Roche Half-Year Report 2008

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Half-Year Report 2008

Setting new standards
DNA research has a vital part to play in advancing the understanding and treatment of disease. Instrument systems from Roche are setting new standards in the field. The Genome Sequencer FLX System (pictured), for example, is over 100 times faster than conventional DNA sequencing methods, reducing the time needed for some experiments from months to days. Because of its speed, the GS FLX is helping scientists to tackle research projects that weren't feasible before.

Key results first half 2008

		Local sales growth %	Operating profit margin before exceptional items, % of sales
Pharmaceuticals	2008	+2.8	38.2
	2007	+18.1	36.3
Diagnostics	2008	+11.3	12.2
	2007	+5.4	20.8
Group	2008	+4.5	32.0
	2007	+15.4	32.8

	Six months ended June 2008 (mCHF)	2007 (mCHF)	% change (CHF)	(LC)	% of sales 2008	2007
Sales	22,004	22,827	–4	+4		
Research and development	4,107	4,017	+2	+12	18.7	17.6
Operating profit before exceptional items	7,041	7,477	–6	+2	32.0	32.8
Operating free cash flow	4,806	5,365	–10	–2	21.8	23.5
Net income	5,732	5,862	–2		26.0	25.7
Core EPS (CHF)[1)]	5.75	5.95	–3	+3		

	30 June 2008	31 December 2007	30 June 2007
Net cash	10,115	17,336	15,626
Equity	49,176	53,443	50,914
Equity ratio	69.6%	68.2%	65.9%

1) See page 58 for definition of Core EPS.

LC = local currencies

Highlights first half 2008

Roche posts very good results Strong market outperformance – outlook confirmed

Group

- Group sales increase 10% in local currencies (excluding Tamiflu pandemic sales) to 22 billion Swiss francs (+1% in Swiss francs; +18% in US dollars).
- Including Tamiflu pandemic sales, Group sales rise 4% in local currencies (–4% in Swiss francs; +13% in US dollars).
- Net income reaches 5.7 billion Swiss francs, with the margin increasing slightly to 26.0% despite expected significantly lower Tamiflu sales, acquisitions and increased investments in R&D.
- Core Earnings per Share (EPS) up 3% at constant exchange rates, up 5% excluding Ventana acquisition impacts.
- Roche confirms full-year outlook.

Pharmaceuticals

- Sales increase 9%, or more than twice the global market average (excluding Tamiflu pandemic sales).
- Double-digit growth of key products more than outweighs lower Tamiflu pandemic sales; total sales up 3%.
- Profit margin up 1.9 percentage points to 38.2% despite significantly increased investments in R&D.
- Avastin receives accelerated approval for breast cancer in the United States.
- Actemra approved and launched for rheumatoid arthritis in Japan, first market worldwide for this indication.
- Acquisition of Piramed (UK) strengthens R&D pipeline in oncology and inflammatory disease.
- Late-stage development projects on track: major phase III study with CETP inhibitor dalcetrapib starts; phase III trials with GLP-1 analogue taspoglutide for type 2 diabetes to begin shortly.

Diagnostics

- Sales increase 11%, well ahead of market growth.
- Immunochemistry and DNA sequencing again major growth drivers.
- Diabetes Care sales up 2% for half-year, with accelerating growth in the second quarter.
- Ventana integration on track – tissue diagnostics sales grow at roughly twice market pace.
- Operating margin declines by 8.6 percentage points due to the impact of recent acquisitions and strong competition in the US diabetes care market.

Unless otherwise stated, all growth rates are in local currencies.

Dear Shareholders,

Your company continued to perform strongly in the first half of 2008, with both divisions again growing significantly faster than the market. Despite the expected sharp decline in pandemic Tamiflu sales and the marked appreciation of the Swiss franc against other major currencies, sales by the Roche Group reached 22 billion Swiss francs, a growth rate of 4% in local currencies (–4% in Swiss francs). Excluding pandemic stockpiling sales of Tamiflu, the Group's sales rose 10% in local currencies (1% in Swiss francs) in the first six months of this year. Underscoring Roche's earnings power, operating profit (before exceptional items) totalled 7 billion Swiss francs, and the Group posted net income of 5.7 billion Swiss francs and a further increase in its net income margin. Core Earnings per Share in local currencies increased 3%; excluding the impact of the Ventana acquisition, Core EPS was up 5%. Roche is thus on track to achieve the sales and EPS objectives we announced early this year.

Excluding pandemic Tamiflu, the Pharmaceuticals Division's sales rose 9% in local currencies, or more than twice as fast as the global market growth rate. Including pandemic Tamiflu, sales totalled over 17 billion Swiss francs and grew 3% in local currencies. Growth continued to be driven by key products in our oncology, metabolism/bone, inflammation, transplant and virology portfolios. Despite a double-digit rise in research and development costs, the division's operating profit margin (before exceptional items) increased by 1.9 percentage points to an impressive 38.2%.

The Diagnostics Division reinforced its position as the global market leader in *in vitro* diagnostics with sales growth of 11% in local currencies. Continued above-market sales increases in the Professional Diagnostics and Applied Science businesses were major contributors to growth. The new Tissue Diagnostics business created with the acquisition of Ventana in early February also achieved robust sales growth, contributing 4 percentage points to divi-

sional sales growth in local currencies. As anticipated, the division's operating profit declined sharply for the period, and the corresponding margin fell to 12.2%. This was due to the impact of recent acquisitions and strong competition in the US diabetes care market.

We invested 3.8 billion Swiss francs to acquire the US-based diagnostics company Ventana, and approximately 1 billion Swiss francs to increase our interest in Chugai in Japan. Ventana's leadership in tissue-based diagnostics will help us in our efforts to develop more personalised treatments, particularly for cancer. By increasing our stake in Chugai from 50.1% to 59.9%, we are reaffirming the strategic importance of this partnership for the Group. We have also continued to selectively round out our technology and development portfolios with smaller alliances and acquisitions. Transactions concluded in the first half of this year include the acquisition of the UK-based biotechnology company Piramed, whose highly promising research and development further strengthens Roche's leadership in oncology. This acquisition also complements our research into treatments for inflammatory diseases, notably rheumatoid arthritis (RA).

Very importantly for the future, in the first half of this year the Pharmaceuticals Division received eight major regulatory approvals and additionally filed three important marketing applications with the regulatory authorities. Actemra was launched in Japan, the first market to have access to this novel treatment for RA. Regulatory filings for Actemra in RA are currently under review in the US and Europe. In June the EU authorities approved a shortened course of treatment with Pegasys and Copegus in certain patients with hepatitis C. This marks an important milestone in a new approach called 'response-guided therapy', which seeks to customise treatment based on how well patients respond. This is another example of our ability to combine therapeutics and diagnostics in ways that tailor care to the patient and deliver significant benefits to health professionals and payers as well.

While innovative medicines have radically improved the outlook for many cancer patients, cancer remains one of medicine's greatest challenges. We therefore continue to invest in developing new treatment options in oncology. At this year's annual meeting of the American Society of Clinical Oncology in June Roche presented impressive new clinical trial data underscoring the significant benefits to patients of our cancer medicines Avastin, Herceptin and Tarceva. The results show that these medicines can be used effectively in additional cancer indications. Our leading cancer drugs are increasingly being used in Asia and Latin America as well as in the US and Europe.

During the first half-year we also saw very encouraging new data coming from trials in other therapeutic areas. In April we commenced a major phase III trial with our cholesteryl ester transfer protein (CETP) inhibitor, dalcetrapib, following data showing that the compound has a good safety profile. It is hoped that this medicine will help reduce the risk of cardiovascular disease and death in high-risk patients. Development of the GLP-1 analogue taspoglutide for type 2 diabetes is also progressing as planned. Designed to improve glucose control in people with type 2 diabetes, this medicine is about to enter the final phase of clinical testing.

We are confident that Roche will achieve all of the objectives announced for 2008. We would like to take this opportunity to thank the 80,000 Roche employees worldwide for their professionalism and dedication to serving the needs of patients and customers.

Since this year's Annual General Meeting, on 4 March, the roles of Chairman of the Board and Chief Executive Officer have been separated at Roche, as previously announced. You can be sure that we will both continue to work closely and energetically with the other members of the Roche Board and Corporate Executive Committee to achieve the Group's ambitious goals as one of the world's leading healthcare companies.

Franz B. Humer
Chairman of the Board

Severin Schwan
Chief Executive Officer

Roche Group

The Roche Group's Pharmaceuticals and Diagnostics Divisions both achieved above-market growth in the first half of 2008. Group sales for the period totalled 22 billion Swiss francs, up 4% in local currencies (–4% in Swiss francs; 13% in US dollars).[1] Excluding Tamiflu pandemic sales to governments and corporations, total revenues rose 10% (1% in Swiss francs; 18% in US dollars). The rise in the Swiss franc against most currencies resulted in Swiss franc growth being 8 percentage points lower than growth in local currencies.

Excluding pandemic Tamiflu, the Pharmaceuticals Division's sales grew 9% (1% in Swiss francs; 18% in US dollars) to 17.2 billion Swiss francs, more than twice as fast as the global market. Total divisional sales rose 3% (–6% in Swiss francs; 10% in US dollars). Sales growth was fuelled primarily by continued strong demand for key medicines in the division's oncology, metabolism/bone, inflammation, transplantation and virology portfolios. Oncology sales increased significantly again, advancing 15%, led by Avastin, MabThera/Rituxan, Herceptin, Tarceva and Xeloda.

The Diagnostics Division's sales reached 4.7 billion Swiss francs, advancing 11% (4% in Swiss francs; 22% in US dollars). Immunochemistry and DNA sequencing products remained major growth drivers for the division. In the five months from the date of the Ventana acquisition in February to 30 June, the new Tissue Diagnostics business recorded sales of 164 million Swiss francs.

Operating profit before exceptional items increased 2% for the Group, to 7.0 billion Swiss francs. The corresponding margin declined 0.8 percentage points to 32.0%. With operating free cash flow at 4.8 billion Swiss francs, cash generation by the Group's underlying business remains strong.

The Pharmaceuticals Division posted an operating profit of 6.6 billion Swiss francs before exceptional items. The corresponding margin rose 1.9 percentage points for the period to 38.2%, despite sharply lower Tamiflu pandemic sales and significantly increased R&D expenditure.

In the Diagnostics Division operating profit declined 37% to 581 million Swiss francs, and the operating margin fell 8.6 percentage points to 12.2%. The margin decrease reflects significant investments associated with recent acquisitions and strong competition in the US diabetes care market.

Net income from financial assets and foreign exchange management exceeded financing costs by 237 million Swiss francs. The Group's effective tax rate for the period decreased 2.0 percentage points to 24.5%.

The Roche Group's net income for the period was 5.7 billion Swiss francs, with net income as a percentage of sales increasing to 26.0%. The Group's financial condition remains strong. The ratio of equity (including non-controlling interests) to total assets is now 70%, and 84% of total assets are financed long term.

Outlook

We reaffirm our targets for full-year 2008. Excluding Tamiflu pandemic sales to governments and corporations, we anticipate a high single-digit increase in Group sales, with above-market sales growth in both divisions. Despite considerably lower Tamiflu pandemic sales and significantly higher R&D spending, Roche is aiming for 2008 Core EPS at constant exchange rates to remain at least in line with the record level achieved in 2007.

1) Unless otherwise stated, all growth rates are in local currencies.

Key figures: Pharmaceuticals Division

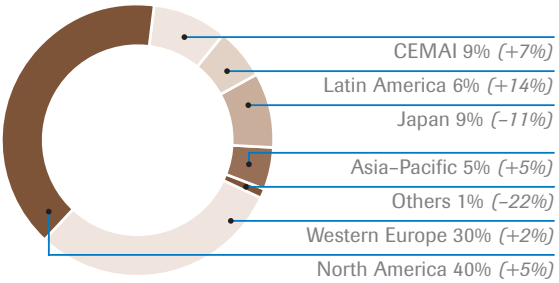
	In millions of CHF	% change in CHF	% change in local currencies	As % of sales
Sales	17,257	–6	3	100
– Roche Pharmaceuticals	10,938	–4	2	63
– Genentech	4,867	–7	9	28
– Chugai	1,452	–13	–11	9
Operating profit[1)]	6,593	–1	8	38.2
Operating free cash flow	4,685	–3	6	27.1

1) Before exceptional items.

Pharmaceuticals

The Roche Group's Pharmaceuticals Division is made up of Roche Pharmaceuticals, represented in over 150 countries, and majority shareholdings in Genentech in the United States and Chugai in Japan. Roche is the world's leading supplier of medicines for cancer and a leader in medicines for transplantation and virology, as well as being active in other major therapeutic areas.

Sales by region



Italics = growth rates
CEMAI: Central and Eastern Europe, Middle East, Africa, Indian Subcontinent

Results

The Pharmaceuticals Division continued to perform strongly in the first half of 2008, with solid growth of the underlying business more than compensating for the expected sharp decline in pandemic sales of Tamiflu to governments and corporations. Divisional sales increased 3% in local currencies (–6% in Swiss francs; 10% in US dollars) to 17.3 billion Swiss francs. Excluding pandemic sales of Tamiflu, pharmaceutical sales grew 9% in local currencies, or more than twice the global market growth rate, driven primarily by key products in the division's oncology, metabolism/bone, inflammation, transplant and virology portfolios (see below and table, *Top-selling pharmaceutical products – Roche Group,* on p. 10 for half-year sales and growth rates of individual products).

Excluding pandemic Tamiflu, the division recorded above-market growth in all key regions except Japan, with sales in North America advancing 10% in a virtually flat market, 8% in Western Europe (versus 6% market growth)[1)], 14% in the CEMAI[2)] countries (versus 11%) and 15% in Latin America (versus 13%). Sales by Chugai in Japan were stable (versus 7% market growth), with the launches of Avastin, Tarceva and combined Pegasys–Copegus compensating for government-mandated price reductions that came into effect in April, increased pricing pressure and the return of a group of marketed products to Sanofi-Aventis.

Despite the decline in pandemic Tamiflu sales and planned increases in expenditure to support the strong research and development pipeline, compared with the year-earlier period the division's operating profit before exceptional items advanced 8% in local currencies (–1% in Swiss francs) to 6.6 billion Swiss francs, and the corresponding margin rose 1.9 percentage points to 38.2%.

1) Market growth figures here and elsewhere according to IMS (to end of April 2008).
2) Central and Eastern Europe, Middle East, Africa, Indian Subcontinent.

Oncology

Roche continued to strengthen its global leadership in oncology in the first half of 2008. Sales of the division's oncology portfolio advanced 15%, led by Avastin, MabThera/Rituxan, Herceptin, Tarceva and Xeloda – products that are helping to transform cancer treatment. At this year's meeting of the American Society of Clinical Oncology (ASCO 2008), Roche and Genentech presented important data from clinical trials with Avastin, Herceptin, Tarceva and the experimental breast cancer medicine pertuzumab.

MabThera/Rituxan (rituximab), the leading treatment for patients with non-Hodgkin's lymphoma (NHL), posted solid double-digit growth in all regions, with particularly strong contributions from Europe/Rest of World[3)] (RoW) (21%) and growing uptake in Japan. Growth is being driven by increased prescriptions in the first-line indolent and aggressive NHL settings in Europe and emerging markets. MabThera/Rituxan is also benefiting from increasing use as maintenance therapy for relapsed follicular lymphoma in Europe and the United States. In January a major phase III trial in the first-line treatment of chronic lymphocytic leukemia showed that MabThera/Rituxan in combination with chemotherapy significantly increased progression-free survival (the time patients live without their cancer progressing). Roche will use these results to support a marketing application in the European Union planned for later this year.

Herceptin (trastuzumab), for HER2-positive breast cancer, continued to record double-digit sales growth in the first half-year. The product's already high market penetration in the adjuvant setting (after surgery) increased further in the United States and Europe/RoW. Strong growth in Japan (23%) was driven by the product's approval in February for the treatment of early breast cancer, with strong double-digit sales increases also seen in the Asia–Pacific and CEMAI regions. The final analysis of data from a randomised phase III trial (GBG-26), presented at ASCO 2008, demonstrated again that Herceptin helps women with metastatic HER2-positive breast cancer live longer without their cancer progressing. Moreover, the results showed that Herceptin continued to be effective in women who needed additional treatment after their cancer progressed during previous Herceptin treatment.

Global sales of Avastin (bevacizumab), for colorectal, breast, lung and kidney cancer, continued to show very strong growth in the first half of 2008. At 78%, growth in Europe/RoW continued to be particularly dynamic. Sales are being driven by a broader EU label in metastatic colorectal cancer and the product's newer indications in metastatic breast, lung and kidney cancer. Avastin received two major approvals in the first half-year: in January the EU authorities approved an extension of the product's existing colorectal cancer indication, permitting the combination of Avastin with all standard chemotherapy regimens in first and later lines of treatment; in February the US Food and Drug Administration (FDA) granted accelerated approval for Avastin, in combination with paclitaxel chemotherapy, for the first-line treatment of patients with HER2-negative metastatic breast cancer. Final data from the phase III AVADO study presented at ASCO 2008 confirmed the results of an earlier trial (E 2100), showing that Avastin combined with taxane chemotherapy significantly improves progression-free survival in this setting. Roche plans to file the AVADO data with global regulatory authorities in the second half-year.

