assets as at December 31, 2011 *in millions of USD*

	Operating segment	Net book value	Remaining amortization period
Product intangibles in use			
Tanox acquisition	Pharmaceuticals	**329**	8 years
Ventana acquisition	Diagnostics	**451**	6 years
IGEN capital contribution	Diagnostics	**224**	5 years
Product intangibles not available for use			
Ventana acquisition	Diagnostics	**516**	n/a

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

	2011		2010	
	Amortization	Impairment	Amortization	Impairment
Cost of sales				
- Pharmaceuticals	**70**	**35**	62	-
- Diagnostics	**169**	**25**	177	16
Marketing and distribution				
- Diagnostics	**1**	**-**	-	-
Research and development				
- Pharmaceuticals	**7**	**36**	7	227
- Diagnostics	**1**	**5**	-	-
Total	**248**	**101**	246	243

Internally generated intangible assets

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

Intangible assets with indefinite useful lives

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

Impairment of intangible assets

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

2011: In 2011 the Roche Pharmaceuticals operating segment recorded an impairment charge of $71 million and the Diagnostics operating segment recorded an impairment charge of $30 million.

In the Pharmaceuticals operating segment an impairment charge of $35 million was recorded related to a decision to stop the development of a project acquired in a business combination that had been out-licensed to an alliance partner. The asset concerned, which had been partly amortized, was written down to its recoverable value of $33 million, based on a value in use calculation using an after-tax discount rate of 6.57%. A further charge of $36 million was recorded, resulting from portfolio prioritization decisions on projects acquired separately or as part of a business combination. The assets concerned, which were not yet being amortized, were fully written down by these charges.

In the Diagnostics operating segment, an impairment charge of $30 million was recorded mainly in respect of intangible assets in use. This followed the regular updating of the division's business plans and technology assessments in the second half of 2011. The assets concerned were written down to their recoverable amount of $7 million, based on a value in use calculation using an after-tax discount rate of 6.57%.

2010: In 2010 the Pharmaceuticals operating segment recorded an impairment charge of $227 million and the Diagnostics operating segment recorded an impairment charge of $16 million.

Of the amount recorded in the Pharmaceuticals operating segment, an impairment charge of $129 million was recorded as part of the Operational Excellence program (see Note 6). As part of the program the division carried out a comprehensive portfolio review and decided to discontinue certain activities in research and early development. In addition certain product development activities are being discontinued or transferred to other Roche sites or to third parties. As a result of these decisions intangible assets with a carrying value of $129 million were fully written down.

Apart from the Operational Excellence program, an impairment charge of $95 million was also recorded in the Pharmaceuticals Division with respect of product intangibles not available for use and follows from recent clinical data and portfolio prioritization decisions relating to certain projects either with alliance partners or acquired in business combinations. The assets concerned, which were not yet being amortized, were fully written down by these charges. A further charge of $18 million was recorded, resulting from a portfolio prioritization decision on a project acquired as part of a previous business combination. The asset concerned, which was not yet being amortized, was written down to its recoverable value of $36 million, based on a value in use calculation using an after-tax discount rate of 7.31%. A reversal of previously recorded impairment loss of $15 million was recorded, which follows from the latest clinical data assessment of the project concerned.

In the Diagnostics operating segment, an impairment charge of $16 million was recorded. This was in respect of intangible assets in use and followed the regular updating of the division's business plans and technology assessments in the second half of 2010. The assets concerned were written down to their recoverable amount of $13 million, based on a value in use calculation using an after-tax discount rate of 7.31%.

Potential commitments from alliance collaborations

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

RHI's current estimate of future third party commitments for such payments is set out in the table below. These figures are undiscounted and are not risk adjusted, meaning that they include all such potential payments that can arise assuming all projects currently in development are successful. The timing is based on RHI's current best estimate.

Potential future third-party collaboration payments as at December 31, 2011 *in millions of USD*

	Pharmaceuticals	Diagnostics	RHI Group
Within one year	**75**	**1**	**76**
Between one and two years	**196**	**-**	**196**
Between two and three years	**202**	**-**	**202**
Total	**473**	**1**	**474**

13. Associates

The RHI Group has no investments in associates (2010: none).

14. Financial and other long-term assets

Financial and other long-term assets *in millions of USD*

	2011	2010	2009
Available-for-sale investments	**55**	65	92
Held-to-maturity investments	**-**	-	4
Loans receivable	**-**	-	-
Long-term trade receivables	**1**	1	2
Restricted cash	**9**	9	-
Other	**54**	37	32
Total financial long-term assets	**119**	112	130
Long-term employee benefits	**244**	236	214
Other	**91**	92	103
Total other long-term assets	**335**	328	317

Financial long-term assets are held for strategic purposes and are classified as non-current. The available-for-sale investments are mainly equity investments. These are primarily investments in private biotechnology companies, which are kept as part of RHI's strategic alliance efforts. Some unquoted equity investments classified as available-for-sale are measured at cost, as their fair value cannot be measured reliably. The carrying value of equity investments held at cost

is $11 million (2010: $15 million, 2009: $32 million). As at December 31, 2011 the RHI Group did not hold any loans receivable.

15. Inventories

Inventories *in millions of USD*

	2011	2010	2009
Raw materials and supplies	**271**	296	271
Work in process	**95**	90	135
Intermediates	**714**	869	838
Finished goods	**852**	680	644
Less: provision for slow-moving and obsolete inventory	**(212)**	(256)	(162)
Total inventories	**1,720**	1,679	1,726

In 2011 expenses relating to inventories expensed through cost of sales totaled $3,998 million (2010: $3,653 million).

16. Accounts receivable

Accounts receivable *in millions of USD*

	2011	2010	2009
Trade accounts receivable	**2,110**	1,879	1,927
Notes receivable	**8**	8	7
Other	**21**	16	15
Allowances for doubtful accounts	**(24)**	(30)	(21)
Charge-backs and other allowances	**(189)**	(141)	(66)
Total accounts receivable	**1,926**	1,732	1,862

In 2011 an income of $3 million relating to bad debt allowances recorded through marketing and distribution resulted mainly from recoveries of previously impaired accounts receivable (2010: expenses of $9 million). Significant concentrations within trade receivables of counterparty credit risk are described in Note 28.

The movements in allowances are shown below.

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

	2011	2010
At January 1	**(30)**	(21)
Additional allowances created	**(2)**	(9)
Unused amounts reversed	**4**	1
Utilized during the year	**4**	-
Other	**-**	(1)
At December 31	**(24)**	(30)

17. Other current assets

Other current assets *in millions of USD*

	2011	2010	2009
Derivative financial instruments [22]	**-**	-	29
Other	**374**	368	324
Total financial current assets	**374**	368	353
Prepaid expenses	**111**	140	197
Other	**12**	26	10
Total non-financial current assets	**123**	166	207
Total other current assets	**497**	534	560

18. Marketable securities

Marketable securities *in millions of USD*

	2011	2010	2009
Financial assets at fair-value-through-profit-or-loss			
- Bonds and debentures	**-**	-	-
Total financial assets at fair-value-through-profit-or-loss	**-**	-	-
Held-to-maturity financial assets			
- Money market instruments and time accounts over three months	**-**	4	11
Total held-to-maturity financial assets	**-**	4	11
Available-for-sale financial assets			
- Shares	**215**	224	240
- Bonds and debentures	**-**	-	18
- Money market instruments and time accounts over three months	**-**	-	-
Total available-for-sale financial assets	**215**	224	258
Total marketable securities	**215**	228	269

Marketable securities are held for fund management purposes and are classified as current. They are primarily denominated in U.S. dollars. Other investments held for strategic purposes are classified as non-current (see Note 14).

Shares: These consist primarily of readily saleable equity securities.

Bonds and debentures: As at December 31, 2011 the RHI Group did not hold any bonds and debentures. The carrying values and contracted maturity of debt securities are shown below.

Bonds and debentures *in millions of USD*

Contracted maturity	2011	2010	2009
Within one year	**-**	-	-
Between one and five years	**-**	-	-
More than five years	**-**	-	18
Total bonds and debentures	**-**	-	18

Money market instruments: As at December 31, 2011 the RHI Group did not hold any money market instruments.

19. Cash and cash equivalents

Cash and cash equivalents *in millions of USD*

	2011	2010	2009
Cash			
- Cash in hand and in current or call accounts	**-**	-	10
Cash equivalents			
- Time accounts with a maturity of three months or less	**-**	-	-
Total cash and cash equivalents	**-**	-	10
Cash overdraft	**(106)**	(88)	-
Total cash and cash equivalents in the statement of cash flows	**(106)**	(88)	10

20. Accounts payable

Accounts payable *in millions of USD*

	2011	2010	2009
Trade accounts payable	**443**	436	528
Other taxes payable	**28**	37	37
Other accounts payable	**19**	60	57
Total accounts payable	**490**	533	622

21. Accrued and other current liabilities

Accrued and other current liabilities *in millions of USD*

	2011	2010	2009
Deferred income	**136**	302	405
Accrued payroll and related items	**748**	782	924
Interest payable	**820**	934	1,031
Derivative financial instruments [22]	**66**	7	-
Other accrued liabilities	**1,944**	1,755	2,087
Cash overdrafts	**106**	88	-
Total accrued and other current liabilities	**3,820**	3,868	4,447

22. Derivative financial instruments

The RHI Group uses derivative financial instruments as part of its risk management activities. This is discussed in Note 28. Derivative financial instruments are carried at fair value. The methods used for determining fair value are described in Note 1.