Tarceva (erlotinib), the only EGFR oral targeted agent with proven and significant survival and symptom benefit in a broad range of patients with advanced lung and pancreatic cancer, continues to deliver strong double-digit sales growth. Sales are being driven primarily by increasing use of the product in the second-line treatment of patients with non-small cell lung cancer (NSCLC), with particularly strong gains in Europe and Asia, and by strong uptake in Japan following its launch by Chugai at the end of 2007. New data presented at ASCO 2008 from the largest phase IV trial ever conducted in patients with NSCLC showed that a broad range of patients treated with Tarceva experience clinical benefits that include longer survival, better quality of life, and control of disease symptoms and cancer progression.

Xeloda (capecitabine), an oral medicine that greatly simplifies the treatment of colorectal, breast and stomach cancer, continued its double-digit sales

3) Roche defines Europe/Rest of World as covering Europe and all other countries except Japan and the United States.

Top-selling pharmaceutical products – Roche Group

Product	Generic name	Indication	Sales in millions of CHF	% change in local currencies
MabThera/Rituxan	rituximab	non-Hodgkin's lymphoma, rheumatoid arthritis	2,867	17
Herceptin	trastuzumab	HER2-positive breast cancer	2,474	11
Avastin	bevacizumab	colorectal cancer, non-small cell lung cancer, breast cancer, renal cell carcinoma	2,351	36
CellCept	mycophenolate mofetil	transplantation	1,010	13
NeoRecormon, Epogin	epoetin beta	anemia	892	–14
Pegasys	peginterferon alfa-2a	hepatitis B and C	785	3
Tarceva	erlotinib	non-small cell lung cancer, pancreatic cancer	587	28
Xeloda	capecitabine	colorectal cancer, breast cancer, stomach cancer	573	14
Bonviva/Boniva	ibandronic acid	osteoporosis	507	51
Lucentis[1)]	ranibizumab	wet age-related macular degeneration	440	–2

1) Jointly marketed by Genentech and Novartis.

growth globally and in key regions. Growth in Japan was particularly strong (62%), with double-digit gains also recorded in North America and Europe/RoW. Sales growth is being driven by new and expanded indications approved in 2007 and 2008, notably in stomach and colorectal cancer, and by greater uptake in the treatment of breast cancer. In February the EU authorities approved Xeloda for the treatment of metastatic colorectal cancer in combination with any chemotherapy in all lines of treatment, with or without Avastin. Also in February, Chugai filed an application in Japan to expand the product's approval to allow its combination with oxaliplatin, with or without Avastin, for the treatment of metastatic colorectal cancer.

Anemia

In a highly competitive market, combined sales of the anemia medicines NeoRecormon and Epogin (epoetin beta), from Roche and Chugai respectively, declined further in the first half-year. In Europe/RoW erosion of NeoRecormon sales has been moderate (–10%) despite general downward pricing pressure on erythropoietin-stimulating agents following the entry of several new biosimilar versions of epoetin alfa since the last quarter of 2007. In Japan sales of Epogin declined by 23% due to competitive pressure and the latest government-mandated price cuts, which came into force in April.

Mircera (methoxy polyethylene glycol-epoetin beta), the first continuous erythropoietin receptor activator for the treatment of symptomatic anemia associated with chronic kidney disease, has now been approved in 54 countries and is currently marketed in 23. Sales of Mircera are progressing slowly due to the challenging overall market environment but are increasing as Roche wins more contracts and launches the product in additional markets. In the patent dispute with Amgen, Roche has appealed against a court order that prevents the sale of Mircera in the United States. The appeal is currently pending before the Federal Circuit Court of Appeals in Washington, DC.

Transplantation

CellCept (mycophenolate mofetil) is the world's most widely used immunosuppressant medication and the cornerstone of treatment to prevent organ rejection in patients with solid organ transplants. In the first half of 2008, despite the loss of market exclusivity in certain countries, CellCept continued the trend of steadily growing overall sales seen in 2007. The main contributions to growth came from the United States (15%) and Europe/RoW (12%).

Improved survival of transplant patients means that they are taking immunosuppressant therapy for longer, and this is reflected in a steady increase in prescriptions for CellCept.

Virology

Pegasys (peginterferon alfa-2a), for the treatment of hepatitis B and C, maintained its clear leadership of the global pegylated interferon market and continued to gain market share worldwide. While the overall sales increase in the first half-year was modest, very strong growth in Japan and strong gains in the Asia and CEMAI regions helped offset continued market volume declines in the United States and Western Europe. In June the EU authorities approved a shortened course of treatment with Pegasys plus Copegus (ribavirin) for patients with genotype 2 or 3 hepatitis C virus infection who have low virus levels and show a rapid virological response. The approval personalises therapy for these patients, offering a chance for cure with only four months' treatment. This new approach is made possible by Roche Diagnostics' highly sensitive, real-time cobas PCR diagnostic tests.

As forecast, sales of the anti-influenza medicine Tamiflu (oseltamivir) declined substantially due to reduced pandemic stockpiling orders from governments and corporations. The sharp fall-off in pandemic sales, down 1.1 billion Swiss francs versus the first half of 2007, was only partly offset by a rise of 122 million Swiss francs in seasonal sales, driven by a severe influenza season in the US. Seasonal sales in Europe and Japan were low due to a mild influenza season.

Following last year's recall of the HIV/AIDS medicine Viracept (nelfinavir) in all markets where Roche supplies the product, the EU authorities approved a change in the manufacturing process early this year. Roche started resupplying Viracept in some EU countries in the second quarter. Roche has conducted extensive research to better define the potential risk of exposure to the chemical impurity that led to the recall. The studies show that the levels of the impurity present in certain production batches of Viracept tablets between June and September 2007 were not harmful for patients.

Inflammation and autoimmune disorders

MabThera/Rituxan (rituximab), the first and only selective B cell therapy for the treatment of rheumatoid arthritis, is now established as a proven choice for patients with inadequate response to tumour necrosis factor (TNF) inhibitor therapy. Market penetration continues to increase strongly, as more and more rheumatologists switch patients to MabThera/Rituxan following an inadequate response to their first TNF inhibitor. The use of MabThera/Rituxan in this setting is supported by a growing body of evidence, including new clinical trial data showing sustained or improved reduction of disease activity with repeated treatment courses and sustained inhibition of the progression of joint damage.

Actemra (tocilizumab), a first-in-class humanised monoclonal antibody designed to block the interleukin-6 receptor, represents a new approach to the treatment of rheumatoid arthritis (RA). Following approval in Japan for the treatment of RA, the medicine's first approval worldwide in this indication, Chugai commenced the market rollout in June. Marketing applications by Roche are currently being reviewed by the US, EU and other health authorities globally; the FDA action date is in September 2008. The results of two large clinical trials presented at a major medical conference in June show that Actemra is the first biologic medicine to demonstrate clinical superiority over the standard RA treatment methotrexate, and that it is effective in patients with an inadequate response to anti-TNF biologics.

Metabolic disorders

Bonviva/Boniva (ibandronic acid) is a highly effective and well tolerated medicine for women with postmenopausal osteoporosis. It is available as a once-monthly tablet and a three-monthly injection. Bonviva/Boniva continued to record robust sales growth in the first half of 2008, advancing 68% in Europe/RoW and 43% in the United States, where Boniva continues to gain market share despite recent launches of generic versions of another bisphosphonate.

Major regulatory filings in the first half of 2008[1)]

Product	Generic name	Indication and/or dosage form	Country
Avastin	bevacizumab	metastatic breast cancer, combination with docetaxel	EU
		metastatic colorectal cancer, combination with Xeloda and oxaliplatin	Japan
Xeloda	capecitabine	metastatic colorectal cancer, monotherapy and combination with Avastin and oxaliplatin	Japan

Major regulatory approvals in the first half of 2008[1)]

Actemra	tocilizumab	rheumatoid arthritis, polyarticular-course juvenile idiopathic arthritis, systemic juvenile idiopathic arthritis	Japan
Avastin	bevacizumab	renal cell carcinoma	Switzerland
		metastatic colorectal cancer, first-line, combination with oxaliplatin	EU
		HER2-negative metastatic breast cancer, first-line, combination with paclitaxel	USA, Switzerland
Herceptin	trastuzumab	adjuvant HER2-positive breast cancer, as a single agent following multimodality anthracycline-based therapy	USA
		adjuvant HER2-positive breast cancer, combination with a non-anthracycline regimen containing docetaxel and carboplatin; or with docetaxel following a regimen containing doxorubicin and cyclophosphamide	USA
		adjuvant HER2-positive breast cancer	Japan
Xeloda	capecitabine	metastatic colorectal cancer, first- and second-line, combination treatment	EU

1) Includes supplemental indications.

Research and development

In the first six months of 2008 the Pharmaceuticals Division gained eight major regulatory approvals and filed three major marketing applications (see table, above). At the end of June the division's R&D pipeline included 65 new molecular entities (NMEs) and 54 additional indications. Forty-one NMEs are currently in phase I, 18 in phase II and four in phase III development; two have been filed for regulatory review. In the first half-year eight projects entered phase I, two entered phase II and four entered phase III; one phase II project and three additional-indication projects in phase III were discontinued.

Details of the Roche R&D pipeline are available at www.roche.com/inv_pipeline.

Acquisitions and partnering agreements

The acquisition of Piramed, a privately owned UK company focusing on therapeutics targeting PI3-kinase (PI3-K), was announced in April and completed in May. This adds promising compounds to the division's R&D pipeline in the areas of oncology and inflammatory disorders. In June Roche signed a licensing agreement with ThromboGenics and BioInvent for their anti-cancer agent TB-403, a novel monoclonal antibody which blocks placental growth factor (PlGF), one of the growth factors responsible for the development of new blood vessels.

Major development activities

Encouraging data from a phase II trial investigating Avastin in the treatment of glioblastoma multiforme, an aggressive form of brain cancer, were presented at ASCO 2008. The results show that Avastin, given alone or in combination with chemotherapy, was able to slow progression of the cancer. Because of the high medical need and lack of approved treatments, Roche and Genentech plan to use these data as the basis for EU and US marketing applications in the second half of 2008. Roche is also preparing to start phase III testing of Avastin in the first-line treatment of the disease. A global phase III study investigating Avastin in combination with Herceptin in early HER2-positive breast cancer commenced recruitment in May.

Pertuzumab is the first in a new class of targeted antibodies known as HER dimerisation inhibitors. Pertuzumab inhibits the pairing of HER2 with other HER receptors, a key mechanism of tumour growth. Final results from a phase II trial in women with pretreated HER2-positive metastatic breast cancer were presented at ASCO 2008. The data showed high response and very good clinical benefit rates for patients who received pertuzumab plus Herceptin. A phase III study evaluating combined Herceptin and pertuzumab plus chemotherapy in first-line metastatic breast cancer began recruiting patients in January.

MabThera/Rituxan is currently in phase III development for use in rheumatoid arthritis patients who have not responded sufficiently to treatment with disease-modifying antirheumatic drugs (DMARDs) or who have not previously received treatment with methotrexate (MTX). A major trial in this programme met its primary endpoint in January, with significantly more patients treated with MabThera/Rituxan plus MTX achieving an improvement in disease signs and symptoms than those who received MTX alone. A phase III radiographic study assessing the ability of MabThera/Rituxan to inhibit structural joint damage in patients not previously treated with MTX is progressing as planned. Roche plans to use the signs and symptoms data in conjunction with the radiographic data to support marketing applications for these indications in 2009.

Ocrelizumab is a humanised anti-CD20 monoclonal antibody being developed by Roche, Genentech and Chugai for the treatment of autoimmune diseases. Phase III development of the medicine in rheumatoid arthritis is progressing according to plan. As already announced, in May a phase III trial of ocrelizumab in systemic lupus erythematosus was stopped due to the negative results of a trial with MabThera/Rituxan in a similar patient population. A phase III trial of ocrelizumab in patients with lupus nephritis is continuing as planned. A phase IIb trial in multiple sclerosis started in mid-July.

A major phase III trial with R1658 (dalcetrapib, JTT-705), a cholesteryl ester transfer protein (CETP) inhibitor licensed from Japan Tobacco, started in April. Dalcetrapib increases levels of HDL-C, or 'good' cholesterol, which is thought to have protective effects on the heart. It is hoped that the drug can help reduce the risk of cardiovascular disease and death in high-risk patients. Data presented at the American Congress of Cardiology in February show that dalcetrapib, which has a unique chemical structure different to that of other CETP inhibitors in clinical development, is well tolerated and has a good safety profile when given alone or in combination with statins.

R1583 (taspoglutide, BM 51077, licensed from Ipsen), the first once-weekly human glucagon-like peptide-1 (GLP-1) analogue, is being developed by Roche for type 2 diabetes. Based on promising phase II results presented at the annual meeting of the American Diabetes Association in June, Roche has decided to move taspoglutide into phase III clinical trials. The programme is expected to start in the second half of 2008. In clinical trials to date, taspoglutide was generally well tolerated and significantly improved glucose control and weight loss after only eight weeks of treatment.

Key figures: Diagnostics Division

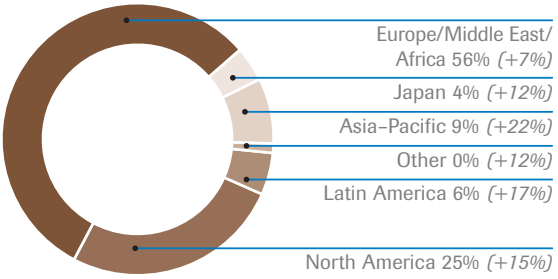
	In millions of CHF	% change in CHF	% change in local currencies	As % of sales
Sales	4,747	4	11	100
– Professional Diagnostics	2,183	3	9	46
– Diabetes Care	1,482	–4	2	31
– Molecular Diagnostics	551	–4	4	12
– Applied Science	367	11	21	8
– Tissue Diagnostics[1)]	164	n/a	n/a	3
Operating profit	581	–39	–37	12.2
Operating free cash flow	251	–66	–61	5.3

1) Sales from date of Ventana acquisition in early February to 30 June 2008.

Diagnostics

Roche's Diagnostics Division is a leading supplier of *in vitro* diagnostics (IVDs): products used to test body fluids and tissue samples to obtain information for the purpose of diagnosing, preventing and treating disease. Our leadership extends across the whole IVD spectrum, from centralised laboratory testing and point-of-care diagnostics to diabetes self-management. In addition, we supply cutting-edge research tools to life scientists pursuing tomorrow's medical advances.

Sales by region



Italics = growth rate

Results

In the first half of 2008 the Diagnostics Division extended its global market leadership with sales of 4.7 billion Swiss francs, an increase of 11% in local currencies (4% in Swiss francs; 22% in US dollars).[1)] Sales again grew ahead of or in line with the maket in all regions, with strong performances particularly in Japan and the emerging markets in Europe and Asia–Pacific. All business areas contributed to growth. Immunochemistry and DNA sequencing products delivered very robust growth, contributing to further above-market sales increases in the Professional Diagnostics and Applied Science units. Diabetes Care's sales accelerated to a 7% increase in the second quarter and were up 2% for the half-year. Molecular Diagnostics posted a 4% sales increase overall, with continued growth in virology automation. The acquisition of Ventana Medical Systems, Inc., was completed in early February. In the five months to 30 June the new business area's sales totalled 164 million Swiss francs, or 3% of divisional sales; this was an even stronger performance than expected.

Operating profit in the Diagnostics Division decreased 37% in local currencies to 581 million Swiss francs for the first half of 2008, and the operating margin was down 8.6 percentage points to 12.2%. Roughly half of the margin decrease resulted from the impact of recent acquisitions, including amortisation of acquired intangible assets and investments to develop the acquired businesses. The rest was mainly due to strong competition in the US diabetes care market and portfolio mix effects. For more information on divisional operating results, see the *Financial Review* on page 17.

1) Unless otherwise stated, all growth rates are in local currencies.

Professional Diagnostics

In the first half of 2008 Roche Professional Diagnostics' sales rose 9% to 2,183 million Swiss francs. At 10%, sales of serum work area (clinical chemistry and immunochemistry) systems grew significantly faster than the market. Immunochemistry sales, which have been growing by double digits for 30 consecutive quarters, were up 19%, with double-digit increases in all regions. Clinical chemistry sales advanced 2%, slightly below the market average.

Six new Elecsys immunoassays were launched globally outside the US, including a fully automated assay for anti-TSH receptor antibodies (diagnosis of Grave's disease) and an anti-CCP immunoassay (highly specific test for the diagnosis of rheumatoid arthritis). An anti-HCV assay for hepatitis C infection, launched in the first quarter for the Elecsys 2010 and cobas e 411 instruments, is now available for all Roche immunochemistry platforms.