Derivative financial instruments *in millions of USD*

			Assets			Liabilities
	2011	2010	2009	2011	2010	2009
Foreign currency derivatives						
- Other	**-**	-	-	**-**	-	-
Interest rate derivatives						
- Swaps	**-**	-	10	**-**	-	-
Other derivatives	**-**	-	19	**(66)**	(7)	-
Total derivative financial instruments [17, 21]	**-**	-	29	**(66)**	(7)	-

Derivative financial instruments related parties *in millions of USD*

			Assets			Liabilities
	2011	2010	2009	2011	2010	2009
Foreign currency derivatives						
- Forward exchange contracts	**-**	114	-	**(32)**	(45)	(204)
- Cross-currency swaps	**190**	380	1,637	**-**	-	-
Total derivative financial instruments related parties	**190**	494	1,637	**(32)**	(45)	(204)

Derivative financial assets with related parties are included in 'accounts receivable – related parties'. The decline compared to December 31, 2010 is mainly due to a strengthening of the U.S. dollar compared to the euro during 2011. This was offset by foreign currency transaction gains on the non-U.S. dollar denominated bonds and notes (see Note 25). Derivative financial liabilities with related parties are included in 'accounts payable – related parties'.

Hedge accounting

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

As described in Note 28, the RHI Group has financial risk management policies for foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. When deemed appropriate, certain of the above risks are managed by using derivatives. While many of these transactions can be considered as hedges in economic terms, if the required

conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in financial income.

The RHI Group generally limits the use of hedge accounting to certain significant transactions. Consequently as at December 31, 2011 the RHI Group has no fair value hedges, cash flow hedges or hedges of net investment in a foreign entity that meet the strict requirements to qualify for hedge accounting, apart from those described below.

Cash flow hedges

The RHI Group has issued bonds and notes in 2009 to finance the Genentech transaction (see Note 25). On some of the bonds and notes which are denominated in euros and sterling, the RHI Group has entered into cross-currency swaps with related parties to hedge foreign exchange and interest rate risk. These cash flow hedges qualify for hedge accounting. As at December 31, 2011 such instruments, which are designated and qualify for hedge accounting, are recorded as assets with a fair value of $190 million (2010: assets of $380 million). There was no ineffective portion.

The expected undiscounted cash flows from qualifying cash flow hedges, including interest payments during the duration of the derivative contract and final settlement on maturity, are shown in the table below. The decline in expected cash flows is mainly due to a stronger U.S. dollar against the euro.

Expected cash flows of qualifying cash flow hedges *in millions of USD*

	Total	0–3 months	4–6 months	7–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Year ended December 31, 2011									
Cash inflows	**14,962**	**633**	**-**	**-**	**5,688**	**399**	**1,324**	**3,912**	**3,006**
Cash outflows	**(14,992)**	**(708)**	**-**	**-**	**(5,671)**	**(431)**	**(1,281)**	**(3,888)**	**(3,013)**
Total	**(30)**	**(75)**	**-**	**-**	**17**	**(32)**	**43**	**24**	**(7)**
Year ended December 31, 2010									
Cash inflows	17,993	730	-	-	730	7,704	407	1,333	7,089
Cash outflows	(17,703)	(801)	-	-	(803)	(7,486)	(431)	(1,281)	(6,901)
Total	290	(71)	-	-	(73)	218	(24)	52	188

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. The decline in expected cash flows is mainly due to a stronger US dollar against the euro.

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

	Total	0–3 months	4–6 months	7–12 months	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
Year ended December 31, 2011									
Cash inflows	**3,150**	**633**	**-**	**-**	**633**	**399**	**399**	**348**	**738**
Cash outflows	**(3,435)**	**(708)**	**-**	**-**	**(704)**	**(431)**	**(431)**	**(380)**	**(781)**
Total	**(285)**	**(75)**	**-**	**-**	**(71)**	**(32)**	**(32)**	**(32)**	**(43)**
Year ended December 31, 2010									
Cash inflows	4,116	730	-	-	730	730	407	407	1,112
Cash outflows	(4,424)	(801)	-	-	(803)	(798)	(431)	(431)	(1,160)
Total	(308)	(71)	-	-	(73)	(68)	(24)	(24)	(48)

The changes in the hedging reserve within equity are shown in Note 26.

Fair value hedges

The RHI Group has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure the RHI Group has entered into forward contracts, which have been designated and qualify as fair value hedges. As at December 31, 2011 such instruments are recorded as liabilities with a fair value of $66 million (2010: liabilities $7 million). During 2011 a loss of $59 million was recorded on these forward contracts (2010: loss of $26 million). The result of the forward contracts is offset by the changes in the fair value of the hedged equity investments.

The RHI Group uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposures to foreign currency, interest rate, equity market and credit risks. The instruments used may include interest rate swaps, cross-currency swaps, forwards contracts, options.

23. Provisions and contingent liabilities

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

	Legal provisions	Environmental provisions	Restructuring provisions	Employee provisions	Other provisions	Total
Year ended December 31, 2010						
At January 1, 2010	461	139	338	131	316	1,385
Additional provisions created	398	37	344	80	244	1,103
Unused amounts reversed	(37)	(13)	(34)	(4)	(17)	(105)
Utilized during the year	(60)	(13)	(226)	(68)	(153)	(520)
Unwinding of discount [3]	5	11	-	-	-	16
Business combinations [5]						
- Acquired companies	-	-	-	-	-	-
- Contingent consideration	-	-	-	-	90	90
Other	-	-	-	(1)	-	(1)
At December 31, 2010	767	161	422	138	480	1,968
Of which						
- Current portion	717	10	418	57	378	1,580
- Non-current portion	50	151	4	81	102	388
Total provisions	767	161	422	138	480	1,968
Year ended December 31, 2011						
At January 1, 2011	**767**	**161**	**422**	**138**	**480**	**1,968**
Additional provisions created	**86**	**4**	**56**	**55**	**324**	**525**
Unused amounts reversed	**(23)**	**(1)**	**(9)**	**(7)**	**(95)**	**(135)**
Utilized during the year	**(92)**	**(6)**	**(290)**	**(37)**	**(232)**	**(657)**
Unwinding of discount [3]	**1**	**8**	**-**	**-**	**6**	**15**
Business combinations [5]						
- Acquired companies	**-**	**-**	**-**	**8**	**-**	**8**
Divestment of subsidiaries [31]	**-**	**(2)**	**(3)**	**-**	**-**	**(5)**
Other	**-**	**-**	**-**	**1**	**-**	**1**
At December 31, 2011	**739**	**164**	**176**	**158**	**483**	**1,720**
Of which						
- Current portion	**649**	**9**	**173**	**73**	**410**	**1,314**
- Non-current portion	**90**	**155**	**3**	**85**	**73**	**406**
Total provisions	**739**	**164**	**176**	**158**	**483**	**1,720**
Expected outflow of resources						
- Within one year	**649**	**9**	**173**	**73**	**410**	**1,314**
- Between one to two years	**68**	**5**	**3**	**14**	**51**	**141**
- Between two to three years	**3**	**6**	**-**	**10**	**22**	**41**
- More than three years	**19**	**144**	**-**	**61**	**-**	**224**
Total provisions	**739**	**164**	**176**	**158**	**483**	**1,720**

Legal provisions

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

Environmental provisions

Provisions for environmental matters include various separate environmental issues. By their nature the amounts and timings of any outflows are difficult to predict. The estimated timings of these cash outflows are shown in the table above. Significant provisions are discounted by between 5% and 6% where the time value of money is material.

Restructuring provisions

These arise from planned programs that materially change the scope of business undertaken by the RHI Group or the manner in which business is conducted. Such provisions include only the costs necessarily entailed by the restructuring which are not associated with the recurring activities of the RHI Group. The timings of these cash outflows are reasonably certain and are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

Employee provisions

These mostly relate to certain employee benefit obligations, such as sabbatical leave and long-service benefits. The timings of these cash outflows can be reasonably estimated based on past performance and are shown in the table above. These provisions are not discounted as the time value of money is not material in these matters.

Other provisions

Other provisions mostly related to sales returns and various other provisions from RHI Group companies that do not fit into the above categories. The timings of cash outflows are by their nature uncertain and the best estimates are shown in the table above. Significant provisions are discounted by between 5% and 7% where the time value of money is material.

Contingent liabilities

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

The RHI Group has entered into strategic alliances with various companies in order to gain access to potential new products or to utilize other companies to help develop the RHI Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. RHI Group's best estimate for future commitment payments are given in Note 12.

Pharmaceuticals legal cases

Accutane: Hoffmann-La Roche Inc. ('HLR') and various other Roche affiliates have been named as defendants in numerous legal actions in the United States relating to the acne medication Accutane. The litigation alleges that Accutane caused certain serious conditions, including, but not limited to, inflammatory bowel disease ('IBD'), birth defects and psychiatric disorders. As of December 31, 2011 HLR was defending approximately 6,402 actions involving approximately 6,471 plaintiffs brought in various federal and state courts throughout the United States for personal injuries allegedly resulting from their use of Accutane. Most of the actions allege IBD as a result of Accutane use. On June 26, 2009 HLR announced that, following a re-evaluation of its portfolio of medicines that are now available from generic manufacturers, rapidly declining brand sales in the U.S. and high costs from personal-injury lawsuits that it continues to defend vigorously, it had decided to immediately discontinue the manufacture and distribution of the product in the United States.

All of the actions pending in federal court alleging IBD were consolidated for pre-trial proceedings in a Multi-District Litigation in the United States District Court for the Middle District of Florida, Tampa Division. In July 2007 the District Court granted summary judgment in favor of HLR in the lead federal IBD cases. The plaintiffs appealed and in August 2008 these rulings were affirmed by the United States Court of Appeals for the Eleventh Circuit. In October 2009 the District court granted summary judgment in favor of HLR in the next five federal IBD cases. The plaintiffs appealed in November 2009 and in May 2010 these rulings were affirmed by the United States Court of Appeals for the Eleventh Circuit. Multiple recently filed matters remain pending.

All of the actions pending in state court in New Jersey alleging IBD were consolidated for pre-trial proceedings in the Superior Court of New Jersey, Law Division, Atlantic County. As of December 31, 2011 juries in the Superior Court have ruled in favor of the plaintiff in six cases, assessing total compensatory damages totaling $50 million. The first verdict

was reversed on appeal; the re-trial resulted in a verdict in favor of the plaintiff assessing total compensatory damages of $25.2 million; HLR is currently in the process of post-trial briefing.

The second verdict of $10.5 million was reversed on appeal; during 2011, the New Jersey Supreme Court accepted HLR's petition for certification to review the decision of the Superior Court of New Jersey, Appellate Division regarding this trial, which remains pending. HLR has appealed the third verdict, which involved three plaintiffs, to the Superior Court of New Jersey, Appellate Division, which remains pending. In 2011, one trial involving three plaintiffs was tried in the Superior Court; the jury reached defense verdicts in two of the cases and awarded compensatory damages of $2.15 million in the third case; the cases are in post-trial briefing. An additional trial commenced in November 2011 resulting in a mistrial when the jury could not reach a verdict. The next two trials, involving two plaintiffs each, are scheduled for 2012.

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

Additional trials may be scheduled for 2012. Individual trial results depend on a variety of factors, including many that are unique to the particular case and therefore the trial results to date may not be predictive of future trial results. The RHI Group continues to defend vigorously the remaining personal injury cases and claims.

Cabilly patents: On October 8, 2009 Glaxo Group Limited, SmithKline Beecham Corporation, and GlaxoSmithKline LLC (collectively "GSK") filed a patent lawsuit against Genentech and City of Hope in the U.S. District Court for the Southern District of Florida. The lawsuit relates to patent No. 6,331,415 ('the Cabilly II patent') that is co-owned by Genentech and the City of Hope. The lawsuit seeks a declaratory judgment of patent invalidity and unenforceability with regard to the Cabilly II patent and of patent non-infringement with regard to a certain GSK product. On December 16, 2009 Genentech filed a motion to dismiss, or in the alternative to transfer to the Central District of California. GSK dismissed its Florida lawsuit in its entirety on February 17, 2010 and filed a related action on the same day in the Northern District of California. Genentech filed a motion to transfer to the Central District of California, an answer, and a counterclaim against GSK on March 10, 2010. On April 12, 2010 Genentech's motion to transfer was granted. On February 23, 2011 the Court issued a claim construction order, construing certain terms used in claims of the Cabilly II patent. Summary judgment motions are due to be filed on January 27, 2012.

Additional lawsuits between Genentech and GSK and/or Human Genome Sciences, Inc. ('HGS') involving the Cabilly II patent and related U.S. Patent No. 7,923,221 ('the Cabilly III patent') are pending in the U.S. District Court for the Central District of California, but proceedings in those cases have been stayed. The additional lawsuits include claims by GSK and/or HGS that the Cabilly patents are not infringed, are invalid, and are unenforceable, and that Genentech violated antitrust and unfair competition laws, and other laws.

The outcome of these matters cannot be determined at this time.

Rituxan arbitration (Sanofi/Hoechst): On October 27, 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis U.S. LLC and Sanofi-Aventis U.S. Inc. in the Northern District of California seeking a declaratory judgment that certain Genentech products, including Rituxan, do not infringe Sanofi's U.S. Patents 5,849,522 and 6,218,140 and a declaratory judgment that the '522 and '140 patents are invalid. Also on October 27, 2008 Sanofi filed suit against Genentech and Biogen Idec in the Eastern District of Texas, Lufkin Division, claiming that Rituxan and at least eight other Genentech products infringe the '522 and '140 patents. Sanofi brought claims for preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. Genentech challenged the venue of the Texas case and, after an opinion by the Federal Circuit Court of Appeals, the Texas and California cases were consolidated in the Northern District of California. The District Court issued a claim construction order on June 23, 2010. Sanofi filed a motion for reconsideration that was denied. Genentech and Biogen Idec filed motions for summary judgment that Sanofi opposed. The Court heard these motions on November 12, 2010, and on March 7, 2011 ruled that as a matter of law Genentech and Biogen Idec do not infringe any of the asserted patent claims. On May 18, 2011 Sanofi filed a notice of appeal of the Court's non-infringement ruling and its claim construction order. The appeal is pending.

In addition, on October 24, 2008 Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated agreement between one of 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 ICC arbitration hearing was held on August 30, 2010 through September 3, 2010. In June 2011, the arbitrator issued an intermediate decision indicating that Rituxan is covered by the terminated agreement and ordering that Genentech produce certain Rituxan sales information from December 1998 to October 2008. The RHI Group expects the arbitrator will use this information to ascertain the amount of damages to be awarded to Hoechst. The RHI Group has recorded an expense of $69 million, net of the assumed reimbursement of a portion of the RHI Group's obligation by its co-promotion partner in the U.S., Biogen Idec. This has been recorded within 'Cost of sales' as a back royalty expense and as a corresponding increase in accrued liabilities on the balance sheet. The amount accrued represent management's best estimate of the compensatory damages, including interest, which may be awarded to Hoechst based on the financial terms of the terminated agreement. The final amount of the decision may vary from the amounts provided if the nature and/or extent of the damages awarded to Hoechst differ from the RHI Group's estimate or if Genentech successfully challenges the arbitrator's decision. On July 11, 2011 Genentech filed a Declaration of Appeal with the Court of Appeal of Paris to initiate legal proceedings challenging the arbitrator's decision. The arbitrator subsequently stated to the parties that his June 2011 decision "did not decide in the operative part the underlying issue of liability with respect of Rituxan". In light of that statement, Genentech will not pursue its previously filed action to challenge the arbitrator's decision (without prejudicing its ability to bring a challenge in the future). Genentech anticipates substantially completing briefing on liability, and on the amount owed under the license agreement if the arbitrator were to find liability, in March 2012. The hearing on those issues is currently scheduled for April or May of 2012.

The outcome of these matters cannot be determined at this time.

Rituxan investigation: On October 4, 2004 Genentech received a subpoena from the United States Department of Justice, requesting documents related to the promotion of Rituxan. Genentech co-operated with the government's associated investigation. Previously the investigation had been both civil and criminal in nature. Genentech was informed in August 2008 by the criminal prosecutor who handled this matter that the government has declined to prosecute Genentech criminally in connection with this investigation. The civil matter was still ongoing. Through counsel Genentech continued to have discussions with government representatives about the status of their investigation and Genentech's views on this matter, including potential resolution. On October 20, 2009 the government notified Genentech that it had decided not to make any civil claim against Genentech. The government's investigation was initiated by a complaint that was filed under seal in the U.S. District Court for the Eastern District of Pennsylvania in 2003 by an individual plaintiff. The complaint was unsealed on December 31, 2009 and became the basis of civil litigation by the plaintiff against Roche Holdings, Inc. and Genentech. Following settlement discussions in 2011, the plaintiff, Genentech, and the government agreed to a settlement of all claims for approximately $35 million. The Court entered the order dismissing the case on November 29, 2011.

Average Wholesale Prices litigation: HLR, Roche Laboratories Inc. ('RLI') and Genentech, along with approximately 50 other brand and generic pharmaceutical companies, have been named as defendants in several legal actions in the United States relating to the pricing of pharmaceutical drugs and State Medicaid reimbursement. The primary allegation in these litigations is that the pharmaceutical companies misrepresented or otherwise reported inaccurate Average Wholesale Prices ('AWP') and/or Wholesale Acquisition Costs ('WAC') for their drugs, which prices were allegedly relied upon by the States in calculating Medicaid reimbursements to entities such as retail pharmacies. The States, through their respective Attorney General, are seeking repayment of the amounts they claim were over-reimbursed. The time period associated with these cases is 1991-2005. As of December 31, 2011, HLR and RLI are defending five actions filed in the following States: Alabama, Mississippi, New Jersey, Kansas and Louisiana. Genentech is defending one action filed in the state of Kansas. Discovery is currently pending in each of these cases. HLR, RLI and Genentech intend to vigorously defend themselves in these matters. The outcome of these matters cannot be determined at this time.

Brand Name Prescription Drugs litigations: HLR, along with various other branded pharmaceutical companies, has been named as a defendant in several legal actions in the United States brought by retail pharmacies relating to the discounting practices for Brand Name Prescription Drugs ('BNPD'). In these BNPD litigations, the plaintiffs allege that they were denied discounts for certain prescription drugs that were offered to other mail order and managed care entities, which denial is claimed to be a violation of the Robinson-Patman Act ('RPA'). The RPA is a Federal law that prohibits unlawful price discrimination. In addition, the plaintiffs alleged that the defendants conspired in their refusal to offer them certain discounts. The conspiracy claims against all defendants were previously settled, with only the RPA claims remaining to be litigated. As of December 31, 2011 HLR is defending approximately 801 BNPD actions brought 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 2012. HLR intends to vigorously defend itself. The outcome of these matters cannot be determined at this time.