Hematology sales were up strongly in all territories covered by our exclusive distribution agreement with Sysmex Corporation (Japan). Growth was driven mainly by the Sysmex XS 1000i, one of a new line of compact, fully automated analysers.

Point-of-care cardiac assays posted solid double-digit growth, fuelled by increased uptake of the Roche Cardiac proBNP assay (diagnosis and assessment of heart failure) and the recently launched cobas h 232 portable cardiac testing device. Coagulation monitoring continued its strong double-digit growth, driven mainly by the CoaguChek XS monitor for professional use and patient self-testing.

Diabetes Care

Roche Diabetes Care remained the global market leader, with interim sales up 2% to 1,482 million Swiss francs. Second-quarter sales were up 7% overall from the year-earlier period, helped by substantial investments in new products. All regions contributed to interim sales growth except North America. Despite strong competition, however, sales also grew strongly in the US (9%) in the second quarter, following weak order volume in the first three months of this year.

The new Accu-Chek blood glucose monitoring systems fuelled accelerating revenue growth, with double-digit sales increases for these systems more than offsetting declining sales of older products. Accu-Chek Aviva and Accu-Chek Performa, both of which were launched in additional markets, were the main growth drivers. The new Accu-Chek Compact Plus 'all-in-one' monitoring system was successfully launched in the US and Japan in April and June, respectively.

Insulin delivery systems faced strong competition in the first half-year, particularly in the US. The majority of our existing pump customers have already upgraded to the Accu-Chek Spirit, so the focus is now on acquiring new customers.

Molecular Diagnostics

Roche Molecular Diagnostics' sales advanced 4% to 551 million Swiss francs in the first six months of 2008. Fully automated tests for HIV and hepatitis B and hepatitis C (HBV, HCV) infection fuelled sales growth in virology. In blood screening, revenues declined as a result of mounting pressure on prices.

The cobas TaqScreen MPX Test, a multiplex blood screening assay for simultaneous detection of HIV-1 (groups M&O), HIV-2, HCV and HBV, is in the final stages of FDA review. The test will run in the US on the fully automated cobas s 201 system. In June the Japanese Red Cross began screening its blood supply with the MPX test on the fully integrated cobas s 401 system, under a five-year contract.

In Europe the cobas TaqMan CT Test v2.0 was launched for clinical use following CE mark certification in June. This new test offers improved detection of all known strains of *Chlamydia trachomatis,* the cause of the most commonly reported bacterial sexually transmitted disease in Europe.

We have initiated patient recruitment for a study to support a US filing of our HPV (human papillomavirus) detection and genotyping tests.

In June Roche signed an exclusive distribution agreement with DxS Ltd. (UK) for its TheraScreen K-RAS Mutation Test and TheraScreen EGFR 29 Mutation Test. Used in conjunction with other

clinically relevant information, these tests can aid doctors in determining patients' suitability for specific cancer therapies.

Applied Science

Roche Applied Science posted interim sales of 367 million Swiss francs. This was an increase of 21% for the period, or roughly three times the estimated market growth rate. The Genome Sequencer FLX system, the LightCycler 480 platform for real-time PCR-based DNA amplification and detection and microarrays were the main growth drivers. Sales of sequencing products more than doubled despite increased pressure from competitors. Major launches included an update of the ultra-fast Genome Sequencer FLX and the new LightCycler 480 II, both designed for an even wider range of research applications. Over 40 NimbleGen HD2 microarrays, offering the highest resolution on the market, were launched worldwide for applications ranging from gene expression studies to DNA sequencing.

Tissue Diagnostics

In February Roche completed the acquisition of US-based Ventana Medical Systems, Inc., a leader in tissue-based diagnostic testing. Integration of the company is proceeding as planned.

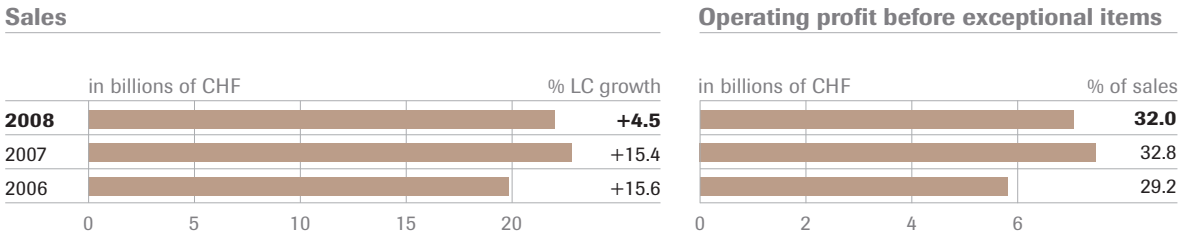
The Diagnostics Division's revenues include Ventana sales of 164 million Swiss francs, for the period from early February to 30 June. These additional revenues represent 4 percentage points of divisional sales growth. On a stand-alone basis, Ventana's sales for the entire first half-year totalled 183 million US dollars, an increase of 27% in local currencies (34% in US dollars) from the first half of 2007. This was roughly twice the market growth rate and translated into further market share gains in North America and the EMEA region (Europe, Middle East, Africa).

Advanced staining (immunohistochemistry and *in situ* hybridisation) remained the biggest growth driver, delivering robust reagent sales and an even stronger than expected rise in instrument sales. Symphony staining system enhancements released in the US in July 2008 are expected to accelerate penetration of the high-volume primary (hematoxylin & eosin) staining market. The Vantage workflow solution, launched in the US in May 2008, is the first complete workflow management system for the anatomical pathology laboratory.

Financial Review

Operating results

Group operating results



In the first half of 2008 the Pharmaceuticals Division continued to perform strongly, as the growth in the underlying business more than compensated for the expected sharp decline in Tamiflu pandemic sales and the planned increases in research and development. In the Diagnostics Division sales increased by 11% in local currencies, however the impact of recent acquisitions and competition in the US diabetes care market resulted in a decline in the operating margin. The strengthening of the Swiss franc against most currencies had a substantial negative impact on the operating results when translated from local currencies into Swiss francs.

Total sales grew by 4% in local currencies (–4% in Swiss francs; 13% in US dollars) to 22.0 billion Swiss francs, with the Pharmaceuticals Division representing 78% of Group sales and the Diagnostics Division contributing 22%. The increase in sales from the underlying business more than compensated for the anticipated fall in Tamiflu pandemic government and corporate sales from 1.2 billion Swiss francs in the first half of 2007 to 95 million Swiss francs in the first half of 2008. Growth in local currencies and excluding Tamiflu pandemic sales was 10% or 2.1 billion Swiss francs. The considerable rise in the Swiss franc against most major foreign currencies translated to approximately 1.8 billion lower sales when expressed in Swiss francs.

Demand for the Group's oncology drugs Avastin, MabThera/Rituxan, Herceptin, Tarceva and Xeloda continued to be strong. Additional growth drivers in the Pharmaceuticals Division were Bonviva/Boniva in metabolism/bone and CellCept in transplantation. In the Diagnostics Division the main growth areas were Professional Diagnostics and Applied Science, with both business areas growing above their respective markets. Following the acquisition of Ventana at the beginning of February 2008, sales in the new Tissue Diagnostics business area were 164 million Swiss francs, contributing 4 percentage points to local currency sales growth of the Diagnostics Division.

The Group's operating profit before exceptional items increased by 2% in local currencies to 7.0 billion Swiss francs. The corresponding operating profit margin declined by 0.8 percentage point to 32.0% due to a margin reduction in the Diagnostics Division of 8.6 percentage points. The Pharmaceuticals margin increased by 1.9 percentage points to 38.2% despite significantly lower Tamiflu pandemic sales and increased investments in the strong development pipeline. Approximately half of the fall in the margin of the Diagnostics Division was due to the impact of recent acquisitions (one-time charges, amortisation of acquired intangible assets and investments to develop the acquired businesses) and the rest was mainly due to strong competition in the US diabetes care market and portfolio mix effects.

In the first half of 2008 the average US dollar exchange rate against the Swiss franc was 14% lower than in the comparative period. The euro and the Japanese yen were both 2% lower. The movements in exchange rates since June 2007 have had a significant impact on Swiss franc growth rates: Sales and operating profit before exceptional items growth rates reported in Swiss francs were both 8 percentage points below local currency growth. Natural hedges in the structure of the Group's operations meant that the Group operating margin was not significantly impacted by foreign exchange movements.

Group operating results for the six months ended 30 June 2008

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	17,257	4,747	–	22,004
Operating profit before exceptional items	6,593	581	(133)	7,041
– margin, % of sales	38.2	12.2	–	32.0
Operating free cash flow	4,685	251	(130)	4,806
– margin, % of sales	27.1	5.3	–	21.8

Group operating results – Development of results compared to the six months ended 30 June 2007

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase in local currencies	+3	+11	–	+4
Operating profit before exceptional items				
– % increase in local currencies	+8	–37	+19	+2
– margin: percentage point increase	+1.9	–8.6	–	–0.8
Operating free cash flow				
– % increase in local currencies	+6	–61	–40	–2
– margin: percentage point increase	+0.6	–11.0	–	–1.7

Pharmaceuticals operating results

The Pharmaceuticals Division increased its sales by 3% in local currencies (–6% in Swiss francs; 10% in US dollars) to 17.3 billion Swiss francs. Excluding Tamiflu pandemic government and corporate sales, local sales growth was 9% outpacing global market growth by a factor of more than two. Operating profit before exceptional items was 6.6 billion Swiss francs, and the corresponding margin 38.2%, increasing 1.9 percentage points compared to the first half of 2007 despite the significantly lower Tamiflu pandemic sales and the increased investments in research and development.

Marketing costs declined slightly in local currencies in spite of continued support for the growing oncology portfolio with broader indications particularly for Avastin, as well as investments for the launch of Actemra. The decline was mainly caused by the absence of last year's pre-launch expenses for Mircera in the United States and the ongoing prioritisation of marketing resources and activities. The increase in research and development expenses was significantly above the increase in sales due to continued high investments in the strong pipeline and expanded portfolio as well as the large number of clinical trials.

Pharmaceuticals Division results for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (CHF)	% change (local currencies)
Sales	17,257	18,268	–6	+3
Royalties and other operating income	1,059	1,070	–1	+10
Cost of sales	(4,219)	(4,828)	–13	–5
Marketing and distribution	(3,164)	(3,469)	–9	–1
Research and development	(3,670)	(3,657)	0	+11
General and administration	(670)	(744)	–10	–1
Operating profit before exceptional items	6,593	6,640	–1	+8
– margin, % of sales	38.2	36.3	+1.9	
Operating free cash flow	4,685	4,835	–3	+6
– margin, % of sales	27.1	26.5	+0.6	

Sales: The major growth drivers were key products in the therapeutic areas oncology, metabolism/bone, inflammation, transplant and virology (excluding Tamiflu pandemic sales). Sales in the therapeutic area renal anemia decreased mainly as a result of lower NeoRecormon sales due to continued price pressure and lower Epogin sales in Japan following increased competition.

Pharmaceuticals Division – Sales by therapeutic area for the six months ended 30 June 2008

Therapeutic area	Sales (mCHF)	% of sales	% change (local currencies)
Oncology	9,363	54	+15
Inflammation/Autoimmune/Transplantation	1,558	9	+19
Virology	1,669	10	+9[1)]/–34
Metabolism/Bone	1,358	8	+12
Renal anemia	644	4	–14
Others	2,665	15	–7
Total	17,257	100	+9[1)]/+3

1) Excluding Tamiflu pandemic government and corporate sales.

In the first half of 2008 the Top 20 Pharmaceuticals products, which represented 85% of the Pharmaceuticals portfolio, grew 6% (14% excluding Tamiflu pandemic sales) with the majority of products showing sales growth. The local sales growth of the Pharmaceuticals Division was driven by seven products: Avastin, MabThera/Rituxan, Herceptin, Bonviva/Boniva, Tarceva, CellCept and Xeloda. These products represent 60% of the portfolio (first half 2007: 51%; first half 2006: 48%) and together generated almost 1.0 billion Swiss francs of additional sales compared to the first half of 2007 despite the strong negative currency impact mainly from the US dollar. Sales of Tamiflu declined due to non-recurring pandemic sales. Other decreases in sales were primarily due to generic erosion following patent expiry, strong competition in certain franchises and the return of a group of marketed products to Sanofi-Aventis.

Pharmaceuticals Division – Sales of Top 20 products for the six months ended 30 June 2008

Product	Sales (mCHF)	% of sales	% change (local currencies)	Franchise
MabThera/Rituxan	2,867	17	+17	Oncology/IAT[1)]
Herceptin	2,474	14	+11	Oncology
Avastin	2,351	14	+36	Oncology
CellCept	1,010	6	+13	IAT[1)]
NeoRecormon/Epogin	892	5	–14	Anemia, Oncology
Pegasys	785	4	+3	Virology
Tarceva	587	3	+28	Oncology
Xeloda	573	3	+14	Oncology
Bonviva/Boniva	507	3	+51	Metabolism/Bone
Lucentis	440	3	–2	Ophthalmology
Tamiflu	327	2	–71	Virology
– of which pandemic	*95*	*1*	*–91*	*Virology*
Xenical	264	2	–16	Metabolism/Bone
Valcyte/Cymevene	261	2	+10	Virology
Xolair	259	1	+7	Respiratory diseases
Pulmozyme	237	1	+13	Respiratory diseases
Nutropin	195	1	–5	Metabolism/Bone
Neutrogin	192	1	+1	Oncology
Rocephin	176	1	–9	Infectious diseases
Activase/TNKase	164	1	–7	Cardiovascular diseases
Madopar	154	1	+5	Nervous System
Total Top 20 products	14,715	85	+6	
Other products	2,542	15	–12	
Total	17,257	100	+3	
Excluding Tamiflu pandemic government and corporate sales				
Total Top 20 products	14,620	85	+14	
Other products	2,542	15	–12	
Total	17,162	100	+9	

1) Inflammation/Autoimmune/Transplantation.

Sales by region: Sales excluding Tamiflu pandemic government and corporate sales continued to grow across all regions. Growth in North America was 10% in local currencies compared to a flat market, driven by products marketed by Genentech (MabThera/Rituxan, Avastin, Herceptin and Tarceva) as well as the Roche Pharmaceuticals products Tamiflu (seasonal sales), Bonviva/Boniva, CellCept and Xeloda. Roche Pharmaceuticals continued to gain market share in the Western Europe and CEMAI (Central and Eastern Europe, Middle East, Africa, Indian Subcontinent) regions, driven by further strong sales growth of Avastin, MabThera/Rituxan, Herceptin, Tarceva and Bonviva/Boniva. Sales in Japan remained stable, as the launches of Avastin, the combination therapy Pegasys/Copegus and Tarceva compensated for normal biennial price cuts in Japan, which became effective 1 April 2008, and the return of a group of marketed products to Sanofi-Aventis. Tamiflu sales decreased sharply due to the completion of most pandemic stockpiling orders from governments and corporations last year particularly in Western Europe, Japan and the CEMAI region.

Pharmaceuticals Division – Sales by regions for the six months ended 30 June 2008

Region	Sales (mCHF)	% of sales	% change (local currencies)
North America	6,902	40	+10[2)]/+5
Western Europe	5,204	30	+8[2)]/+2
CEMAI[1)]	1,577	9	+14[2)]/+7
Japan	1,452	8	0[2)]/–11
Latin America	1,120	7	+15[2)]/+14
Asia-Pacific	873	5	+14[2)]/+5
Others	129	1	–17[2)]/–22
Total	17,257	100	+9[2)]/+3

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

2) Excluding Tamiflu pandemic government and corporate sales.

Royalties and other operating income: The decrease of 11 million Swiss francs was mainly due to 315 million Swiss francs lower income from out-licensing agreements, which offset increases in royalty income and gains on disposal of products. In local currencies royalties and other operating income increased by 10% driven by the increase gains on product divestments. The fall in out-licensing income was mainly due to relatively large income in the first half of 2007, notably a significant milestone payment for orlistat OTC rights from GlaxoSmithKline. Gains on product divestments were 219 million Swiss francs higher and include a gain of 132 million Swiss francs from the second stage of the disposal of three products to Actavis, a gain of 50 million Swiss francs from the disposal of products in Turkey as well as a gain of 96 million Swiss francs from a sale of product rights, all being part of the continuous realignment of the product portfolio.