InterMune litigation: On May 8, June 11, August 8, and September 29, of 2008, Genentech was named as a defendant, along with InterMune, Inc. and its former chief executive officer, W. Scott Harkonen, in four separate class-action complaints filed in the U.S. District Court for the Northern District of California on behalf of plaintiffs who allegedly paid part or all of the purchase price for a product that was licensed by Genentech to Connectics Corporation and was subsequently assigned to InterMune. Genentech responded to these complaints with a motion to dismiss these matters, which was granted on April 28, 2009. Plaintiffs filed amended complaints including only State law claims on May 28, 2009. Genentech responded to these complaints with another motion to dismiss, which was heard on September 11, 2009. The Court again granted Genentech's motion to dismiss with respect to all claims, but with leave for plaintiffs to replead specific claims under California unfair competition law. Plaintiffs filed an amended class action complaint on December 23, 2009 naming Genentech as a defendant in claims for unfair competition law, false advertising law, consumer remedies law, consumer protection law, and unjust enrichment. Genentech sought dismissal of this amended complaint. On September 1, 2010 the Court entered an order granting Genentech's motion to dismiss all claims against it with prejudice. Plaintiffs filed an appeal of the District Court's ruling with the United States Court of Appeals for the Ninth Circuit. On December 30, 2011 the Court of Appeals affirmed the District Court's ruling in all respects.

University of Pennsylvania litigation: On May 11, 2010 Genentech, filed a patent lawsuit against the University of Pennsylvania in the U.S. District Court for the Northern District of California. The lawsuit relates to United States Patent No. 6,733,752 and seeks a declaratory judgment of patent non-infringement and invalidity with regard to that patent. On July 12, 2010 the University counterclaimed against Genentech for infringement of the '752 patent, seeking unspecified damages based on the sales of Herceptin. Genentech filed its answer on August 2, 2010. On May 9, 2011 the Court issued a claim construction order, construing certain terms used in claims of the '752 patent. On December 29, 2011 the University filed a motion for summary adjudication of certain facts. By order dated January 4, 2012, the Court set April 19, 2012 as the hearing date for that motion. Trial is currently set for June 11, 2012. The outcome of this matter cannot be determined at this time.

PDL litigation: On August 27, 2010 PDL Biopharma ('PDL') filed a complaint against Genentech in Nevada state Court seeking a judicial declaration concerning Genentech's obligation to pay royalties on certain ex-U.S. sales of Herceptin, Avastin, Xolair and Lucentis under a 2003 agreement between the parties. On September 13, 2010 PDL filed a first amended complaint asserting additional claims against Genentech, including breach of contract and breach of the implied covenant of good faith and fair dealing. PDL also asserted new claims against Roche and Novartis for intentional interference with contractual relations. In addition to declaratory relief, PDL is seeking monetary damages including liquidated and punitive damages. On November 1, 2010 Genentech and Roche filed a motion to dismiss for failure to state a claim, and Roche filed an additional motion to dismiss for lack of personal jurisdiction. The Court denied the motions on July 7, 2011. The outcome of this matter cannot be determined at this time.

GSK litigation: On September 20, 2010 GSK and Genentech each filed patent lawsuits against one another (and in the case of GSK, also against Roche Holding Ltd.) in U.S. District Courts for the District of Delaware and the Northern District of California, respectively. The lawsuits concern GSK's U.S. Patent Nos. RE41,070 and RE41,555. GSK has asserted claims against Genentech and Roche alleging infringement of the '070 and '555 patents by certain "therapeutic antibody products," although the complaint only specifically refers to Herceptin. In its lawsuit Genentech is seeking a judicial declaration of non-infringement by certain Genentech products. In the Delaware action on November 12, 2010 Genentech filed a motion to dismiss for failure to state a claim and a motion to transfer the case to California. Roche filed a motion to dismiss for lack of personal jurisdiction (and joining Genentech's motion in the event its personal jurisdiction motion is denied). The parties subsequently stipulated to Roche's dismissal. Only Genentech remains a party and only its motion to transfer the case to California remains pending. In the California action on December 1, 2010 the Court entered an order staying the California action pending resolution by the Delaware Court of Genentech's motion to transfer. The outcome of these matters cannot be determined at this time.

Boniva litigation: HLR and various other Roche affiliates have been named as defendants in numerous legal actions in the United States and Canada relating to the post-menopausal osteoporosis medication Boniva. In these litigations, the plaintiffs allege that Boniva caused either osteonecrosis of the jaw ('ONJ') or atypical femoral fractures. As of December 31, 2011 HLR is defending approximately 122 actions brought in federal and state courts throughout the United States and 1 action brought in the Court of the Queen's Bench, Province of Saskatchewan, Canada, for personal injuries allegedly resulting from the use of Boniva. All of these cases are in the early discovery stages of litigation, with only one case set for trial in December 2012. Individual trial results depend on a variety of factors, including many that are

unique to the particular case. HLR and the other named Roche affiliates intend to vigorously defend themselves in these matters. The outcome of these matters cannot be determined at this time.

Diagnostics legal cases

Marsh Supermarkets litigation | On July 8, 2008 Marsh Supermarkets Inc. ('Marsh') filed a breach of contract suit against Roche Diagnostics Operations, Inc. ('RDO'). The lawsuit relates to the termination of a sub-lease agreement for a building by RDO. After extensive argument during a bench trial a Hamilton Superior Court judge awarded Marsh damages amounting to $19.5 million, which has been accrued for as a legal provision in 2011. RDO intends to appeal this judgment. The outcome of this appeal cannot be determined at this time.

24. Other non-current liabilities

Other non-current liabilities *in millions of USD*

	2011	2010	2009
Deferred income	**39**	52	70
Other long-term liabilities	**25**	36	46
Total other non-current liabilities	**64**	88	116

Other long-term liabilities consist mainly of accrued long-term deferred rent.

25. Debt

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

	2011	2010
At January 1	**45,212**	48,756
Proceeds from issue of bonds and notes	**-**	-
Redemption and repurchase of bonds and notes	**(4,423)**	(8,186)
Increase (decrease) in commercial paper	**910**	(83)
Increase (decrease) in amounts due to related parties	**985**	5,400
Increase (decrease) in other debt	**(16)**	(32)
(Gains) losses on redemption and repurchase of bonds and notes, net	**142**	244
Amortization of debt discount [3]	**35**	43
Foreign exchange (gains) losses, net	**(170)**	(932)
Other	**-**	2
At December 31	**42,675**	45,212
Consisting of		
- Bonds and notes	**25,150**	29,567
- Commercial paper	**1,087**	177
- Amounts due to related parties	**16,200**	15,215
- Finance lease obligations [10]	**238**	253
Total debt	**42,675**	45,212
Reported as		
- Long-term debt	**38,063**	37,873
- Short-term debt	**4,612**	7,339
Total debt	**42,675**	45,212

Foreign currency gains of $170 million are mainly related to the stronger U.S. dollar compared to the euro and occurred in Roche Holdings, Inc., which is the issuer of most of the outstanding bonds and notes. These gains were recorded in the income statement, where they have been offset by losses on the hedging derivatives.

The fair value of the bonds and notes is $29.3 billion (2010: $33.1 billion, 2009: $45.4 billion) and the fair value of total debt is $46.8 billion (2010: $48.8 billion, 2009: $55.7 billion). This is calculated based on the observable market prices of the debt instruments or the present value of the future cash flows on the instrument, discounted at a market rate of interest for instruments with similar credit status, cash flows and maturity periods.

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

Bonds and notes

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

	Effective interest rate		2011	2010	2009
	Underlying instrument	Including hedging			
U.S. dollar-denominated notes – floating rate	3 months LIBOR				
Notes due February 25, 2010, principal 3 billion U.S. dollars	+1.13%	n/a	**-**	-	2,999
Notes due February 25, 2011, principal 931 million U.S. dollars	+2.10%	n/a	**-**	931	930
U.S. dollar-denominated notes – fixed rate					
4.50% notes due March 1, 2012, principal 2.5 billion U.S. dollars	4.84%	n/a	**-**	-	2,486
5.00% notes due March 1, 2014, principal 2.75 billion U.S. dollars outstanding 1.75 billion US dollars (ISIN: USU75000AL00 and US771196AQ59)	5.31%	4.94%	**1,742**	2,835	2,725
6.00% notes due March 1, 2019, principal 4.5 billion U.S. dollars (ISIN: USU75000AM82 and US771196AS16)	6.37%	n/a	**4,430**	4,422	4,415
7.00% notes due March 1, 2039, principal 2.5 billion U.S. dollars (ISIN: USU75000AN65 and US771196AU61)	7.43%	n/a	**2,413**	2,412	2,411
European Medium Term Note programme – floating rate	3 months EURIBOR				
Notes due March 4, 2010, principal 1.5 billion euros	+1.05%	+0.92%	**-**	-	2,150
European Medium Term Note programme – fixed rate					
4.625% notes due March 4, 2013, principal 5.25 billion euros outstanding 4.228 billion euros (ISIN: XS0415624393)	4.82%	5.53%	**5,547**	6,947	7,484
5.5% notes due March 4, 2015, principal 1.25 billion pounds sterling, outstanding 0.90 billion pounds sterling (ISIN: XS0415625283)	5.70%	5.77%	**1,380**	1,914	1,992
5.625% notes due March 4, 2016, principal 2.75 billion euros (ISIN: XS0415624120)	5.70%	6.37%	**3,556**	3,641	3,927
6.5% notes due March 4, 2021, principal 1.75 billion euros (ISIN: XS0415624716)	6.66%	6.99%	**2,245**	2,298	2,477
Swiss franc bonds					
2.5% bonds due March 23, 2012, principal amount 2.5 billion Swiss francs, outstanding 2.2 billion Swiss francs (ISIN: CH0038365117)	2.68%	2.88%	**2,338**	2,667	2,402
Genentech Senior Notes					
4.40% Senior Notes due July 15, 2010, principal 500 million U.S. dollars	4.53%	n/a	**-**	-	509
4.75% Senior Notes due July 15, 2015, principal 1 billion U.S. dollars (ISIN: US368710AG46)	4.87%	n/a	**1,000**	1,000	1,000
5.25% Senior Notes due July 15, 2035, principal 500 million U.S. dollars (ISIN: US368710AC32)	5.39%	n/a	**499**	500	500
Total			**25,150**	29,567	38,407

Bonds and notes: maturity *in millions of USD*

	2011	2010	2009
Within one year	**2,338**	2,028	5,658
Between one and two years	**5,547**	2,667	930
Between two and three years	**1,742**	6,947	4,888
Between three and four years	**2,380**	1,738	7,484
Between four and five years	**3,556**	2,914	2,725
More than five years	**9,587**	13,273	16,722
Total bonds and notes	**25,150**	29,567	38,407

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

	2011	2010	2009
U.S. dollar notes	**167**	83	215
Euro notes	**43**	64	88
Swiss franc bonds	**1**	6	9
Pound sterling notes	**7**	13	17
Total unamortized discount	**218**	166	329

Issuance of new bonds and notes – 2011 and 2010

The RHI Group did not issue any bonds or notes in 2011 and 2010.

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

Redemption and repurchase of bonds and notes – 2011

Redemption of U.S. dollar-denominated notes: On the due date of February 25, 2011 the RHI Group redeemed notes with a principal of $931 million at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months LIBOR plus 2.10%. The cash outflow was $931 million and there was no gain or loss recorded on the redemption.

Partial early redemption of U.S. dollar-denominated notes: On December 28, 2010 the RHI Group resolved to exercise its option to call for redemption a portion of the U.S. dollar-denominated 5.00% fixed rate notes due March 1, 2014. The RHI Group redeemed $1.0 billion of the total principal amount of $2.75 billion of these notes on March 24, 2011 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $1,099 million, plus accrued interest. As at December 31, 2010 the RHI Group had already revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flow. The increase in carrying value of $103 million was recorded within financing costs in 2010. An additional loss of $2 million was incurred in 2011 upon final settlement of the notes (see Note 3). The effective interest rate of these notes was 5.31%.

Partial repurchase of euro-denominated notes: On June 28, 2011 the RHI Group completed a tender offer for a nominal amount of 962 million euros of the 4.625% fixed rate notes due March 4, 2013 with a total principal amount of 5.25 billion euros. The cash outflow was $1,433 million, plus accrued interest. The loss on repurchase of $63 million was recorded within financing costs (see Note 3). The effective interest rate of these notes was 5.53%. In addition the RHI Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created a loss of $33 million, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. This loss is recorded within financial income with related parties (see Note 29).

Partial repurchase of Swiss franc-denominated bonds: On November 2, 2011 the RHI Group completed a tender offer for a nominal amount of 302 million Swiss francs of the 2.5% fixed rate bonds due March 23, 2012 with a total principal amount of 2.5 billion Swiss francs. The cash outflow was $344 million, plus accrued interest. The loss on repurchase of the bonds was $4 million. The effective interest rate of the notes repurchased was 2.88%.

Partial repurchase of pound sterling-denominated notes: On December 5, 2011 the RHI Group completed a tender offer for a nominal amount of 350 million pounds sterling of the 5.5% fixed rate notes due March 4, 2015 with a total principal amount of 1.25 billion pounds sterling. The cash outflow was $616 million, plus accrued interest. The loss on repurchase of the notes was $73 million. The effective interest rate of the notes repurchased was 5.77%.

Redemption and repurchase of bonds and notes – 2010

Redemption of U.S. dollar-denominated notes: On the due date of February 25, 2010 the RHI Group redeemed notes with a principal of $3 billion at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months LIBOR plus 1.13%. The cash outflow was $3,000 million and there was no gain or loss recorded on the redemption.

Redemption of European Medium Term Note programme notes: On the due date of March 4, 2010 the RHI Group redeemed notes with a principal of 1.5 billion euros at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months EURIBOR plus 1.05% (plus 0.92% including hedging). The cash outflow was $2,055 million and there was no gain or loss recorded on the redemption.

Redemption of Genentech Senior Notes: On the due date of July 15, 2010 the RHI Group redeemed notes with a principal of $500 million at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 4.53%. The cash outflow was $500 million and there was no gain or loss recorded on the redemption.

Early redemption of U.S. dollar-denominated notes: On June 29, 2010 the RHI Group resolved to exercise its option to call for redemption the U.S. dollar denominated 4.50% fixed rate notes due March 1, 2012 with a principal of $2.5 billion. The RHI Group redeemed these notes on September 9, 2010 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The effective interest rate of these notes before the redemption was 4.84%. The cash outflow was $2,631 million, plus accrued interest. The loss on redemption of $141 million was recorded within financing costs (see Note 3).

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

	2011	2010
U.S. dollar-denominated notes	**(2,030)**	(5,631)
European Medium Term Note program euro-denominated notes	**(1,433)**	(2,055)
European Medium Term Note program pound sterling-denominated notes	**(616)**	-
Swiss franc-denominated bonds	**(344)**	-
Genentech Senior Notes	**-**	(500)
Total cash outflows from redemption and repurchase of bonds and notes	**(4,423)**	(8,186)

Commercial paper

Roche Holdings, Inc. commercial paper program: In March 2009 Roche Holdings, Inc. established a commercial paper program under which it can issue up to $7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euro is available (jointly with other borrowers in the Roche Group) as back-stop line. Maturity of the notes under the program cannot exceed 365 days from the date of issuance. At December 31, 2011 unsecured commercial paper notes with a principal of $1,087 million and an interest rate of 0.08% were outstanding. These amounts were due at various dates until March 8, 2012.

Movements in commercial paper obligations *in millions of USD*

	2011	2010
At January 1	**177**	260
Net cash proceeds (payments)	**910**	(83)
At December 31	**1,087**	177

Recognized liabilities due to related parties

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

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

	2011	2010	2009
At January 1	**15,215**	9,815	7,817
Cash inflows from related parties	**14,290**	11,165	963
Cash outflows to related parties	**(13,305)**	(5,765)	(390)
IGEN capital contribution	**-**	-	1,425
At December 31	**16,200**	15,215	9,815

	Effective interest rate	2011	2010	2009
Term note 5.95% due June 7, 2010, principal $280 million	6.04%	**-**	-	280
Term note 5.95% due October 15, 2010, principal $500 million	6.04%	**-**	-	500
Term note 6.15% due December 16, 2011, principal $1,500 million	6.25%	-	1,500	1,500
Term note 6.20% due September 17, 2012, principal $200 million	6.30%	**-**	200	250
Term note 6.20% due September 17, 2012, principal $250 million	6.29%	**250**	250	250
Term note 6.45% due July 17, 2014, principal $200 million	6.56%	**200**	200	500
Term note 5.80% due February 12, 2018, principal $1,400 million	5.88%	**1,400**	1,400	1,400
Term note 5.80% due February 12, 2018, principal $2,000 million	5.88%	**2,000**	2,000	2,000
Term note 4.50% due September 19, 2011, principal $800 million	4.55%	**-**	800	800
Term note 2.25% due March 15, 2010, principal $22 million	2.26%	**-**	-	22
Term note 2.25% due March 15, 2010, principal $78 million	2.26%	**-**	-	78
Term note 2.25% due March 15, 2010, principal $10 million	2.26%	**-**	-	10
Term note 5.52% due March 14, 2014, principal $800 million	5.60%	**800**	800	800
Term note 6.3% due June 25, 2010, principal $525 million	6.40%	**-**	-	525
Term note 5.70% due November 13, 2012, principal $900 million	5.78%	**900**	900	900
Term note 5.79% due February 25, 2020 principal $1,500 million	5.88%	**1,500**	1,500	-
Term note 0.83% due March 15, 2011, principal $20 million	0.83%	**-**	20	-
Term note 0.83% due March 15, 2011, principal $45 million	0.83%	**-**	45	-
Term note 5.60% due June 8, 2020, principal $280 million	5.68%	**280**	280	-
Term note 0.96% due June 24, 2011, principal $420 million	0.96%	**-**	420	-
Term note 2.53% due September 3, 2014, principal $300 million	2.55%	**300**	300	-
Term note 0.60% due March 9, 2011, principal $1,750 million	0.60%	**-**	1,750	-
Term note 2.25% due March 14, 2014, principal $500 million	2.26%	**500**	500	-
Term note 0.59% due March 3, 2011, principal $600 million	0.59%	**-**	600	-
Term note 1.99% due January 6, 2014, principal $1,750 million	2.00%	**1,750**	1,750	-
Term note 0.48% due January 10, 2012, principal $20 million	0.48%	**20**	-	-
Term note 3.04% due March 3, 2014, principal $1,000 million	3.06%	**1,000**	-	-
Term note 2.12% due March 19, 2015, principal $1,300 million	2.13%	**1,300**	-	-
Term note 1.56% due June 5, 2015, principal $1,750 million	1.53%	**1,750**	-	-
Term note 4.65% due September 20, 2021, principal $1,000 million	4.71%	**1,000**	-	-
Term note 1.66% due April 16, 2015, principal $1,000 million	1.67%	**1,000**	-	-
Term note 1.66% due June 19, 2015, principal $250 million	1.67%	**250**	-	-
Total amounts due to related parties		**16,200**	15,215	9,815