Pharmaceuticals Division – Royalties and other operating income for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Royalty income	589	504	+34
Income from out-licensing agreements	177	492	–60
Income from disposal of products and other	293	74	+306
Total	1,059	1,070	+10

Cost of sales: The decrease of 5% in local currencies was mainly driven by an 11% decline in manufacturing cost of goods sold and period costs. This was due to manufacturing efficiencies, favourable product mix effects and the impact from 115 million Swiss francs Viracept recall costs included in the 2007 interim results. Royalty expenses on product sales decreased to 1,024 million Swiss francs (2007: 1,172 million Swiss francs) following lower Tamiflu pandemic government and corporate sales. Amortisation of intangible assets decreased by 14% in local currencies as some intangible assets became fully amortised. All of the above more than compensated for the 20% local currency increase in collaboration and profit sharing agreements. Genentech's underlying collaboration profit-sharing expenses with its partners Biogen Idec, Novartis and OSI increased in local currencies due to higher sales of MabThera/Rituxan, Xolair and Tarceva, respectively. When translated into Swiss francs, this shows a decrease to 622 million Swiss francs (2007: 650 million Swiss francs) due to the weaker US dollar. The gross profit share to GlaxoSmithKline has increased to 223 million Swiss francs (2007: 167 million Swiss francs) following increased Bonviva/Boniva sales.

Pharmaceuticals Division – Cost of sales for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(2,074)	(2,505)	–11
Royalty expenses	(1,024)	(1,172)	–5
Collaboration and profit-sharing agreements	(888)	(850)	+20
Amortisation of intangible assets	(233)	(300)	–14
Impairment of property, plant and equipment	–	(1)	–96
Impairment of intangible assets	–	–	–
Total	(4,219)	(4,828)	–5

Marketing and distribution: Costs declined slightly in local currencies to 3.2 billion Swiss francs (2007: 3.5 billion Swiss francs). Significant investments continued in leveraging the rich oncology portfolio, with the roll-out of additional approved indications and in particular the pan-tumour positioning of Avastin. Heavy levels of investment continued in Bonviva/Boniva and Pegasys and additionally there were preparations for the launch of Actemra in rheumatoid arthritis. These increases were offset by the absence of last year's pre-launch preparation for Mircera in the United States. Overall, in spite of these investments, the ongoing prioritisation of marketing resources and activities enabled costs to be maintained at the same level as in the first half of 2007. Marketing and distribution costs as a percentage of sales were 18.3% (2007: 19.0%).

Research and development: The increase of 11% in local currencies to almost 3.7 billion Swiss francs reflects continued investment to realise the full potential of the strong development portfolio. This investment includes the late-stage clinical testing of promising compounds such as dalcetrapib (CETP inhibitor for dyslipidemia), ocrelizumab (autoimmune disorders), pertuzumab (breast cancer), and taspoglutide (GLP-1 analogue for type 2 diabetes). Investments were also made in numerous programmes aimed at expanding the use of Roche's leading anticancer medicines into additional indications, such as Avastin in adjuvant colon cancer. Research and development costs as a percentage of sales were 21.3% compared to 20.0% in the first half of 2007 and 21.3% in the second half of 2007. The Pharmaceuticals Division in total spent 189 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets as required by IFRS. In total the division spent 3.8 billion Swiss francs on internal and purchased R&D from in-licensing and other alliance deals, representing 22.1% of sales. In addition, Roche Pharmaceuticals spent a further 176 million Swiss francs on the acquisition of the biotechnology company Piramed.

Pharmaceuticals Division – Investments in research and development for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Research and development expenses	3,670	3,657	+11
Less non-cash items			
– Amortisation of intangible assets	(16)	(15)	+17
– Impairment of intangible assets	(30)	(16)	+94
Research and development expenses excluding non-cash items	3,624	3,626	+10
Product intangibles – not available for use	189	398	–50
Technology intangibles	–	–	–
Research and development related capital expenditure	189	398	–50
Total investments in research and development	3,813	4,024	+4

General and administration: Overall there was a decrease of 74 million Swiss francs or 1% in local currencies due to lower legal expenses and lower implementation costs for a business harmonisation project including the establishment of a European shared services centre in Budapest.

Pharmaceuticals Division – General and administration for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Administration	(690)	(766)	–2
Legal and environmental settlements	1	(8)	–
Business combinations – transaction expenses	(2)	–	–
Restructuring expenses	(2)	(10)	–82
Gains (losses) on disposal of property, plant and equipment	5	(6)	–
Other general items	18	46	–67
Total	(670)	(744)	–1

Pharmaceuticals sub-divisional results for the six months ended 30 June

2008	Sales (mCHF)	Operating profit before exceptional items (mCHF)	Operating profit before exceptional items as % of sales	Operating free cash flow (mCHF)	Operating free cash flow as % of sales
Roche Pharmaceuticals	10,938	3,693	33.8	3,204	29.3
Genentech	4,867	2,630	54.0	1,236	25.4
Chugai	1,452	279	19.2	245	16.9
Elimination within division[1)]	–	(9)	–	–	–
Pharmaceuticals Division	17,257	6,593	38.2	4,685	27.1
2007					
Roche Pharmaceuticals	11,367	3,583	31.5	2,724	24.0
Genentech	5,227	2,949	56.4	1,725	33.0
Chugai	1,674	334	20.0	386	23.1
Elimination within division[1)]	–	(226)	–	–	–
Pharmaceuticals Division	18,268	6,640	36.3	4,835	26.5

1) Unrealised internal profits on inventories that have been sold from one sub-division to another, but which have not yet been sold on to external customers at the balance sheet date are eliminated as a consolidation entry.

Roche Pharmaceuticals: Sales increased by 2% in local currencies despite the impact from declining Tamiflu pandemic government and corporate sales. Excluding these, local sales growth was 11%. Operating profit margin increased by 2.3 percentage points to 33.8%. There were favourable developments in cost of sales from manufacturing efficiencies and some product mix impacts and the absence of 115 million Swiss francs following the Viracept recall included in the 2007 interim results. Elsewhere lower M&D costs and increased income from product disposals outweighed lower out-licensing income, higher investments in research and development and higher expenses to alliance and collaboration partners. The lower royalty expenses to third parties of 639 million Swiss francs, mainly due to the decline in Tamiflu sales, were more than compensated by higher royalty expenses to Genentech of 818 million Swiss francs (2007: 671 million Swiss francs) following the continued success of the oncology portfolio outside the US.

Genentech: Sales grew by 9% in local currencies, whereas the operating profit margin before exceptional items decreased by 2.4 percentage points to 54.0%. The main drivers here were continued heavy investments in research and development, despite higher royalty and other operating income both from third parties and from Roche Pharmaceuticals. Sales to Roche Pharmaceuticals were significantly lower than in the first half of 2007.

Chugai: Sales decreased by 11% in local currencies, driven primarily by governmental Tamiflu pandemic stockpiling in the first half of 2007. Excluding Tamiflu pandemic, sales were stable in local currencies. A group of marketed products were returned to Sanofi-Aventis in early 2008. This product group had a sales value of almost 60 million Swiss francs in the first half of 2007 and reduced sales growth by 3 percentage points. Operating profit decreased by 13% in local currencies driven by lower sales. The lower sales, increased support for product launches and the stable high level of research and development expenses resulted in a decrease of 0.8 percentage points in the operating profit margin to 19.2%. In June 2008 the Group increased its ownership interest in Chugai's outstanding shares to 61.5% through a tender offer.

Additional information on the Pharmaceuticals Division's sub-divisional results is given in Note 2 to the Interim Financial Statements and further information on Genentech and Chugai is given in Notes 3 and 4.

Exceptional items

Major legal cases: Settlement income of 315 million Swiss francs was recorded in the first half of 2008 following the California Supreme Court decision of 24 April 2008 in Genentech's litigation with the City of Hope National Medical Center. Additional information is given in Note 9 to the Interim Financial Statements.

Pharmaceuticals Division – Total operating results for the six months ended 30 June

	Roche Pharmaceuticals		Genentech		Chugai		Pharmaceuticals Division[1]	
	2008 (mCHF)	2007 (mCHF)	2008 (mCHF)	2007 (mCHF)	2008 (mCHF)	2007 (mCHF)	2008 (mCHF)	2007 (mCHF)
Operating profit before exceptional items	3,693	3,583	2,630	2,949	279	334	6,593	6,640
Major legal cases	–	–	315	–	–	–	315	–
Operating profit	3,693	3,583	2,945	2,949	279	334	6,908	6,640

1) Includes unrealised internal profits of 9 million Swiss francs (2007: 226 million Swiss francs) on inventories that have been sold from one sub-division to another, but which have not yet been sold on to external customers at the balance sheet date are eliminated as a consolidation entry.

Operating free cash flow: All three sub-divisions of the Pharmaceuticals Division continue to generate strong cash flows. The cash generated supports the expansion of the business with the investments in new production facilities and in intellectual property through in-licensing deals. The operating free cash flow at Genentech was significantly lower in 2008 due partly to the 476 million US dollars litigation settlement paid to the City of Hope National Medical Center from the existing provisions and, when expressed in Swiss francs, partly to the fall in the US dollar relative to the Swiss franc. Additionally, a significant part of Genentech's free cash flow is used in their equity compensation plans, including the purchase of their own equity to maintain Roche's ownership percentage. In 2008 this was equivalent to 794 million Swiss francs (2007: 818 million Swiss francs). Overall operating free cash flows increased by 6% in local currencies which translates to a decrease of 3% when shown in Swiss francs. As a percentage of sales, operating free cash flow of the Pharmaceuticals division increased to 27.1% compared to 26.5% in the first half of 2007.

Pharmaceuticals Division – Operating free cash flow for the six months ended 30 June

2008	Roche Pharmaceuticals (mCHF)	Genentech (mCHF)	Chugai (mCHF)	Elimination within division[1] (mCHF)	Pharma-ceuticals Division (mCHF)
Operating profit	3,693	2,945	279	(9)	6,908
Operating profit cash adjustments[2]	393	(869)	82	–	(394)
(Increase) decrease in net working capital	(292)	(305)	22	9	(566)
Investments in property, plant and equipment	(466)	(454)	(138)	–	(1,058)
Investments in intangible assets	(124)	(81)	–	–	(205)
Operating free cash flow	3,204	1,236	245	–	4,685
– as % of sales	*29.3*	*25.4*	*16.9*	–	*27.1*

2007	Roche Pharmaceuticals (mCHF)	Genentech (mCHF)	Chugai (mCHF)	Elimination within division[1] (mCHF)	Pharma-ceuticals Division (mCHF)
Operating profit	3,583	2,949	334	(226)	6,640
Operating profit cash adjustments[2]	120	(14)	75	–	181
(Increase) decrease in net working capital	(521)	(418)	62	226	(651)
Investments in property, plant and equipment	(373)	(662)	(85)	–	(1,120)
Investments in intangible assets	(85)	(130)	–	–	(215)
Operating free cash flow	2,724	1,725	386	–	4,835
– *as % of sales*	*24.0*	*33.0*	*23.1*	–	*26.5*

1) Unrealised internal profits on inventories that have been sold from one sub-division to another, but which have not yet been sold on to external customers at the balance sheet date are eliminated as a consolidation entry.

2) Operating profit cash adjustments consist of the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of PPE and intangible assets with their cash equivalents. A detailed breakdown is provided on pages 59–60.

Diagnostics operating results

The Diagnostics Division increased sales to 4.7 billion Swiss francs, growing 11% in local currencies (4% in Swiss francs; 22% in US dollars) while strengthening its leading market position. The operating profit decreased by 37% in local currencies to 581 million Swiss francs. There was a margin decline of 8.6 percentage points to 12.2%, of which approximately half was due to the impact of recent acquisitions, including amortisation of acquired intangible assets and investments to develop the acquired businesses. The remainder of the decline was mostly due to strong competition in the US diabetes care market and portfolio mix effects. During the interim period the division completed the acquisition of Ventana for a total consideration of 3.8 billion Swiss francs.

Diagnostics Division results for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (CHF)	% change (local currencies)
Sales	4,747	4,559	+4	+11
Royalties and other operating income	77	88	–13	–5
Cost of sales	(2,313)	(1,992)	+16	+25
Marketing and distribution	(1,207)	(1,090)	+11	+19
Research and development	(437)	(360)	+21	+29
General and administration	(286)	(256)	+12	+22
Operating profit	581	949	–39	–37
– margin, % of sales	12.2	20.8	–8.6	
Operating free cash flow	251	745	–66	–61
– margin, % of sales	5.3	16.3	–11.0	

Sales: Major drivers of sales growth were Professional Diagnostics leveraged by Immunodiagnostics and Applied Science in particular the sequencing business. Roche Diabetes Care's sales increased by 2%, driven by the renewed Accu-Chek portfolio, in particular the Accu-Chek Aviva. The overall increase in Diabetes Care sales was achieved despite a 7% decline for the first half of 2008 in sales in North America. Molecular Diagnostics' sales increased by 4%, as increased sales volumes in virology helped to offset continued and increased pressure on prices for blood screening products. The acquisition of Ventana was completed at the beginning of February 2008 and sales in the new Tissue Diagnostics business area were 164 million Swiss francs for the five months to 30 June 2008. These contributed 4 percentage points to local currency sales growth of the Diagnostics Division.

Diagnostics Division – Sales by business area for the six months ended 30 June 2008

Business area	Sales (mCHF)	% of sales	% change (local currencies)
Professional Diagnostics	2,183	46	+9
Diabetes Care	1,482	31	+2
Molecular Diagnostics	551	12	+4
Applied Science	367	8	+21
Tissue Diagnostics	164	3	n/a
Total	4,747	100	+11

Sales by regions: Overall sales continued to grow ahead or in line with the total market in all regions. In North America the increase of 15%, which includes 11 percentage points from Ventana, was driven by the Professional Diagnostics and Applied Science business areas which more than compensated for the 7% decline in Diabetes Care in the North American market. Japan grew significantly more than its market with a 12% increase, while strong performance was also seen in emerging markets in Europe and Asia–Pacific.

Diagnostics Division – Sales by regions for the six months ended 30 June 2008

Region	Sales (mCHF)	% of sales	% change (local currencies)
EMEA[1)]	2,662	56	+7
North America	1,192	25	+15
Asia–Pacific	406	9	+22
Latin America	264	6	+17
Japan	206	4	+12
Other regions	17	0	+12
Total	4,747	100	+11

1) Europe, Middle East and Africa.

Royalties and other operating income: Income of 77 million Swiss francs was 5% lower in local currencies compared to the first half of 2007, which included higher one-time royalty income.

Diagnostics Division – Royalties and other operating income for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Royalty income	50	64	–12
Income from out-licensing agreements	25	22	+18
Income from disposal of products and other	2	2	–15
Total	77	88	–5

Cost of sales: The overall increase of 25% in local currencies was considerably higher than sales growth. This was primarily a result of a number of impacts from the acquisitions made by the division over the last year and a half. Firstly, amortisation of product intangibles increased by 52% in local currencies, partly due to the first half of 2008 including a full six months amortisation charge from the 2007 acquisitions and partly from Ventana. Secondly, manufacturing cost of goods sold and period costs includes an acquisition accounting effect of 32 million Swiss francs of expenses relating to the fair-value write-up of Ventana's inventory which was fully written off during the first half of 2008. Finally, first half royalty expenses in 2007 include the reversal of 57 million Swiss francs of BioVeris royalty accruals.

Excluding acquisition accounting impacts, the underlying manufacturing cost of goods sold and period costs grew by 15% in local currencies, primarily driven by continued investment in instrument and meter placements to expand market share, and total cost of sales as a percentage to sales increased to 46.7% in the first half of 2008 compared to 44.9% in the first half of 2007.

Diagnostics Division – Cost of sales for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(1,942)	(1,774)	+17
Royalty expenses	(144)	(62)	+168
Collaboration and profit-sharing agreements	–	–	–
Amortisation of product intangibles	(219)	(156)	+52
Impairment of property, plant and equipment	(8)	–	–
Impairment of product intangibles	–	–	–
Total	(2,313)	(1,992)	+25

Marketing and distribution: The increase of 19% in local currencies was mainly due to investments to increase market share, especially in Diabetes Care, and to competitively fund the sequencing and array businesses in Applied Science. Excluding the impact of the newly acquired Tissue Diagnostics business, marketing and distribution costs grew 15% in local currencies. Marketing and distribution as a percentage of sales was 25.4% compared to 23.9% in the first half of 2007 and 25.4% in the second half of 2007.

Research and development: Costs increased by 29% in local currencies reflecting investments into the sequencing and array businesses, and into molecular oncology tests and new products in diabetes care. Tissue Diagnostics contributed 8 percentage points to this growth. As a percentage of sales, research and development costs increased to 9.2% from 7.9% in the first half of 2007. Research and development expenses as a percentage of sales in the second half of 2007 were 8.9%.

Diagnostics Division – Investments in research and development for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Research and development expenses	437	360	+29
Less non-cash items			
– Amortisation of intangible assets	(4)	(1)	+167
– Impairment of intangible assets	–	–	–
Research and development expenses excluding non-cash items	433	359	+28

General and administration: General and administration costs increased by 22% in local currencies. The administration growth of 17% in local currencies is primarily driven by this year's acquired Tissue Diagnostics business, representing 13 percentage points of the growth. The acquired businesses of 454 Life Sciences in May 2007, BioVeris in June 2007 and NimbleGen in August 2007 contributed as well to the remaining administration growth. In the first half of 2008, there were 40 million Swiss francs of transaction expenses relating to the Ventana acquisition. Restructuring costs were significantly lower in 2008, mainly due to 2007 including 49 million Swiss francs of post-acquisition restructuring expenses at BioVeris. Costs in 2008 consist of 21 million Swiss francs restructuring expenses relating to the transfer of production in Professional Diagnostics from the United States to Germany and Switzerland.