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

Cash inflows from related parties *in millions of USD*

	2011	2010
Term note 0.94% issued February 25, 2010		500
Term note 5.79% issued February 25, 2010		1,500
Term note 0.83% issued March 04, 2010		1,000
Term note 0.83% issued March 15, 2010		100
Term note 0.83% issued March 15, 2010		20
Term note 0.83% issued March 15, 2010		45
Term note 0.87% issued April 29, 2010		500
Term note 5.60% issued June 7, 2010		280
Term note 0.96% issued June 25, 2010		420
Term note 2.53% issued September 03, 2010		300
Term note 0.60% issued September 09, 2010		1,750
Term note 0.53% issued October 06, 2010		1,750
Term note 2.25% issued October 15, 2010		500
Term note 0.46% issued November 02, 2010		150
Term note 0.59% issued December 03, 2010		600
Term note 1.99% issued December 06, 2010		1,750
Term note 3.04% issued February 01, 2011	**1,000**	-
Term note 0.59% issued February 23, 2011	**200**	-
Term note 0.70% issued March 03, 2011	**1,300**	-
Term note 0.72% issued April 06, 2011	**1,250**	-
Term note 0.60% issued June 03, 2011	**1,400**	-
Term note 0.60% issued June 24, 2011	**320**	-
Term note 0.48% issued July 6, 2011	**2,000**	-
Term note 0.48% issued July 29, 2011	**20**	-
Term note 0.55% issued September 2, 2011	**1,500**	-
Term note 2.12% issued September 19, 2011	**1,300**	-
Term note 4.65% issued September 19, 2011	**1,000**	-
Term note 1.56% issued October 06, 2011	**1,750**	-
Term note 1.66% issued December 16, 2011	**1,000**	-
Term note 1.66% issued December 20, 2011	**250**	-
Total cash inflows from related party issues	**14,290**	11,165

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

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

	2011	2010
Term note 2.25% due March 15, 2010, principal $22 million		22
Term note 2.25% due March 15, 2010, principal $10 million		10
Term note 2.25% due March 15, 2010, principal $78 million		78
Term note 5.95% due June 7, 2010, principal $280 million		280
Term note 6.40% due June 25, 2010, principal $525 million		525
Term note 0.94% due September 15, 2010, principal $500 million		500
Term note 0.87% due October 6, 2010, principal $500 million		500
Term note 0.83% due October 15, 2010, principal $100 million		100
Term note 5.95% due October 15, 2010, principal $500 million		500
Term note 6.20% due September 17, 2012, principal $50 million		50
Term note 0.83% due December 3, 2010, principal $1,000 million		1,000
Term note 0.46% due December 3, 2010, principal $150 million		150
Term note 0.53% due December 6, 2010, principal $1,750 million		1,750
Term note 6.45% due July 17, 2014, principal $300 million		300
Term note 0.83% due March 15, 2011, principal $20 million	**20**	-
Term note 0.59% due March 03, 2011, principal $600 million	**600**	-
Term note 0.59% due March 03, 2011, principal $200 million	**200**	-
Term note 0.60% due March 09, 2011, principal $1,750 million	**1,750**	-
Term note 0.83% due March 15, 2011, principal $45 million	**45**	-
Term note 0.70% due June 3, 2011, principal $1,300 million	**1,300**	-
Term note 0.96% due June 24, 2011, principal $420 million	**420**	-
Term note 0.72% due July 6, 2011, principal $1,250 million	**1,250**	-
Term note 0.60% due September 02, 2011, principal $1,400 million	**1,400**	-
Term note 4.50% due September 19, 2011, principal $800 million	**800**	-
Term note 0.55% due September 19, 2011, principal $1,500 million	**1,500**	-
Term note 0.48% due October 6, 2011, principal $2,000 million	**2,000**	-
Term note 6.20% due September 17, 2012, principal $200 million	**200**	-
Term note 6.15% due December 16, 2011, principal $1,500 million	**1,500**	-
Term note 0.60% due December 20, 2011, principal $320 million	**320**	-
Total cash outflows to related party issues	**13,305**	5,765

26. Equity attributable to RHI shareholder

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

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total
Year ended December 31, 2010					
At January 1, 2010	1	(30,449)	88	63	(30,297)
Net income recognized in income statement	-	2,104	-	-	2,104
Available-for-sale investments					
- Valuation gains (losses) taken to equity	-	-	90	-	90
- Transferred to income statement on sale or impairment	-	-	(98)	-	(98)
- Income taxes	-	-	4	-	4
Cash flow hedges					
- Gains (losses) taken to equity	-	-	-	(1,316)	(1,316)
- Transferred to income statement [a)]	-	-	-	1,029	1,029
- Transferred to the initial carrying value of hedged items	-	-	-	-	-
- Income taxes	-	-	-	103	103
Defined benefit post-employment plans					
- Actuarial gains (losses) [8]	-	20	-	-	20
- Income taxes	-	(7)		-	(7)
Other comprehensive income, net of tax	-	13	(4)	(184)	(175)
Total comprehensive income	-	2,117	(4)	(184)	1,929
Dividends	-	-	-	-	-
Equity compensation plans	-	222	-	-	222
Other movements	-	(75)	53	22	-
At December 31, 2010	1	(28,185)	137	(99)	(28,146)

a) Of amounts transferred to income statement, gains of $28 million were reported as 'Royalties and other operating income' and losses of $1,057 million as 'Financial income'

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

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total
Year ended December 31, 2011					
At January 1, 2011	**1**	**(28,185)**	**137**	**(99)**	**(28,146)**
Net income recognized in income statement	**-**	**2,680**	**-**	**-**	**2,680**
Available-for-sale investments					
- Valuation gains (losses) taken to equity	**-**	**-**	**38**	**-**	**38**
- Transferred to income statement on sale or impairment	**-**	**-**	**(105)**	**-**	**(105)**
- Income taxes	**-**	**-**	**21**	**-**	**21**
Cash flow hedges					
- Gains (losses) taken to equity	**-**	**-**	**-**	**(107)**	**(107)**
- Transferred to income statement [a)]	**-**	**-**	**-**	**229**	**229**
- Transferred to the initial carrying value of hedged items	**-**	**-**	**-**	**-**	**-**
- Income taxes	**-**	**-**	**-**	**(43)**	**(43)**
Defined benefit post-employment plans					
- Actuarial gains (losses) [8]	**-**	**(615)**	**-**	**-**	**(615)**
- Income taxes	**-**	**222**	**-**	**-**	**222**
Other comprehensive income, net of tax	**-**	**(393)**	**(46)**	**79**	**(360)**
Total comprehensive income	**-**	**2,287**	**(46)**	**79**	**2,320**
Dividends paid	**-**	**-**	**-**	**-**	**-**
Equity compensation plans	**-**	**(186)**	**-**	**-**	**(186)**
At December 31, 2011	**1**	**(26,084)**	**91**	**(20)**	**(26,012)**

a) The entire losses transferred to the income statement of $229 million were reported as 'Financial income'.

The RHI Group completed the purchase of the non-controlling interests in Genentech effective March 26, 2009. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by approximately $47 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests and at December 31, 2011 the RHI Group had a negative equity of $26.0 billion (December 31, 2010: $28.1 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

As of December 31, 2011 the authorized and issued share capital of Roche Holdings, Inc., which is the RHI Group's parent company, consisted of 1,000 shares with a nominal value of $1,000 each, as in the preceding year. All the shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Own equity instruments

The RHI Group holds none of its own equity shares.

Reserves

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

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

27. Statement of cash flows

Cash flows from operating activities

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

Cash generated from operations *in millions of USD*

	2011	2010
Net income	**2,680**	2,104
Add back non-operating (income) expense		
- Financial income [3]	**(92)**	(261)
- Financial income – related parties [29]	**(209)**	(55)
- Financing costs [3]	**1,880**	2,098
- Financing costs – related parties [29]	**933**	992
- Income taxes [4]	**1,480**	1,258
Operating profit	**6,672**	6,136
Depreciation of property, plant and equipment [10]	**638**	633
Amortization of intangible assets [12]	**248**	246
Impairment of intangible assets [12]	**101**	243
Impairment of property, plant and equipment [10]	**85**	59
Impairment of net assets-held-for-sale [6]	**132**	-
Operating expenses for defined benefit post-employment plans [8]	**80**	30
Operating expenses for equity-settled equity compensation plans [9]	**316**	203
Net (income) expense for provisions [23]	**385**	998
Bad debt expense	**(3)**	9
Inventory write-downs	**142**	226
Other adjustments	**49**	(2)
Cash generated from operations	**8,845**	8,781

Cash flows from investing activities

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

Cash flows from financing activities

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

Significant non-cash transactions

2011: There were no significant non-cash transactions (2010: none).

28. Risk management

RHI Group risk management

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

Financial risk management

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

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

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

By line Items in Notes	Available-for-sale	FVtPL[a]-Held-for-trading	Held-to-maturity	Loans and receivables	Total	Fair value
	Carrying value by asset class					
Year ended December 31, 2011						
Accounts receivable – third and related parties [b]	**-**	**190**	**-**	**7,001**	**7,191**	**7,191**
Marketable securities:						
- Money market instruments and time accounts over 3 months	**-**	**-**	**-**	**-**	**-**	**-**
- Shares	**215**	**-**	**-**	**-**	**215**	**215**
Cash and cash equivalents	**-**	**-**	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**-**	**-**	**-**	**-**
Available-for-sale investments	**55**	**-**	**-**	**-**	**55**	**55**
Loans receivable – related parties	**-**	**-**	**-**	**54**	**54**	**54**
Long-term trade receivables	**-**	**-**	**-**	**1**	**1**	**1**
Other financial current assets	**-**	**-**	**-**	**374**	**374**	**374**
Restricted cash	**-**	**-**	**-**	**9**	**9**	**9**
Other long-term assets – third and related parties	**-**	**-**	**-**	**394**	**394**	**394**
Total	**270**	**190**	**-**	**7,833**	**8,293**	**8,293**

By line Items in Notes	Available-for-sale	FVtPL[a]-Held-for-trading	Held-to-maturity	Loans and receivables	Total	Fair value
	Carrying value by asset class					
Year ended December 31, 2010						
Accounts receivable – third and related parties [b]	-	494	-	6,010	6,504	6,504
Marketable securities:						
- Money market instruments and time accounts over 3 months	-	-	4	-	4	4
- Shares	224	-	-	-	224	224
Cash and cash equivalents	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-
Available-for-sale investments	65	-	-	-	65	65
Loans receivable – related parties	-	-	-	89	89	89
Long-term trade receivables	-	-	-	1	1	1
Other financial current assets	-	-	-	368	368	368
Restricted cash	-	-	-	9	9	9
Other long-term assets – third and related parties	-	-	-	375	375	375
Total	289	494	4	6,852	7,639	7,639

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

b) Derivative financial assets with related parties are included in 'accounts receivable – related parties'

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

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

Fair value hierarchy of financial assets and liabilities at December 31, 2011 *in millions of USD*

	Level 1	Level 2	Level 3	Total
Financial assets recognized at fair value				
Marketable securities:				
- Bonds and debentures	**-**	**-**	**-**	**-**
- Shares	**215**	**-**	**-**	**215**
Derivative financial instruments – third and related parties	**-**	**190**	**-**	**190**
Available-for-sale investments	**-**	**44**	**-**	**44**
Total	**215**	**234**	**-**	**449**
Financial liabilities recognized at fair value				
Derivative financial instruments – third and related parties	**-**	**(98)**	**-**	**(98)**
Total	**-**	**(98)**	**-**	**(98)**

Fair value hierarchy of financial assets and liabilities at December 31, 2010 *in millions of USD*

	Level 1	Level 2	Level 3	Total
Financial assets recognized at fair value				
Marketable securities:				
- Bonds and debentures	-	-	-	-
- Shares	224	-	-	224
Derivative financial instruments – third and related parties	-	494	-	494
Available-for-sale investments	13	37	-	50
Total	237	531	-	768
Financial liabilities recognized at fair value				
Derivative financial instruments – third and related parties	-	(52)	-	(52)
Total	-	(52)	-	(52)

Available-for-sale investments exclude equity securities held at cost of $11 million (2010: $15 million), as those are not carried at fair value (see Note 14).

As at December 31, 2011 Level 1 financial assets consist mainly of quoted shares. Level 2 financial assets consist primarily of derivative financial instruments and unquoted shares. There were no significant transfers between Level 1 and Level 2 and vice versa.

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

	2011	2010
At January 1	**-**	18
Impairment charges	**-**	-
Valuation gains (losses) taken to equity	**-**	2
Gains (losses) recognized in the income statement	**-**	-
Sales	**-**	(20)
At December 31	**-**	-

Credit risk

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

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

Trade receivables: These are subject to a policy of active credit risk management which focuses on the assessment of credit availability, ongoing credit evaluation and account monitoring procedures. The objective of the management of trade receivables from third parties is to sustain the growth and profitability of the RHI Group by optimizing asset utilization whilst maintaining risks at an acceptable level. Except as noted below, there is no significant concentration of counterparty credit risk due to the RHI Group's large number of customers. Risk limits and exposures are continuously

monitored. Additionally, the RHI Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. As at December 31, 2011 no collateral was held for loans and receivables at the end of 2011 (2010: none).

At December 31, 2011 the RHI Group's combined trade accounts receivable balance with three national wholesale distributors, AmerisourceBergen Corp., Cardinal Health Inc. and McKesson Corp., was $1,396 million representing 66% of RHI's consolidated third party trade accounts receivables (2010: $1,217 million representing 65%).

The nature and geographic location of counterparties to trade receivables that are not overdue are shown in the table below. These include the not overdue balances with U.S. national wholesalers described above.

Trade receivables balances (not overdue): nature and geographical location of counterparties *in millions of USD*

	2011				2010			
	Total	Public	Whole-salers/dis-tributors	Private	Total	Public	Whole-salers/dis-tributors	Private
Switzerland	**3**	**-**	**3**	**-**	1	-	1	-
European Union	**-**	**-**	**-**	**-**	-	-	-	-
Rest of Europe	**1**	**-**	**-**	**1**	1	-	-	1
North America	**1,902**	**12**	**1,598**	**292**	1,680	9	1,399	272
Japan	**37**	**-**	**37**	**-**	49	-	49	-
Rest of Asia	**-**	**-**	**-**	**-**	-	-	-	-
Total	**1,943**	**12**	**1,638**	**293**	1,731	9	1,449	273

In addition to third party trade receivables, the RHI Group had $5.3 billion accounts receivable balances with related parties mainly in the European Union and Switzerland (2010: $4.7 billion).

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

	Total amount overdue	Under 1 month	1-3 months	4-6 months	6-12 months	more than 1 year
Year ended December 31, 2011						
Loans and receivables	**43**	**8**	**17**	**7**	**3**	**8**
Year ended December 31, 2010						
Loans and receivables	38	9	18	10	1	-

As at December 31, 2011 there were no financial assets whose terms have been renegotiated (2010: none).

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. RHI's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time.

Roche enjoys strong credit quality and is rated by at least one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements. In addition, the RHI Group has access (jointly with other borrowers in the Roche Group) to a currently unused committed credit line with various financial institutions totaling $5.1 billion (2010: $4.3 billion).

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

	Total	0-3 months	4-6 months	7-12 months	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Year ended December 31, 2011									
Total debt [a]	57,548	4,733	95	1,759	7,422	7,790	8,140	4,773	22,836
Trade payables	443	443	-	-	-	-	-	-	-
Accruals	2,798	2,502	51	212	33	-	-	-	-
Derivative financial instruments related parties	98	23	33	42	-	-	-	-	-
Other liabilities: current and non-current	69	15	24	2	25	2	-	-	1
Total financial liabilities	60,956	7,716	203	2,015	7,480	7,792	8,140	4,773	22,837
Year ended December 31, 2010									
Total debt [a]	61,346	5,861	556	2,912	5,918	8,722	6,710	4,256	26,411
Trade payables	437	435	-	2	-	-	-	-	-
Accruals	2,617	1,868	586	125	38	-	-	-	-
Derivative financial instruments related parties	52	45	-	7	-	-	-	-	-
Other liabilities: current and non-current	131	64	29	-	34	3	-	-	1
Total financial liabilities	64,583	8,273	1,171	3,046	5,990	8,725	6,710	4,256	26,412

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

Market risk

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

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

VaR figures are calculated using a historical simulation approach. For each scenario, all financial instruments are fully valued and the total change in value and earnings is determined. All VaR calculations are based on a 95% confidence level and a holding period of 20 trading days over the past ten years. This holding period reflects the time required to change the corresponding risk exposure, should this be deemed appropriate. Longer holding periods increase the probability of higher value changes and lead to increased VaR figures.

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

Market risk of financial instruments *in millions of USD*

	December 31, 2011	December 31, 2010
VaR - Interest rate component	**449**	654
VaR - Other price component	**15**	24
VaR - Foreign exchange component	**9**	14
Diversification	**(27)**	(33)
VaR - Total market risk	**446**	659

At December 31, 2011, the total VaR of the financial assets and liabilities was $446 million (2010: $659 million). The interest rate VaR decreased to $449 million reflecting the ageing of debt and the repayment of debt during 2011. As all

issued debt is held at amortized cost, the interest rate VaR is a sole metric for economic fair value changes, but there is no impact on the carrying value or profit and loss of the RHI Group. The foreign exchange VaR remains at a very low level. Other price risk arises mainly from movements in the prices of equity securities. At December 31, 2011, the RHI Group held equity securities with a market value of $0.3 billion (December 31, 2010: $0.3 billion). This includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations.