Diagnostics Division – General and administration for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (local currencies)
Administration	(196)	(180)	+17
Legal and environmental settlements	(17)	(24)	–26
Business combinations – transaction expenses	(40)	–	–
Restructuring expenses	(21)	(49)	–49
Gains (losses) on disposal of property, plant and equipment	(3)	1	–
Other general items	(9)	(4)	+122
Total	(286)	(256)	+22

Operating free cash flow: Compared to the first half of 2007, the lower operating profit and significantly higher investments in property, plant and equipment, particularly in instrument placements, were the main drivers for the decrease in operating free cash flow in the first half of 2008.

Diagnostics Division – Operating free cash flow for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)
Operating profit	581	949
Operating profit cash adjustments[1)]	551	524
(Increase) decrease in net working capital	(334)	(307)
Investments in property, plant and equipment	(545)	(415)
Investments in intangible assets	(2)	(6)
Operating free cash flow	251	745
– as % of sales	*5.3*	*16.3*

1) Operating profit cash adjustments consist of the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of PPE and intangible assets with their cash equivalents. A detailed breakdown is provided on pages 59–60.

Corporate operating costs

General and administration: Costs in the interim period were 19% higher in local currencies at 133 million Swiss francs (112 million Swiss francs in 2007). The interim results 2008 include 9 million Swiss francs of costs due to the realignment of divisional human resource activities into corporate human resources. In 2007, these costs were part of the Pharmaceuticals and Diagnostics divisional results. Operating free cash flow was a net outflow of 130 million Swiss francs (2007: net outflow of 215 million Swiss francs).

Foreign exchange impact on operating results

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

Growth for the six months ended 30 June

	% change (local currencies) 2008	% change (local currencies) 2007	% change (CHF) 2008	% change (CHF) 2007
Sales	+4	+15	–4	+15
Operating profit before exceptional items	+2	+27	–6	+29

Exchange rates against the Swiss franc

	30 June 2008	Average to 30 June 2008	31 December 2007	Average to 30 June 2007
1 USD	1.02	1.05	1.13	1.23
1 EUR	1.61	1.61	1.66	1.63
100 JPY	0.96	1.00	1.00	1.02

In the first half of 2008 the US dollar significantly weakened against the Swiss franc. The Swiss franc also strengthened against the euro, the Japanese yen and many other economies' currencies. As a result, the difference between sales growth and operating profit growth expressed in Swiss francs was 8 percentage points lower than in local currencies. The sensitivity of Group sales and operating profit before exceptional items in absolute terms to a 1% movement in foreign currencies against the Swiss franc during the first half of 2008 are shown in the table below.

Currency sensitivities for the six months ended 30 June 2008

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Operating profit before exceptional items (mCHF)
US dollar	79	21
Euro	64	35
Japanese yen	17	6
All other currencies	51	33

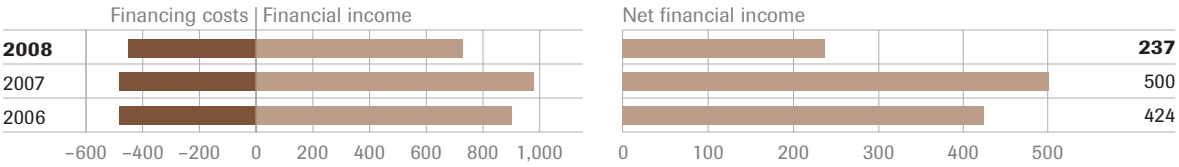
Non-operating results

Non-operating results for the six months ended 30 June

	2008 (mCHF)	2007 (mCHF)	% change (CHF)
Operating profit	7,356	7,477	–2
Associated companies	–	–	–
Financial income	684	979	–30
Financing costs	(447)	(479)	–7
Profit before taxes	7,593	7,977	–5
Income taxes	(1,861)	(2,115)	–12
Net income	5,732	5,862	–2
Attributable to			
– Roche shareholders	4,820	4,919	–2
– Non-controlling interests	912	943	–3

During 2008 the Group's treasury operations delivered a positive net financial income, with net income from financial assets and foreign exchange management exceeding financing costs by 237 million Swiss francs. The Group's effective tax rate declined to 24.5% compared to 26.5% in the comparative period in 2007, despite an increased pre-tax profit contribution from Genentech. Net income decreased due to the combination of developments on the operating and financial lines, partially compensated by the lower effective tax rate.

Net financial income *in millions of CHF*



Financial income: Financial income was 684 million Swiss francs, declining 30% compared to the first six months of 2007. Interest income and income from debt securities were 288 million Swiss francs, down 46% due to lower holdings, lower US interest rates and a weaker US dollar compared to the Swiss franc. Furthermore, fewer gains were realised on sale of debt securities and 51 million Swiss francs of losses were incurred on derivatives relating to debt securities. Net income from equity securities was 99 million Swiss francs compared to 149 million Swiss francs in 2007. Funds continue to be invested with a conservative risk profile. Expected returns on pension plan assets were 339 million Swiss francs, up 1% compared to 2007. Net foreign exchange losses were 32 million Swiss francs compared to losses of 27 million Swiss francs in 2007. A full analysis of financial income is given in Note 5 to the Interim Financial Statements.

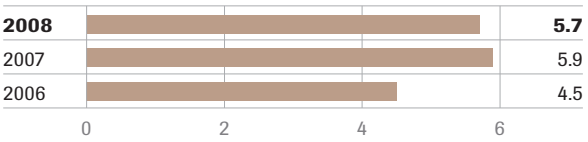
Financing costs: Financing costs were 447 million Swiss francs, 7% lower compared to the first half of 2007 reflecting the redemption of 'Rodeo' Swiss franc bonds and 'LYONs V' US dollar exchangeable notes, as well as a weaker US dollar compared to the Swiss franc. Time costs of provisions were 16 million Swiss francs, 20 million Swiss francs lower than in 2007, reflecting the settlement of the City of Hope litigation in the second quarter of 2008. The interest cost of pension plans was 323 million Swiss francs, an increase of 5% compared to the first six months of 2007, due to changes in discount rates used for actuarial calculations. A full analysis of financing costs is given in Note 5 to the Interim Financial Statements.

Income taxes: The Group's effective tax rate declined to 24.5% compared to the interim 2007 rate of 26.5%. The increasing pre-tax profit contribution from Genentech acted to increase the Group tax rate. Excluding Genentech and Chugai, the underlying effective tax rate is 11.7%, which is significantly lower than the first half of 2007 (17.1%). This reflects lower taxable profits in certain high tax jurisdictions and certain one-time effects, notably a change in tax rates in Basel that was effective in 2008.

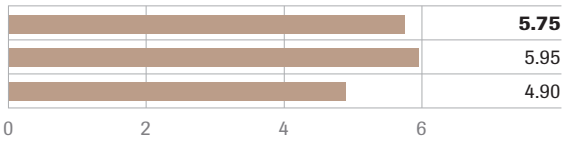
Analysis of the Group's effective tax rate for the six months ended 30 June

	Profit before tax (mCHF)	Income taxes (mCHF)	2008 Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	2007 Tax rate (%)
Roche (excl. Genentech and Chugai)	4,222	(495)	11.7	4,583	(783)	17.1
Genentech	3,080	(1,257)	40.8	3,055	(1,201)	39.3
Chugai	291	(109)	37.5	339	(131)	38.7
Group's effective tax rate	7,593	(1,861)	24.5	7,977	(2,115)	26.5

Net income *in billions of CHF*



Core EPS *in CHF*



Net income: In the interim period Group net income decreased by 2% to 5.7 billion Swiss francs. Net income attributable to Roche shareholders decreased by 2% and net income attributable to non-controlling interests decreased by 3%. Of the total 912 million Swiss francs non-controlling interests, 804 million Swiss francs are attributable to Genentech non-controlling interests and 97 million Swiss francs to Chugai non-controlling interests.

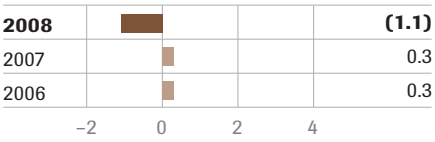
Diluted EPS for the six months ended 30 June

	2008 (CHF)	2007 (CHF)	% change
Group	5.50	5.62	–2
Core	5.75	5.95	–3

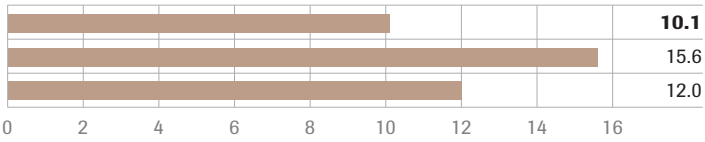
Earnings per share: The decrease in diluted EPS was due to the decrease in net income attributable to Roche shareholders, as described above. The Core EPS, which excludes amortisation and impairment of intangible assets, decreased by 3%. In local currencies Core EPS increased by 3%. Excluding the impact of the Ventana acquisition, Core EPS increased by 5% in local currencies. Supplementary net income and EPS information is given on page 58. This includes calculations of Core EPS and reconciles these to the Group's published IFRS results.

Cash flows and net cash

Free cash flow
in billions of CHF



Net cash
in billions of CHF



Free cash flow for the six months ended 30 June

2008	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Operating profit	6,908	581	(133)	7,356
Operating profit cash adjustments	(394)	551	8	165
(Increase) decrease in net working capital	(566)	(334)	(3)	(903)
Investments in property, plant and equipment	(1,058)	(545)	(2)	(1,605)
Investments in intangible assets	(205)	(2)	–	(207)
Operating free cash flow	4,685	251	(130)	4,806
Treasury activities				220
Taxes paid				(2,122)
Dividends paid				(4,014)
Free cash flow				(1,110)

2007	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Operating profit	6,640	949	(112)	7,477
Operating profit cash adjustments	181	524	(12)	693
(Increase)/decrease in net working capital	(651)	(307)	(91)	(1,049)
Investments in property, plant and equipment	(1,120)	(415)	–	(1,535)
Investments in intangible assets	(215)	(6)	–	(221)
Operating free cash flow	4,835	745	(215)	5,365
Treasury activities				602
Taxes paid				(2,728)
Dividends paid				(2,986)
Free cash flow				253

The detailed development of the operating free cash flow is described in the operating results section. Overall operating free cash flow in Swiss francs was down in the first half of 2008, mainly due to a lower operating free cash flow in Diagnostics, as well as currency translation effects. The underlying business continues with good cash generation, partly absorbed by capital expenditure and growth in working capital as the business expands. Operating profit cash adjustments consist of the elimination of depreciation, amortisation and impairment charges and the replacement of the operating income/expenses for provisions, equity compensation plans and disposals of property, plant and equipment and intangible assets with their cash equivalents. Also included is the net impact of the Group's equity compensation plans, including cash received from employees upon exercise, cash used by Roche to purchase own equity for delivery to employees and cash used by Genentech for their stock repurchase programme which maintains Roche's ownership percentage. A detailed breakdown of this is provided on pages 59–60. Operating free cash flow also includes cash movements in working capital and the cash payments for capital expenditure on property, plant and equipment and intangible assets, the latter mainly arising through in-licensing deals.

As usual a significant portion of the operating free cash in the first half is absorbed by the annual dividend payment. Treasury operations showed positive cash generation, mainly from interest and dividend income. Underlying tax payments increased in line with the growth of the business, however in total taxes paid in 2008 decreased significantly compared to the first half of 2007 which included significant final settlement payments of previously accrued amounts.

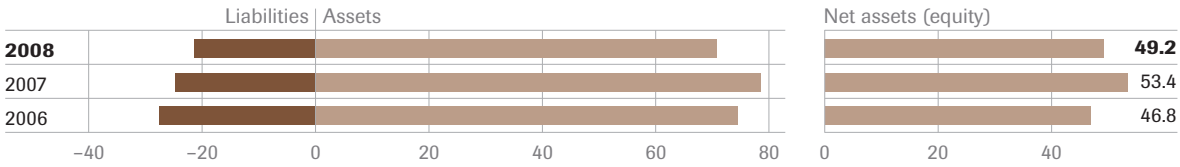
Net cash

31 December 2007	Roche (mCHF)	Genentech (mCHF)	Chugai (mCHF)	Group (mCHF)
Cash and cash equivalents	1,869	1,157	729	3,755
Marketable securities	14,496	5,209	742	20,447
Long-term debt	(1,270)	(2,564)	–	(3,834)
Short-term debt	(2,357)	(675)	–	(3,032)
Net cash at beginning of period	12,738	3,127	1,471	17,336
Free cash flow for the six months ended 30 June 2008	(1,400)	283	7	(1,110)
Transactions in own equity instruments	(143)	–	–	(143)
Business combinations	(2,657)	–	–	(2,657)
Changes in ownership interests in subsidiaries	(2,219)	–	–	(2,219)
Currency translation, fair value and other movements	(548)	(482)	(62)	(1,092)
Net change in net cash	(6,967)	(199)	(55)	(7,221)
30 June 2008				
Cash and cash equivalents	1,229	2,141	687	4,057
Marketable securities	6,990	3,929	729	11,648
Long-term debt	(1,150)	(2,532)	–	(3,682)
Short-term debt	(1,298)	(610)	–	(1,908)
Net cash at end of period	5,771	2,928	1,416	10,115

Net cash decreased by 7.2 billion Swiss francs during the first six months of 2008. Shareholder dividends and income tax payments exceeded the operating free cash flow generated in the first six months, resulting in a negative free cash flow of 1.1 billion Swiss francs. Additionally in the first half of 2008 the Group paid 3.9 billion Swiss francs in cash for the acquisitions of Ventana and Piramed and 0.9 billion Swiss francs to increase its ownership in Chugai. The Group also repaid debt of 1.0 billion Swiss francs for the 'Rodeo' bonds. This reduced debt and liquid assets, but had no impact on net cash.

Balance sheet

Balance sheet *in billions of CHF*



Condensed balance sheet

	30 June 2008 (mCHF)	31 December 2007 (mCHF)	% change
Property, plant and equipment	17,560	17,832	−2
Goodwill and intangible assets	15,157	13,181	+15
Other non-current assets	3,763	4,518	−17
Cash and marketable securities	15,705	24,202	−35
Other current assets	18,507	18,632	−1
Total assets	70,692	78,365	−10
Debt (current and non-current)	(5,590)	(6,866)	−19
Other non-current liabilities	(6,293)	(6,634)	−5
Other current liabilities	(9,633)	(11,422)	−16
Total liabilities	(21,516)	(24,922)	−14
Total net assets	49,176	53,443	−8
Capital and reserves attributable to Roche shareholders	41,617	45,483	−8
Equity attributable to non-controlling interests	7,559	7,960	−5
Total equity	49,176	53,443	−8

A full consolidated balance sheet is given on page 36 of the Interim Financial Statements.

Non-current assets: Property, plant and equipment decreased, as capital expenditure on new production facilities by Roche Pharmaceuticals and Genentech was compensated by exchange rate impacts, primarily due to the US dollar and euro being 10% and 3% lower at 30 June 2008 compared to 31 December 2007. Goodwill and intangible assets increased by 2.0 billion Swiss francs, mainly from the Ventana and Piramed acquisitions and in-licensing transactions.

Current assets: Within current assets, inventories and accounts receivable were slightly higher in local currencies, while there was a significant decrease in cash and marketable securities as described in net cash above.

Debt: There was a reduction in debt by a further 1.3 billion Swiss francs, of which 1.0 billion Swiss francs relates to the redemption of the 'Rodeo' Swiss franc bonds in March 2008 and the remainder is currency translation.

Other non-current and current liabilities: Most of the decrease of 2.1 million Swiss francs was due to the reduction of income tax liabilities by 0.5 billion Swiss francs and the reduction of 1.0 billion Swiss francs in legal and other provisions following settlements made in 2008, notably at Genentech for the City of Hope litigation.

Total net assets/equity: The most significant movements in equity were the net income of 5.7 billion Swiss francs and the dividend payments of 4.0 billion Swiss francs, currency translation losses of 3.5 billion Swiss francs and the impact of the change in ownership interests in Ventana and Chugai of 2.2 billion Swiss francs in total.

Strong financial condition: The Group remains solidly financed, with equity (including non-controlling interests) representing 70% of total assets and 84% of total assets financed long-term.

Financial risks

The Group manages its financial assets and liabilities in a conservative way. Treasury management supports the Pharmaceuticals and Diagnostics businesses and its activities should not materially affect the Group's risk profile.

Asset allocation: Liquid funds are primarily held as a liquidity reserve. Most funds are invested in a well diversified portfolio of high-quality fixed income securities. Financial markets remained difficult in 2008, with high credit spreads in the markets, leading to declining prices for debt instruments. However, the impact on Roche is relatively minor, considering that 11.5 billion Swiss francs are invested into debt instruments. Roche's prudent asset management approach is also evidenced in the low share of equities within the portfolio of marketable securities of 1% (31 December 2007: 1%). The Group owns additional equity securities, which are kept as part of the Group's strategic alliance efforts. These total 0.7 billion Swiss francs (31 December 2007: 0.8 billion Swiss francs) and are classified as financial long-term assets (see Note 16 to the Annual Financial Statements).

Cash and marketable securities

	30 June 2008 (mCHF)	30 June 2008 (% of total)	31 December 2007 (mCHF)	31 December 2007 (% of total)
Cash and cash equivalents	4,057	26	3,755	16
Money market instruments	4,807	31	11,132	46
Bonds, debentures and other investments	6,682	42	9,023	37
Shares	159	1	292	1
Total cash and marketable securities	15,705	100	24,202	100

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

Value-at-Risk of financial instruments

	30 June 2008 (mCHF)	31 December 2007 (mCHF)
VaR – Foreign exchange component	73	75
VaR – Interest rate component	34	40
VaR – Other price component	68	93
Diversification	(57)	(65)
VaR – Total	118	143

At 30 June 2008, the total VaR of the financial assets and liabilities was 118 million Swiss francs (31 December 2007: 143 million Swiss francs). The foreign exchange VaR remained stable and comes mainly from hedging of non-US dollar cash flows from future royalty income over the next five years at Genentech. The lower contribution from the interest rate component was caused by the ageing of fixed-term liabilities and a longer duration of interest bearing assets. Other price risk arises mainly from movements in the prices of equity securities. At 30 June 2008, the Group held equity securities with a market value of 0.9 billion Swiss Francs (31 December 2007: 1.1 billion Swiss francs). This number includes holdings in biotechnology companies, which were acquired in the context of licensing transactions or scientific collaborations. The lower holdings in equity securities resulted in a lower VaR for other price risk.

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

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. The Group has made changes to its accounting policies with respect to new and revised International Financial Reporting Standards and interpretations. The Group has implemented the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements'. The main impacts of these on the interim results are that transaction costs from business combinations are now expensed instead of being included as part of the acquisition price. The Group has also implemented IFRIC interpretation 14 which relates to IAS 19 'Employee benefits' which results in an increase in the pension assets recorded on the Group's balance sheet and a corresponding increase in the Group's equity. Additionally the previously published income statement for the six months ended 30 June 2007 has been restated following the presentational changes adopted in the second half of 2007. Full details of the changes are given in Note 1 to the Interim Financial Statements and supplementary presentation materials from the investor update held on 30 November 2007 are available on the 'Investor Relations' section of the Group's website at www.roche.com.

Roche Group Interim Consolidated Financial Statements

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by the Group's auditors and their review report is presented on page 57.

Roche Group consolidated income statement for the six months ended 30 June 2008 *in millions of CHF*

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales[2]	17,257	4,747	–	22,004
Royalties and other operating income[2]	1,059	77	–	1,136
Cost of sales	(4,219)	(2,313)	–	(6,532)
Marketing and distribution	(3,164)	(1,207)	–	(4,371)
Research and development[2]	(3,670)	(437)	–	(4,107)
General and administration	(670)	(286)	(133)	(1,089)
Operating profit before exceptional items[2]	6,593	581	(133)	7,041
Major legal cases[9]	315	–	–	315
Operating profit[2]	6,908	581	(133)	7,356
Associated companies				–
Financial income[5]				684
Financing costs[5]				(447)
Profit before taxes				7,593
Income taxes				(1,861)
Net income				5,732
Attributable to				
– Roche shareholders				4,820
– Non-controlling interests				912
Earnings per share and non-voting equity security				
Basic (CHF)				5.60
Diluted (CHF)				5.50

Roche Group consolidated income statement for the six months ended 30 June 2007 *in millions of CHF*

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales[2]	18,268	4,559	–	22,827
Royalties and other operating income[2]	1,070	88	–	1,158
Cost of sales	(4,828)	(1,992)	–	(6,820)
Marketing and distribution	(3,469)	(1,090)	–	(4,559)
Research and development[2]	(3,657)	(360)	–	(4,017)
General and administration	(744)	(256)	(112)	(1,112)
Operating profit[2]	6,640	949	(112)	7,477
Associated companies				–
Financial income[5]				979
Financing costs[5]				(479)
Profit before taxes				7,977
Income taxes				(2,115)
Net income				5,862
Attributable to				
– Roche shareholders				4,919
– Non-controlling interests				943
Earnings per share and non-voting equity security				
Basic (CHF)				5.73
Diluted (CHF)				5.62

As disclosed in Note 1, the operating results in the income statement for 2007 have been restated following the presentational changes adopted in the second half of 2007. A reconciliation to the previously published income statement is provided in Note 1. Total operating profit is unchanged, and the presentational changes have no effect on the non-operating results, net income and earnings per share.

Roche Group consolidated balance sheet *in millions of CHF*

	30 June 2008	31 December 2007
Non-current assets		
Property, plant and equipment	17,560	17,832
Goodwill[7]	8,088	6,835
Intangible assets[8]	7,069	6,346
Investments in associated companies	9	9
Financial long-term assets	1,056	1,333
Other long-term assets	479	527
Deferred income tax assets	1,046	1,317
Post-employment benefit assets	1,173	1,332
Total non-current assets	36,480	35,531
Current assets		
Inventories	5,902	6,113
Accounts receivable	9,553	9,804
Current income tax assets	274	263
Other current assets	2,778	2,452
Marketable securities	11,648	20,447
Cash and cash equivalents	4,057	3,755
Total current assets	34,212	42,834
Total assets	70,692	78,365
Non-current liabilities		
Long-term debt	(3,682)	(3,834)
Deferred income tax liabilities	(1,621)	(1,527)
Post-employment benefit liabilities	(3,527)	(3,696)
Provisions[9]	(666)	(688)
Other non-current liabilities	(479)	(723)
Total non-current liabilities	(9,975)	(10,468)
Current liabilities		
Short-term debt	(1,908)	(3,032)
Current income tax liabilities	(1,760)	(2,215)
Provisions[9]	(579)	(1,517)
Accounts payable	(1,953)	(1,861)
Accrued and other current liabilities	(5,341)	(5,829)
Total current liabilities	(11,541)	(14,454)
Total liabilities	(21,516)	(24,922)
Total net assets	49,176	53,443
Equity		
Capital and reserves attributable to Roche shareholders	41,617	45,483
Equity attributable to non-controlling interests	7,559	7,960
Total equity	49,176	53,443

As disclosed in Note 1, post-employment benefit assets, deferred tax liabilities and equity have been restated in the 31 December 2007 balance sheet following the adoption of IFRIC interpretation 14 in 2008. A reconciliation to the previously published balance sheet is provided in Note 1.

Roche Group consolidated cash flow statement *in millions of CHF*

	Six months ended 30 June 2008	2007
Cash flows from operating activities		
Cash generated from operations	8,764	9,328
(Increase) decrease in working capital	(903)	(1,101)
Payments made for defined benefit post-employment plans	(185)	(193)
Utilisation of legal and environmental provisions	(507)	(262)
Utilisation of restructuring and other provisions	(272)	(190)
Other operating cash flows	3	–
Cash flows from operating activities, before income taxes paid	6,900	7,582
Income taxes paid	(2,122)	(2,728)
Total cash flows from operating activities	4,778	4,854
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,527)	(1,566)
Purchase of intangible assets	(207)	(221)
Disposal of property, plant and equipment	41	91
Disposal of intangible assets	–	1
Disposal of products	284	68
Business combinations[6]	(2,657)	(977)
Divestments of subsidiaries	–	–
Interest and dividends received	333	516
Sales of marketable securities	11,618	7,990
Purchases of marketable securities	(4,099)	(5,306)
Other investing cash flows	(114)	(3)
Total cash flows from investing activities	3,672	593
Cash flows from financing activities		
Proceeds from issue of long-term debt instruments[10]	–	–
Repayment and redemption of long-term debt instruments[10]	(1,000)	(717)
Increase (decrease) in other long-term debt	1	6
Transactions in own equity instruments[11]	(88)	819
Change in ownership interest in subsidiaries		
– Chugai[4]	(934)	–
– Ventana[6]	(1,285)	–
Increase (decrease) in short-term borrowings	(52)	(343)
Interest and dividends paid	(4,041)	(3,061)
Exercises of equity-settled equity compensation plans	129	279
Genentech and Chugai share repurchases[3, 4]	(794)	(1,100)
Other financing cash flows	–	47
Total cash flows from financing activities	(8,064)	(4,070)
Net effect of currency translation on cash and cash equivalents	(84)	25
Increase (decrease) in cash and cash equivalents	302	1,402
Cash and cash equivalents at beginning of period	3,755	3,210
Cash and cash equivalents at end of period	4,057	4,612

Roche Group consolidated statement of recognised income and expense *in millions of CHF*

	Six months ended 30 June 2008	2007
Available-for-sale investments		
– Valuation gains (losses) taken to equity	(184)	23
– Transferred to income statement on sale or impairment	1	(111)
Cash flow hedges		
– Gains (losses) taken to equity	(114)	8
– Transferred to income statement	49	–
– Transferred to the initial balance sheet carrying value of hedged items	–	–
Exchange differences on translation of foreign operations	(3,475)	537
Defined benefit post-employment plans		
– Actuarial gains (losses)	(136)	777
– Limit on asset recognition	(9)	(248)
Income taxes on items taken directly to or transferred from equity	99	(168)
Net income recognised directly in equity	(3,769)	818
Net income recognised in income statement	5,732	5,862
Total recognised income and expense	1,963	6,680
Attributable to		
– Roche shareholders	1,754	5,737
– Non-controlling interests	209	943
Total	1,963	6,680
Effect of changes in accounting policy attributable to		
– Roche shareholders	–	297
– Non-controlling interests	–	–
Total	–	297

As disclosed in Note 1, the entries for defined benefit post-employment plans have been restated in the statement of recognised income and expense for 2007 following the adoption of IFRIC interpretation 14 in 2008. A reconciliation to the previously published statement of recognised income and expense is provided in Note 1.

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

	Roche shareholders	Non-controlling interests	Total
Six months ended 30 June 2007			
At 1 January 2007 – as previously published	39,444	7,370	46,814
Changes in accounting policy[1]	297	–	297
At 1 January 2007 – restated	39,741	7,370	47,111
Net income recognised directly in equity	818	–	818
Net income recognised in income statement	4,919	943	5,862
Total recognised income and expense	5,737	943	6,680
Dividends paid	(2,930)	(56)	(2,986)
Transactions in own equity instruments	816	–	816
Equity compensation plans	357	280	637
Genentech and Chugai share repurchases[3, 4]	(600)	(500)	(1,100)
Convertible debt instruments[10]	(244)	–	(244)
Changes in non-controlling interests	15	(15)	–
At 30 June 2007	42,892	8,022	50,914
Six months ended 30 June 2008			
At 1 January 2008	45,483	7,960	53,443
Net income recognised directly in equity	(3,066)	(703)	(3,769)
Net income recognised in income statement	4,820	912	5,732
Total recognised income and expense	1,754	209	1,963
Ventana acquisition[6]	–	321	321
Dividends paid	(3,969)	(45)	(4,014)
Transactions in own equity instruments	(88)	–	(88)
Equity compensation plans	327	237	564
Genentech share repurchases[3]	(445)	(349)	(794)
Changes in ownership interests in subsidiaries			
– Chugai[4]	(530)	(404)	(934)
– Ventana[6]	(964)	(321)	(1,285)
Changes in non-controlling interests	49	(49)	–
At 30 June 2008	41,617	7,559	49,176

As disclosed in Note 1, equity as at 1 January 2007 and the entries for defined benefit post-employment plans have been restated in the statement of recognised income and expense for 2007 following the adoption of IFRIC interpretation 14 in 2008. A reconciliation to the previously published statement of recognised income and expense is provided in Note 1.

Notes to the Roche Group Interim Consolidated Financial Statements

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by the Group's auditors and their review report is presented on page 57.

1. Accounting policies

Basis of preparation of financial statements

These financial statements are the unaudited interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries (hereafter 'the Group') for the six-month period ended 30 June 2008 (hereafter 'the interim period'). They are prepared in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2007 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on 20 July 2008.

The Interim Financial Statements have been prepared in accordance with the accounting policies set out in the Annual Financial Statements, except for accounting policy changes made after the date of the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements, except where noted below. Where necessary, comparative information has been reclassified or expanded from the previously reported Interim Financial Statements to take into account any presentational changes made in the Annual Financial Statements or in these Interim Financial Statements.

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

The Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year. Income tax expense is recognised based upon the best estimate of the weighted average income tax rate expected for the full financial year.

Changes in accounting policies

In 2007 the Group early adopted IFRS 8 'Operating Segments' and IAS 23 (revised) 'Borrowing Costs' which are required to be implemented from 1 January 2009 at the latest. In 2008 the Group has early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' that were published in early 2008 and which are required to be implemented from 1 January 2010 at the latest. The Group has also adopted IFRIC interpretation 14 which relates to IAS 19 'Employee benefits'. The Group is currently assessing the potential impacts of the other new and revised standards that will be effective from 1 January 2009, notably the revisions to IFRS 2 'Share-based Payment'.

IFRS 3 (revised): 'Business combinations'. Amongst other matters, the revised standard requires that directly attributable transaction costs are expensed in the current period, rather than being included in the cost of acquisition as previously. The revised standard also requires that contingent consideration arrangements should be included in acquisition accounting at fair value and expands the disclosure requirements for business combinations. The Group has applied the revised standard prospectively for all business combinations since 1 January 2008 and transaction costs totalling 42 million Swiss francs have been expensed in 2008 that would have been included in the cost of acquisition under the previous accounting policy. Business combinations in 2007 and prior periods have not been restated. Had the new accounting policy been applied in 2007, the Group would have expensed an additional 5 million Swiss francs of transaction costs in the interim period of 2007 (15 million Swiss francs in the full year 2007) and goodwill would have been reduced by these amounts in the respective periods. This change has a negative impact of 0.05 Swiss francs on earnings per share and non-voting equity security (basic and diluted) in 2008, and would have had a negative impact of 0.01 Swiss francs in the interim period of 2007 (0.02 Swiss francs in the full year 2007) if the revised standard had been applied retrospectively.

IAS 27 (revised): 'Consolidated and separate financial statements'. Amongst other matters, the revised standard requires that 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. Additionally the revised standard renames 'minority interests' as 'non-controlling interests'. The Group has applied the revised standard retrospectively. There were no transactions in 2007 that required restatement.

IFRIC interpretation 14 to IAS 19: 'Employee benefits'. The interpretation adds to the existing requirements of IAS 19 regarding the interaction between the limits on recognition of assets from defined benefit post-employment plans and any minimum funding requirement of such plans. Some of the Group's plans do have a minimum funding requirement and the application of this interpretation results in an increase in the assets recorded on the Group's balance sheet and a corresponding increase in the Group's equity. The Group has applied the revised standard retrospectively and the impacts on the previously published balance sheet and statement of recognised income and expense are shown in the tables below. The application of the interpretation has no impact on net income and earnings per share.

Restated balance sheet (selected items) at 31 December 2007 *in millions of CHF*

	As originally published	Application of IFRIC 14	Group restated
Post-employment benefit assets	1,150	182	1,332
Deferred tax liabilities	(1,481)	(46)	(1,527)
		136	
Capital and reserves attributable to Roche shareholders	45,347	136	45,483

Restated statement of recognised income and expense for the six months ended 30 June 2007
in millions of CHF

	As originally published	Application of IFRIC 14	Group restated
Available-for-sale investments			
– Valuation gains (losses) taken to equity	23	–	23
– Transferred to income statement on sale or impairment	(111)	–	(111)
Cash flow hedges			
– Gains (losses) taken to equity	8	–	8
– Transferred to income statement	–	–	–
– Transferred to the initial balance sheet carrying value of hedged items	–	–	–
Exchange differences on translation of foreign operations	537	–	537
Defined benefit post-employment plans			
– Actuarial gains (losses)	777	–	777
– Limit on asset recognition	(450)	202	(248)
Income taxes on items taken directly to or transferred from equity	(118)	(50)	(168)
Net income recognised directly in equity	666	152	818
Net income recognised in income statement	5,862	–	5,862
Total recognised income and expense	6,528	152	6,680
Attributable to			
– Roche shareholders	5,585	152	5,737
– Non-controlling interests	943	–	943
Total	6,528	152	6,680

Presentation of operating results in the income statement: The income statement for the six months ended 30 June 2007 has been restated following the presentational changes adopted in the second half of 2007. The Group has made these presentational changes to more accurately reflect the underlying business, to further improve comparability of its results to those of other healthcare companies and to allow readers to make a more accurate assessment of the sustainable earnings capacity of the Group. Total operating profit is unchanged, and the presentational changes have no effect on the non-operating results, net income and earnings per share. These changes, which have been applied retrospectively, are listed below.