Foreign exchange risk

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

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

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

Interest rate risk

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

Interest rate exposures and the corresponding VaR parameters are reported on a monthly basis. RHI may use forward contracts, options and swaps to hedge its interest rate exposures. Depending on the interest rate environment of the major currencies, RHI will use these instruments to generate the appropriate mix of fixed and floating rate exposures.

Other price risk

Other price risk arises mainly from movements in the prices of equity securities held by RHI. In 2011, the RHI Group held equity securities with a market value of $0.3 billion (2010: $0.3 billion). This amount includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations. Due to the nature of their business, biotechnology companies are exposed to greater equity volatilities than general stock market fluctuations.

RHI manages the price risk through placing limits on individual and total equity investments. These limits are defined both as a percentage of total liquid funds and as an absolute number for individual equity investments.

Impairment of financial assets

In 2011 impairments of investments were $4 million (2010: $2 million).

Impairment losses by asset classes *in millions of USD*

	2011	2010
Loans and receivables	**3**	(9)
Available-for-sale financial assets		
- Shares	**(2)**	-
- Investments	**(4)**	(2)
Total impairment losses	**(3)**	(11)

Capital

The RHI Group defines the capital that it manages as RHI's total capitalization, being the sum of debt plus equity. RHI's objectives when managing capital are:

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

Effective March 26, 2009, the purchase of the non-controlling interests in Genentech was completed, for a consideration, net of tax effects, of approximately $47 billion. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced by approximately $47 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At December 31, 2011 the negative equity of the RHI Group was reduced from $28.1 billion to $26.0 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

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

Capital *in millions of USD*

	2011	2010	2009
Capital and reserves attributable to RHI shareholder [26]	**(26,012)**	(28,146)	(30,297)
Total equity	**(26,012)**	(28,146)	(30,297)
Total debt [25]	**42,675**	45,212	48,756
Capitalization	**16,663**	17,066	18,459

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

29. Related parties

Controlling shareholders

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

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

Related party transactions *in millions of USD*

	Year ended December 31,	
	2011	2010
Sales	**1,252**	1,273
Royalty income	**2,095**	1,980
Contract revenue	**106**	132
Purchases of inventory and other materials	**(556)**	(461)
Reimbursements received under marketing and distribution cost-sharing agreements	**1**	287
Reimbursements received under research and development cost-sharing and collaboration agreements	**514**	822
Payments issued under research and development cost-sharing and collaboration agreements	**(279)**	(390)
Other revenue (expense), net	**(9)**	(43)
Financial income – related parties		
Gains (losses) on foreign currency derivatives, net	**194**	46
Other financial income	**15**	9
Total	**209**	55
Financing costs – related parties		
Interest expense	**(718)**	(747)
Guarantee fees	**(215)**	(245)
Other financial expense	**-**	-
Total	**(933)**	(992)

A net gain of $194 million was mainly due to foreign exchange forward contracts with related parties that were entered into to hedge some of the foreign currency transaction exposure arising from bonds and notes issued in pound sterling and Swiss francs. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside the RHI Group has entered with third party financial institutions. No hedge accounting was applied on those foreign exchange forward contracts.

Related party balances *in millions of USD*

			December 31,
	2011	2010	2009
Accounts and loans receivable	**5,659**	5,199	6,852
Accounts and loans payable	**(17,748)**	(16,293)	(11,036)

The RHI Group deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited of $4.2 billion are immediately available and bear variable interest referenced to one month LIBOR.

Subsidiaries and associates

A listing of the major RHI Group subsidiaries is included in Note 31. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation. The RHI Group has no associates.

Key management personnel

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

Change in Board of Directors of Roche Holdings, Inc.: Effective March 31, 2011 Dr Erich Hunziker, formerly Vice-Chairman of the Board of Directors of Roche Holdings, Inc., resigned from the Board. On April 1, 2011 the Board of Directors appointed Dr Alan Hippe to succeed Dr Hunziker as Vice-Chairman of the Board. Effective October 28, 2011, Frank J. D’Angelo resigned from the Board and Roger Brown was appointed to succeed him.

Board of Directors of Roche Holdings, Inc.

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

Dr Humer, Dr Hunziker and Dr Schwan did not receive remuneration or payment for their time and expenses related to their services from RHI during 2011 and 2010. Dr Hippe did not receive remuneration or payment for his time and expenses related to his services from RHI during 2011.

The RHI Group pays to the directors appointed on December 2, 2008, respectively October 28, 2011 salary, bonus, expense allowance, social insurance contributions in respect of the below remuneration and pays contributions to pension and other post-employment benefit plans. These directors also participate in the equity compensation plans 'Roche Long-Term' and 'Roche Performance Share Plan'. The terms, vesting conditions and fair value of these awards are disclosed in Note 9. In 2011, the remuneration of Frank J. D'Angelo is included for the period from January 1, 2011 to October 28, 2011 as well as the retirement awards arising from contractual payments due to Frank J. D'Angelo following his resignation effective October 28, 2011. The remuneration of Roger Brown is included from October 28, 2011 to December 31, 2011.

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

	2011	2010 [a]
Salaries, including bonuses and expenses	**2,271**	3,417
Social security costs	**74**	75
Pensions and other post-employment benefits	**324**	215
Retirement awards	**768**	-
Equity compensation plans	**1,368**	1,159
Other employee benefits	**145**	180
Total	**4,950**	5,046

a) The 2010 remuneration includes Frank J. D'Angelo, who had been appointed to the RHI Group Board of Directors on December 2, 2008 and who resigned from it effective October 28, 2011.

Post-employment benefit plans

Transactions between the RHI Group and the various post-employment defined benefit plans for the employees of the RHI Group are described in Note 8.

30. Subsequent events

On January 25, 2012 the Roche Group announced that it had made an offer to acquire a 100% controlling interest in Illumina, Inc. (Illumina) for approximately $5.7 billion. Further details are given in Note 5.
There have been no other significant subsequent events after December 31, 2011.

31. Subsidiaries and associates

Divestment of subsidiaries

Effective May 31, 2011 the Group sold its wholly-owned subsidiary Roche Vitamins, Inc. (RVI) to a third party. In addition, as disclosed in Note 6, during 2011 the Group completed the sale of the following wholly-owned subsidiaries in connection with the Operational Excellence program:

- Roche Colorado Corporation, in Boulder, Colorado
- Roche Madison Inc., in Madison, Wisconsin.

The total consideration received from these divestments was $7 million. This consisted of $5 million cash and marketable securities with a fair value of $2 million.

The total gain (loss) on these divestments is shown in the table below.

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

	2011
Consideration	**7**
Net assets disposed	
- Property, plant and equipment [10]	**7**
- Goodwill [11]	**68**
- Cash	**17**
- Provisions [23]	**(5)**
- Other net assets	**(8)**
Total net assets disposed	**79**
Transaction costs and provisions and accruals for residual obligations retained by RHI	**(13)**
Gain (loss) on divestment	**(85)**

Reported as

- Global restructuring costs - Pharmaceuticals operating segment [6]	**(90)**
- General and administration costs – Corporate operating segment	**5**

Subsidiaries - 2010

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

Subsidiaries and associates	Country of Incorporation	Equity interest %	
		2011	2010
454 Life Sciences Corporation	United States	**100%**	100%
Anadys Pharmaceuticals, Inc.	United States	**100%**	-
BioVeris Corporation	United States	**100%**	100%
Disetronic Sterile Products [b)]	United States	**-**	-
Genentech, Inc.	United States	**100%**	100%
HLR Consumer Health Inc.	United States	**100%**	100%
Hoffmann-La Roche Inc.	United States	**100%**	100%
IGEN International, Inc.	United States	**100%**	100%
Marcadia Biotech, Inc.	United States	**100%**	100%
Memory Pharmaceuticals Corp.	United States	**100%**	100%
Roche Carolina, Inc.	United States	**100%**	100%
Roche Colorado Corporation [c)]	United States	**-**	100%
Roche Diagnostics Corporation	United States	**100%**	100%
Roche Diagnostics Operations, Inc.	United States	**100%**	100%
Roche Insulin Delivery System, Inc. [a)]	United States	**100%**	100%
Roche Madison, Inc. [c)]	United States	**-**	100%
Roche Molecular Systems, Inc.	United States	**100%**	100%
Roche NimbleGen, Inc.	United States	**100%**	100%
Roche Palo Alto LLC	United States	**100%**	100%
Roche Vitamins, Inc. [c)]	United States	**-**	100%
Spring Bioscience Corp.	United States	**100%**	100%
Therapeutics Human Polyclonals, Inc.	United States	**100%**	100%
Ventana Medical Systems, Inc.	United States	**100%**	100%

a) Legal name change of "Disetronic Medical Systems Inc." in 2010
b) Merged into Roche Diagnostics Operations, Inc. in 2010
c) Divested in 2011

Report of the RHI Group Auditors

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

We have audited the accompanying consolidated financial statements of Roche Holdings, Inc., which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes on pages 7 to 79 for the year ended December 31, 2011.

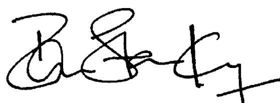
Board of Director's Responsibility: The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). This responsibility includes designing,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

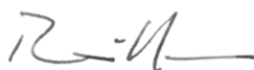
Auditor's Responsibility: Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the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

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

Opinion: In our opinion, the consolidated financial statements for the year ended December 31, 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

KPMG AG





Ian Starkey François Rouiller

Basel, January 31, 2012