- Intangible assets: Amortisation and impairment of intangible assets are no longer reported as a separate line, but are now reported as part of 'Cost of sales' (for intangibles relating to marketed products) or as part of 'Research and Development' (for intangibles relating to technology and development, and including any impairment on intangibles that are not yet available for use).
- Alliance and royalty expenses: All royalties, alliance and collaboration expenses, including all collaboration profit-sharing arrangements are now reported as part of 'Cost of sales'. Previously some of these were included in 'Marketing and distribution' or 'General and administration' depending upon the terms of the particular agreement. Additionally, royalty expenses payable on royalty income are now reported as part of 'Royalties and other operating' income to more accurately reflect the substance of the underlying transactions. Previously these expenses were included in 'General and administration'.
- Phase IV and similar costs: All such costs, which only arise in the Pharmaceuticals Division, are now reported as part of 'Research and development'. Previously some of these costs were included in 'Marketing and distribution' and 'General and administration' depending on their nature.

Restated income statement for the six months ended 30 June 2007 *in millions of CHF*

	As originally published	Intangible assets	Alliances/ royalties	Phase IV	Restated
Group					
Sales	22,827	–	–	–	22,827
Royalties and other operating income	1,191	–	(33)	–	1,158
Cost of sales	(5,629)	(456)	(735)	–	(6,820)
Marketing and distribution	(5,552)	–	650	343	(4,559)
Research and development	(3,635)	(32)	–	(350)	(4,017)
General and administration	(1,237)	–	118	7	(1,112)
Amortisation and impairment of intangible assets	(488)	488	–	–	–
Operating profit	7,477	–	–	–	7,477
Pharmaceuticals Division					
Sales	18,268	–	–	–	18,268
Royalties and other operating income	1,100	–	(30)	–	1,070
Cost of sales	(3,715)	(300)	(813)	–	(4,828)
Marketing and distribution	(4,462)	–	650	343	(3,469)
Research and development	(3,276)	(31)	–	(350)	(3,657)
General and administration	(944)	–	193	7	(744)
Amortisation and impairment of intangible assets	(331)	331	–	–	–
Operating profit	6,640	–	–	–	6,640
Diagnostics Division					
Sales	4,559	–	–	–	4,559
Royalties and other operating income	91	–	(3)	–	88
Cost of sales	(1,914)	(156)	78	–	(1,992)
Marketing and distribution	(1,090)	–	–	–	(1,090)
Research and development	(359)	(1)	–	–	(360)
General and administration	(181)	–	(75)	–	(256)
Amortisation and impairment of intangible assets	(157)	157	–	–	–
Operating profit	949	–	–	–	949

Unrealised internal profits on inventories that have been sold from one operating segment to another but which have not yet been sold on to external customers at the balance sheet date are eliminated as a consolidation entry. Previously this elimination was allocated to the originating operating segment. The segment results for the six months ended 30 June 2007 have been restated following this presentational change.

Restated Pharmaceuticals sub-divisional information for six months ended 30 June 2007
in millions of CHF

	Roche Pharma	Genentech	Chugai	Pharma Division
As originally published				
Operating profit	3,605	2,701	334	6,640
– including unrealised profits on inventories	*22*	*(248)*	*–*	*(226)*
Restated				
Operating profit	3,583	2,949	334	6,866
Elimination of profit within division				(226)
Total				6,640

2. Operating segment information

Divisional information *in millions of CHF*

Six months ended 30 June	Pharmaceuticals Division 2008	2007	Diagnostics Division 2008	2007	Corporate 2008	2007	Group 2008	2007
Revenues from external customers								
Sales	17,257	18,268	4,747	4,559	–	–	22,004	22,827
Royalties and other operating income	1,059	1,070	77	88	–	–	1,136	1,158
Total	18,316	19,338	4,824	4,647	–	–	23,140	23,985
Revenues from other operating segments								
Sales	3	3	5	2	–	–	8	5
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional income							(8)	(5)
Total	3	3	5	2	–	–	–	–
Segment results								
Operating profit before exceptional items	6,593	6,640	581	949	(133)	(112)	7,041	7,477
Major legal cases	315	–	–	–	–	–	315	–
Operating profit	6,908	6,640	581	949	(133)	(112)	7,356	7,477
Capital expenditure								
Business combinations	203	75	3,234	871	–	–	3,437	946
Additions to property, plant and equipment	1,000	1,185	539	398	1	1	1,540	1,584
Additions to intangible assets	205	423	2	6	–	–	207	429
Total capital expenditure	1,408	1,683	3,775	1,275	1	1	5,184	2,959
Research and development								
Research and development costs	3,670	3,657	437	360	–	–	4,107	4,017
Other segment information								
Depreciation of property, plant and equipment	470	451	313	283	3	2	786	736
Amortisation of intangible assets	249	315	223	157	–	–	472	472
Impairment of property, plant and equipment	–	2	8	–	–	–	8	2
Impairment of goodwill	–	–	–	–	–	–	–	–
Impairment of intangible assets	30	16	–	–	–	–	30	16
Equity compensation plan expenses	266	297	19	11	8	7	293	315

Pharmaceuticals sub-divisional information *in millions of CHF*

Six months ended 30 June	Roche Pharmaceuticals 2008	Roche Pharmaceuticals 2007	Genentech 2008	Genentech 2007	Chugai 2008	Chugai 2007	Pharmaceuticals Division 2008	Pharmaceuticals Division 2007
Revenues from external customers								
Sales	10,938	11,367	4,867	5,227	1,452	1,674	17,257	18,268
Royalties and other operating income	495	473	556	548	8	49	1,059	1,070
Total	11,433	11,840	5,423	5,775	1,460	1,723	18,316	19,338
Revenues from other operating segments								
Sales	282	345	295	634	13	–	590	979
Royalties and other operating income	7	4	825	694	65	43	897	741
Elimination of income within division							(1,484)	(1,717)
Total	289	349	1,120	1,328	78	43	3	3
Segment results								
Operating profit before exceptional items	3,693	3,583	2,630	2,949	279	334	6,602	6,866
Elimination of inter-divisional profit							(9)	(226)
Sub-total	3,693	3,583	2,630	2,949	279	334	6,593	6,640
Major legal cases	–	–	315	–	–	–	315	–
Operating profit	3,693	3,583	2,945	2,949	279	334	6,908	6,640
Capital expenditure								
Business combinations	203	75	–	–	–	–	203	75
Additions to property, plant and equipment	374	383	442	672	184	130	1,000	1,185
Additions to intangible assets	125	85	80	338	–	–	205	423
Total capital expenditure	702	543	522	1,010	184	130	1,408	1,683
Research and development								
Research and development costs	2,149	2,189	1,262	1,228	292	304	3,703	3,721
Elimination of costs within division							(33)	(64)
Total	2,149	2,189	1,262	1,228	292	304	3,670	3,657
Other segment information								
Depreciation of property, plant and equipment	267	257	160	158	43	36	470	451
Amortisation of intangible assets	124	200	92	81	33	34	249	315
Impairment of property, plant and equipment	–	1	–	–	–	1	–	2
Impairment of goodwill	–	–	–	–	–	–	–	–
Impairment of intangible assets	30	16	–	–	–	–	30	16
Equity compensation plan expenses	56	52	209	244	1	1	266	297

3. Genentech

The common stock of Genentech is publicly traded and is listed on the New York Stock Exchange under the symbol 'DNA'. At 30 June 2008 the Group's interest in Genentech was 55.9% (31 December 2007: 55.8%). Genentech prepares financial statements in conformity with accounting principles generally accepted in the United States (US GAAP). These are filed on a quarterly basis with the US Securities and Exchange Commission (SEC). Due to certain consolidation entries and differences in the requirements of International Financial Reporting Standards (IFRS) and US GAAP, there are differences between Genentech's stand-alone results on a US GAAP basis and the results of Genentech as consolidated by the Roche Group in accordance with IFRS. These are discussed in Note 3 of the Annual Financial Statements. The impacts on the interim results are reconciled in the table below.

Reconciliation of Genentech results

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	USD millions	CHF millions	USD millions	CHF millions
Operating income (US GAAP basis)	2,748		2,183	
– redemption costs	78		52	
– equity compensation plan expenses (US GAAP basis)	208		203	
– special litigation items	(300)		26	
Operating income (non-US GAAP basis)	2,734		2,464	
Add (deduct) differences and consolidation entries				
– add back redemption costs	(78)		(52)	
– equity compensation plan expenses (IFRS basis)	(199)		(198)	
– capitalised in-process research and development	58		181	
– other differences and consolidation entries	(11)		7	
Operating profit before exceptional items (IFRS basis)	2,504	2,630	2,402	2,949
Add (deduct) exceptional items				
– major legal cases	310	315	–	–
Segment result/operating profit (IFRS basis)	2,814	2,945	2,402	2,949
Add (deduct) non-operating items (IFRS basis)				
– financial income and financing costs		135		106
– income taxes		(1,257)		(1,201)
Net income (IFRS basis)		1,823		1,854
Non-controlling interest calculation				
– non-controlling interest (average during period)		44.1%		44.2%
– income applicable to non-controlling interest (IFRS basis)		804		820

Translated at 1 USD = 1.05 CHF (2007: 1 USD = 1.23 CHF).

Genentech share repurchases and equity compensation plans

On 15 April 2008 Genentech's Board of Directors approved an extension of the existing stock repurchase programme authorising Genentech to repurchase up to 150 million shares of Genentech's common stock for a total of 10 billion US dollars through 30 June 2009. Since the programme's inception, Genentech has repurchased approximately 83 million shares for a total of approximately 6.0 billion US dollars.

Genentech prepaid share repurchase program: On 8 May 2008 Genentech entered into a prepaid share repurchase arrangement with a financial institution for 500 million US dollars under which Genentech's shares will be purchased in the open market by the financial institution from 1 July 2008 through 25 September 2008. The prepaid amount has been recorded against equity as at 30 June 2008. For the purposes of the Group's consolidation, non-controlling interests are calculated assuming that an equivalent number of shares have been repurchased based on the amount of the prepayment and the Genentech share price at each month end. Accordingly the Roche Group's ownership at 30 June 2008 is estimated at 56.3% for the purposes of the consolidation of the financial statements.

During the interim period the net cash outflow from repurchases of Genentech common stock, including prepayments, was 794 million Swiss francs (2007: 818 million Swiss francs) and exercises from Genentech's equity compensation plans resulted in a cash inflow equivalent to 240 million Swiss francs (2007: 339 million Swiss francs).

4. Chugai

The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE: 4519'. At 30 June 2008 the Group's interest in Chugai was 61.5% (31 December 2007: 51.5%). Chugai prepares financial statements in conformity with accounting principles generally accepted in Japan (JGAAP). These are filed on a quarterly basis with the Tokyo Stock Exchange. Due to certain consolidation entries and differences in the requirements of International Financial Reporting Standards (IFRS) and JGAAP, there are differences between Chugai's stand-alone results on a JGAAP basis and the results of Chugai as consolidated by the Roche Group in accordance with IFRS. These are discussed in Note 4 to the Annual Financial Statements.

Reconciliation of Chugai results

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	JPY billions	CHF millions	JPY billions	CHF millions
Operating profit before acquisition accounting impacts (IFRS basis)	31.2	312	36.0	368
– depreciation of property, plant and equipment	(0.3)	(3)	(0.3)	(3)
– amortisation of intangible assets arising from business combinations	(3.0)	(30)	(3.1)	(31)
Operating profit (IFRS basis)	27.9	279	32.6	334
Add (deduct) non-operating items (IFRS basis)				
– financial income and financing costs		12		5
– income taxes		(109)		(131)
Net income (IFRS basis)		182		208
Non-controlling interest calculation				
Add back acquisition accounting impact on net income		20		20
Net income excluding acquisition accounting		202		228
Non-controlling interest (average during interim period)		47.7%		48.9%
Income applicable to non-controlling interest (IFRS basis)		97		112

Translated at 100 JPY = 1.00 CHF (2007: 100 JPY = 1.02 CHF).

Dividends

The dividends distributed to third parties holding Chugai shares during the interim period totalled 40 million Swiss francs (2007: 50 million Swiss francs) and have been recorded to equity. Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Tender offer for Chugai shares

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

Chugai share repurchases

There were no share repurchases in the interim period of 2008. During the interim period of 2007 Chugai repurchased 9.5 million of its common shares for a total consideration of 27.6 billion Japanese yen (282 million Swiss francs). As a result the Group's ownership in Chugai increased to 51.5% at that time.

5. Financial income and financing costs

Financial income *in millions of CHF*

	Six months ended 30 June	
	2008	2007
Gains on sale of equity securities	95	155
(Losses) on sale of equity securities	–	(1)
Dividend income	1	1
Gains (losses) on equity security derivatives, net	13	(1)
Write-downs and impairments of equity securities	(10)	(5)
Net income from equity securities	99	149
Interest income	390	520
Gains on sale of debt securities	7	65
(Losses) on sale of debt securities	(52)	(57)
Gains (losses) on debt security derivatives, net	(51)	–
Net gains (losses) on financial assets at fair-value-through-profit-or-loss	(6)	8
Write-downs and impairments of long-term loans	–	–
Net interest income and income from debt securities	288	536
Expected return on plan assets of defined benefit plans	339	335
Foreign exchange gains (losses), net	(82)	81
Gains (losses) on foreign currency derivatives, net	50	(108)
Net foreign exchange gains (losses)	(32)	(27)
Net other financial income (expense)	(10)	(14)
Total financial income	684	979

Financing costs *in millions of CHF*

	Six months ended 30 June 2008	2007
Interest expense	(106)	(144)
Amortisation of discount on debt instruments	–	(6)
Gains (losses) on debt derivatives, net	(1)	–
Net gains (losses) on financial liabilities at fair-value-through-profit-or-loss	(1)	14
Time cost of provisions	(16)	(36)
Interest cost of defined benefit plans	(323)	(307)
Total financing costs	(447)	(479)

Net financial income *in millions of CHF*

	Six months ended 30 June 2008	2007
Financial income	684	979
Financing costs	(447)	(479)
Net financial income	237	500
Financial result from Treasury management	221	472
Financial result from Pension management	16	28
Net financial income	237	500

6. Business combinations

Acquisitions – 2008

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

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

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

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

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

The fair value of other net assets (liabilities) includes receivables with a fair value of 117 million Swiss francs. Included within this fair value is an allowance for doubtful trade accounts receivable of 2 million Swiss francs. Finance lease receivables totalling 9 million Swiss francs are also included in this total and the gross amount due under these contracts is 9 million Swiss francs.

The group recognised a gain of 5 million Swiss francs as a result of measuring at fair value its 0.4% equity interest in Ventana held prior to the acquisition date. This gain is included in financial income for the six months ending 30 June 2008. Directly attributable acquisition-related costs of 40 million Swiss francs were incurred in the transaction. These are reported within the operating result of the Diagnostics Division.

Subsequent to the effective date of the acquisition on 8 February 2008, the Group purchased the remaining shares in Ventana held by third parties to give the Group a 100% interest in Ventana. The cash consideration was 1,285 million Swiss francs, which has been recorded to equity as a change in ownership interest in subsidiaries.

Other acquisitions: Effective 23 May 2008 the Group acquired a 100% controlling interest in Piramed Ltd. ('Piramed'), a privately owned biotechnology company based in the UK. Piramed discovers and develops new medicines primarily for the treatment of cancer and immune inflammatory disorders such as arthritis and asthma. Piramed is a leading company in the discovery of highly selective drugs that inhibit different isoforms of PI3-K enzymes that are increasingly recognised as key players in a wide variety of disease processes. Piramed is reported as part of the Roche Pharmaceuticals operating segment. The acquisition will further strengthen the Group's research and development pipeline in oncology and inflammatory disease.

The purchase consideration was 183 million Swiss francs. This consisted of 176 million Swiss francs paid in cash and 7 million Swiss francs from a contingent consideration arrangement. This has been allocated as follows:

Other acquisitions: net assets acquired *in millions of CHF*

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	1	(1)	–
Intangible assets			
– Product intangibles: not available for use	–	94	94
Deferred income taxes	–	(26)	(26)
Cash	6	–	6
Other net assets (liabilities)	–	–	–
Net identifiable assets (liabilities)	7	67	74
Goodwill			109
Purchase consideration			183

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

The contingent consideration arrangement consists of a potential milestone payment of 15 million US dollars which is due upon the commencement of phase II clinical trials for Piramed's oncology programme. A liability of 7 million Swiss francs was recognised at the acquisition date, based on management's best estimate of the probability–adjusted expected cash outflows from the arrangement.

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

Directly attributable acquisition-related costs of 2 million Swiss francs were incurred in the transaction. These are reported within the operating result of the Pharmaceuticals Division.

Acquisitions – 2008: impact on results *in millions of CHF*

	Revenues from external customers	Inventory fair value adjustment	Amortisation of intangible assets	Operating profit	Net income
Impact on reported results					
Piramed[a)]	–	–	–	(1)	(1)
Pharmaceuticals Division	–	–	–	(1)	(1)
Ventana[a)]	164	(32)	(32)	(28)	(17)
Diagnostics Division	164	(32)	(32)	(28)	(17)
Group	164	(32)	(32)	(29)	(18)
Estimated impact on results if acquisition assumed effective 1 January 2008					
Piramed[a)]	–	–	–	(6)	(4)
Pharmaceuticals Division	–	–	–	(6)	(4)
Ventana[a, b)]	189	–	(39)	7	6
Diagnostics Division	189	–	(39)	7	6
Group	189	–	(39)	1	2

a) The above figures exclude directly attributable acquisition-related costs of 2 million Swiss francs related to Piramed and 40 million Swiss francs related to Ventana. Corresponding tax impacts are also excluded.

b) The above figures exclude inventory fair value adjustments of 32 million Swiss francs and integration costs of 8 million Swiss francs related to Ventana. Corresponding tax impacts are also excluded.

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

	Cash consideration paid	Cash in acquired company	Net cash outflow
Ventana	(2,532)	45	(2,487)
Piramed	(176)	6	(170)
Total	(2,708)	51	(2,657)

The above cash consideration paid for Ventana does not include the subsequent payment of 1,285 million Swiss francs to purchase the remaining shares in Ventana held by third parties to give the Group a 100% interest in Ventana. This is reported as financing cash flow in the cash flow statement within the heading 'Change in ownership interest in subsidiaries'.

Acquisitions – 2007

In the interim period of 2007, the Group acquired a 100% controlling interest in BioVeris Corporation ('BioVeris'), for a purchase consideration of 745 million Swiss francs. The Group also acquired 100% controlling interest in 454 Life Sciences and Therapeutic Human Polyclonals, Inc. ('THP'). These transactions are fully described in Note 7 to the Annual Financial Statements. The finalisation in the second half of 2007 of the acquisition accounting for these transactions did not result in material adjustments to the preliminary allocations published in the 2007 Interim Financial Statements, and accordingly the comparative results have not been restated.

Acquisitions – 2007: net cash outflow *in millions of CHF*

	Cash consideration paid	Cash in acquired company	Net cash outflow
BioVeris	(745)	6	(739)
Other acquisitions	(257)	19	(238)
Total	(1,002)	25	(977)

7. Goodwill

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

Six months ended 30 June 2008	
At 1 January 2008	6,835
Ventana acquisition[6]	1,750
Other business combinations[6]	109
Impairment charge	–
Currency translation effects	(606)
At 30 June 2008	8,088
Allocation by operating segment	
– Roche Pharmaceuticals	232
– Genentech	1,698
– Chugai	106
– Diagnostics	6,052
Total Group	8,088

There are no accumulated impairment losses in goodwill.

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Technology intangibles	Total
Six months ended 30 June 2008				
At 1 January 2008	4,668	1,514	164	6,346
Ventana acquisition[6]	819	570	–	1,389
Other business combinations[6]	–	94	–	94
Additions	18	189	–	207
Disposals	–	–	–	–
Amortisation charge	(452)	–	(20)	(472)
Impairment charge	–	(30)	–	(30)
Currency translation effects	(340)	(119)	(6)	(465)
At 30 June 2008	4,713	2,218	138	7,069
Allocation by operating segment				
– Roche Pharmaceuticals	193	1,241	47	1,481
– Genentech	799	431	21	1,251
– Chugai	391	8	–	399
– Diagnostics	3,330	538	70	3,938
Total Group	4,713	2,218	138	7,069

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

	Six months ended 30 June 2008		Six months ended 30 June 2007	
	Amortisation	Impairment	Amortisation	Impairment
Cost of sales				
– Pharmaceuticals	233	–	300	–
– Diagnostics	219	–	156	–
Research and development				
– Pharmaceuticals	16	30	15	16
– Diagnostics	4	–	1	–
Total	472	30	472	16

Impairment of intangible assets

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

2008: In the Roche Pharmaceuticals operating segment an impairment charge of 30 million Swiss francs was recorded, which relates to a decision to terminate development of one compound with an alliance partner. The assets concerned, which were not yet being amortised, were fully written-down by these charges.

2007: In the Roche Pharmaceuticals operating segment an impairment charge of 16 million Swiss francs was recorded, which relates to a decision to terminate development of one compound with an alliance partner. The assets concerned, which were not yet being amortised, were fully written-down by these charges.

9. Provisions and contingent liabilities

Provisions *in millions of CHF*

	30 June 2008	31 December 2007
Legal provisions	101	985
Environmental provisions	177	203
Restructuring provisions	147	193
Other provisions	820	824
Total provisions	1,245	2,205
Of which		
– current portion	579	1,517
– non-current portion	666	688
Total provisions	1,245	2,205

Payments in the interim period from previously recorded provisions totalled 780 million Swiss francs (2007: 452 million Swiss francs). Included in these amounts are 515 million Swiss francs (2007: 262 million Swiss francs) relating to legal provisions.

Major legal cases

Income (expense) from major legal cases is disclosed separately in the income statement due to the materiality of the amounts and in order to fairly present the Group's results. Income of 315 million Swiss francs was recorded in the interim period following the 24 April 2008 California Supreme Court decision in the City of Hope litigation (see below).

Genentech legal cases

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

During the appeals process interest had accrued on the total amount of the damages at a simple annual rate of 10%. During the interim period interest of 11 million Swiss francs (2007: 31 million Swiss francs) was recorded as the time cost of provisions within financing costs.

A full provision, totalling 776 million US dollars (875 million Swiss francs) as at 31 December 2007, had been recorded for these awards. As a result of the 24 April 2008 California Supreme Court decision, provisions totalling 310 million US dollars (315 million Swiss francs) were released to income as a favourable litigation settlement, of which 200 million US dollars (203 million Swiss francs) relates to the original award recorded in 2002 as an exceptional major legal case expense and 110 million US dollars (112 million Swiss francs) relates to interest accrued as a charge to financing costs in the intervening periods.

On 3 October 2002 Genentech entered into an arrangement with third-party insurance companies to post a surety bond in connection with this judgment. As part of this arrangement Genentech had pledged 788 million US dollars in cash and investments to secure this bond. This amount, which was equivalent to 889 million Swiss francs at 31 December 2007, was recorded as restricted cash within other current assets in the Annual Financial Statements. In July 2008 Genentech received the court's final administrative order that the judgment was fully satisfied by Genentech's 476 million US dollars payment to the City of Hope. As a result the entirety of the pledged 788 million US dollars will become unrestricted cash and available for use in Genentech's operations during the third quarter of 2008.

On 4 October 2004 Genentech received a subpoena from the United States Department of Justice, requesting documents related to the promotion of Rituxan. Genentech is co-operating with the associated investigation, which is both civil and criminal in nature, and through counsel Genentech are having discussions with government representatives about the status of their investigation and Genentech's views on this matter, including potential resolution. The government has called, and may continue to call, former and current Genentech employees to appear before a grand jury in connection with this investigation. The outcome of this matter cannot be determined at this time.

On 11 June 2008 Genentech announced that it had settled its patent litigation with MedImmune, Inc. involving the Cabilly patent (US Patent No. 6,331,415) which is co-owned by Genentech and the City of Hope. Under the terms of the settlement agreement the litigation which was pending before the US District Court for the Central District of California has now been fully resolved and dismissed.

Genentech's annual report and quarterly SEC filings contain the detailed disclosures of litigation matters that are required by US GAAP. These include further details on the above matters as well as including information on other litigation that is not currently as significant as the matters referred to above.

Other than the matters noted above, no significant changes in the Group's contingent liabilities have occurred since the approval of the Annual Financial Statements by the Board of Directors.

10. Debt

Repayments, redemptions and conversions of debt instruments – 2008

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

Repayments, redemptions and conversions of debt instruments – 2007

Conversion and redemption of 'LYONs V' US dollar exchangeable notes: On 22 June 2007 the Group announced that it would exercise its option to call these notes for redemption on 25 July 2007 at the original issue amount plus accrued original issue discount ('OID'). During the interim period of 2007 notes with a principal amount of 596 million US dollars were converted into 3.2 million non-voting equity securities. A total of 244 million Swiss francs were recorded to equity, which consists of the 717 million Swiss francs of cash used to purchase the non-voting equity securities used in the conversion, less the 434 million Swiss francs carrying value of the converted bonds and the related tax effects of 39 million Swiss francs. As at 30 June 2007 notes with a principal amount of 273 million US dollars and carrying value of 202 million Swiss francs were outstanding and these were converted or redeemed by 25 July 2007.

Future transactions

Redemption of European Medium Term Note programme Euro bonds: These bonds with a principal value of 750 million euros are due for redemption on 9 October 2008 at the original issue amount plus accrued original issue discount ('OID'). The carrying value of these bonds at 30 June 2008 was 1,205 million Swiss francs.

11. Equity

Share capital and non-voting equity securities *(Genussscheine)*

The authorised and called-up share capital of the Group and the number of issued non-voting equity securities have not changed during the interim period. The weighted average number of shares and non-voting equity securities in issue during the interim period was 860 million (2007: 858 million).

Dividends

On 4 March 2008 the shareholders approved the distribution of a dividend of 4.60 Swiss francs per share and non-voting equity securities (2007: 3.40 Swiss francs) in respect of the 2007 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 3,969 million Swiss francs (2007: 2,930 million Swiss francs) and has been recorded against retained earnings in 2008.

Own equity instruments

The net cash outflow during the interim period from transactions in own equity instruments was 88 million Swiss francs. In the interim period of 2007 the net cash inflow was 819 million Swiss francs, which mainly arose from a reduction in own equity instrument holdings following the partial conversion of the 'LYONs V' notes (see Note 10).

Own equity instruments *in equivalent number of non-voting equity securities*

	30 June 2008 (millions)	31 December 2007 (millions)
Non-voting equity securities	1.1	0.4
Low Exercise Price Options	1.9	1.9
Forward purchases and derivative instruments	8.5	9.3
Total non-voting equity instruments	11.5	11.6

Review Report of the Group Auditors

To the Board of Directors of Roche Holding Ltd, Basel

Introduction

We have been engaged to review the accompanying consolidated balance sheet of Roche Holding Ltd as at 30 June 2008 and the related consolidated statements of income, cash flow, recognised income and expense, and changes in equity for the six-month period then ended, and selected explanatory notes (the consolidated interim financial statements) on pages 34 to 56. The Board of Directors is responsible for the preparation and presentation of these consolidated interim financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of Review

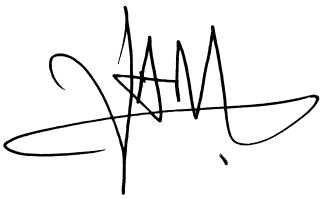
We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements as at 30 June 2008 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG

KPMG Klynveld Peat Marwick Goerdeler SA



John A. Morris François Rouiller

Basel, 20 July 2008

Supplementary Net Income and EPS Information

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

			Six months ended 30 June 2008	2007
Net income			5,732	5,862
Major legal cases	(315)		–	
– income taxes	123		–	
			(192)	–
Net income before exceptional items			5,540	5,862
Non-controlling interests				
– net income	(912)		(943)	
– exceptional items (major legal cases)	85		–	
			(827)	(943)
Net income attributable to Roche shareholders (before exceptional items)			4,713	4,919
Amortisation and impairment of intangible assets	502		488	
– income taxes	(166)		(173)	
– non-controlling interests	(26)		(23)	
			310	292
Core net income			5,023	5,211

EPS (continuing businesses before exceptional items) and Core EPS

Six months ended 30 June	EPS (continuing businesses before exceptional items) 2008	2007	Core EPS 2008	2007
Net income (millions of CHF)	4,713	4,919	5,023	5,211
Elimination of interest expense, net of tax, of convertible debt instruments, where dilutive	–	4	–	4
Increase in non-controlling share of net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised	(73)	(77)	(75)	(79)
Net income used to calculate diluted earnings per share	4,640	4,846	4,948	5,136
Per share information (millions of shares and non-voting equity securities)				
Weighted average number of shares and non-voting equity securities in issue	860	858	860	858
Adjustment for assumed conversion of convertible debt instruments, where dilutive	–	2	–	2
Adjustment for equity compensation plans, where dilutive	1	3	1	3
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	861	863	861	863
Earnings per share (diluted) (CHF)	5.39	5.62	5.75	5.95

Supplementary operating free cash flow information

Divisional operating free cash flow information *in millions of CHF*

Six months ended 30 June	Pharmaceuticals Division 2008	2007	Diagnostics Division 2008	2007	2008	Corporate 2007	2008	Group 2007
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	470	451	313	283	3	2	786	736
Amortisation of intangible assets	249	315	223	157	–	–	472	472
Impairment of property, plant and equipment	–	2	8	–	–	–	8	2
Impairment of intangible assets	30	16	–	–	–	–	30	16
Total	749	784	544	440	3	2	1,296	1,226
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	260	281	16	12	8	6	284	299
– Net (income) expense for provisions	(135)	119	64	102	3	2	(68)	223
– Net gain from disposals	(288)	(150)	8	(1)	–	–	(280)	(151)
Deduct								
– Net cash flow from equity-settled equity compensation plans	(596)	(577)	(14)	(32)	(3)	(10)	(613)	(619)
– Utilisation of provisions	(683)	(404)	(91)	(36)	(4)	(12)	(778)	(452)
– Proceeds from disposals	299	128	24	39	1	–	324	167
Total	(1,143)	(603)	7	84	5	(14)	(1,131)	(533)
Operating profit cash adjustments	(394)	181	551	524	8	(12)	165	693
EBITDA								
Operating profit before exceptional items	6,593	6,640	581	949	(133)	(112)	7,041	7,477
Depreciation, amortisation and impairments	749	784	544	440	3	2	1,296	1,226
EBITDA	7,342	7,424	1,125	1,389	(130)	(110)	8,337	8,703
– *margin, % of sales*	*42.5*	*40.6*	*23.7*	*30.5*	–	–	*37.9*	*38.1*

Pharmaceutical sub-divisional operating free cash flow information *in millions of CHF*

Six months ended 30 June	Roche Pharmaceuticals 2008	2007	Genentech 2008	2007	Chugai 2008	2007	Pharmaceuticals Division 2008	2007
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	267	257	160	158	43	36	470	451
Amortisation of intangible assets	124	200	92	81	33	34	249	315
Impairment of property, plant and equipment	–	1	–	–	–	1	–	2
Impairment of intangible assets	30	16	–	–	–	–	30	16
Total	421	474	252	239	76	71	749	784
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	50	36	209	244	1	1	260	281
– Net (income) expense for provisions	124	72	(261)	47	2	–	(135)	119
– Net gain from disposals	(288)	(99)	3	(51)	(3)	–	(288)	(150)
Deduct								
– Net cash flow from equity-settled equity compensation plans	(42)	(98)	(554)	(479)	–	–	(596)	(577)
– Utilisation of provisions	(165)	(389)	(518)	(14)	–	(1)	(683)	(404)
– Proceeds from disposals	293	124	–	–	6	4	299	128
Total	(28)	(354)	(1,121)	(253)	6	4	(1,143)	(603)
Operating profit cash adjustments	393	120	(869)	(14)	82	75	(394)	181
EBITDA								
Operating profit before exceptional items	3,693	3,583	2,630	2,949	279	334	6,602	6,866
Elimination within division[1)]							(9)	(226)
Total	3,693	3,583	2,630	2,949	279	334	6,593	6,640
Depreciation, amortisation and impairments	421	474	252	239	76	71	749	784
EBITDA	4,114	4,057	2,882	3,188	355	405	7,342	7,424
– *margin, % of sales*	*37.6*	*35.7*	*59.2*	*61.0*	*24.4*	*24.2*	*42.5*	*40.6*

1) Unrealised internal profits on inventories that have been sold from one sub-division to another, but which have not yet been sold on to external customers at the balance sheet date are eliminated as a consolidation entry.

Roche Securities

Number of shares and non-voting equity securities

	30 June 2008	30 June 2007
Number of shares	160,000,000	160,000,000
Number of non-voting equity securities	702,562,700	702,562,700
Total	862,562,700	862,562,700

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

		Six months ended 30 June 2008	2007
Diluted earnings per share and non-voting equity security		5.50	5.62
Stock price of share	Opening	213.00	247.50
	High	229.50	266.25
	Low	182.00	230.50
	Period end	203.40	244.40
Stock price of non-voting equity security	Opening	195.60	218.50
	High	208.60	240.10
	Low	164.60	208.50
	Period end	184.00	217.40

Market capitalisation *in millions of CHF*

	30 June 2008	31 December 2007	30 June 2007
Period end	161,268	171,060	191,081

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

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The Roche Half-Year Report is published in German and English.

The Roche Half-Year Report is issued by
F. Hoffmann-La Roche Ltd, Basel, Corporate Communications.