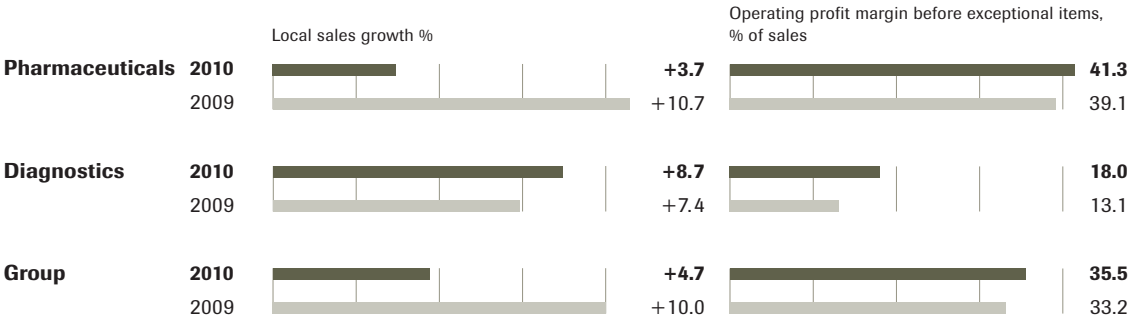
2010 Roche Half-Year Report

Finance in brief

Key results first half 2010



	Six months ended June 2010 (mCHF)	2009 (mCHF)	% change (CHF)	(LC)	% of sales 2010	2009
Sales	24,636	24,006	+3	+5		
Research and development	4,471	4,518	–1	+1	18.1	18.8
Operating profit before exceptional items	8,756	7,970	+10	+11	35.5	33.2
Operating free cash flow	6,426	6,778	–5	–4	26.1	28.2
Net income	5,565	4,051	+37		22.6	16.9
Diluted EPS (CHF)	6.37	4.00	+59			
Net income before exceptional items attributable to Roche shareholders	5,653	5,213	+8			
Core EPS (CHF) [1]	6.91	6.32	+9	+11		

	30 June 2010	31 December 2009	30 June 2009
Net debt	(27,520)	(23,867)	(32,482)
Capitalisation	44,241	51,830	57,152
– Debt	36,440	42,416	51,801
– Equity	7,801	9,414	5,351

1) See page 67 for definition of Core EPS.
LC = local currencies

Highlights first half 2010

Group

- Group first-half sales up 5% in local currencies (3% in Swiss francs; 7% in US dollars) to 24.6 billion Swiss francs.
- Operating profit (before exceptional items) up significantly, rising 11% in local currencies (10% in Swiss francs) to 8.8 billion Swiss francs – again advancing faster than sales.
- Net income rises 37% compared with first half of 2009; lower exceptional expenses relating to integration of Genentech.
- Core earnings per share up 11% in local currencies, 9% in Swiss francs.
- Accelerated repayment of debt raised to finance the Genentech transaction: a 3-year note totalling 2.5 billion US dollars to be repaid early, debt burden to be reduced by one-third by the end of 2010.
- Full-year outlook for 2010 confirmed.

Pharma

- Sales grow 4% in local currencies (1% in Swiss francs; 6% in US dollars); excluding Tamiflu, sales advance 6%, ahead of the global market.
- Major drivers are the Group's leading cancer medicines, as well as Lucentis, Actemra/RoActemra and Mircera; sales of oncology portfolio rise by 9% to 11.1 billion Swiss francs.
- Operating profit before exceptional items up 9% in local currencies (7% in Swiss francs).
- US marketing application submitted for innovative breast cancer medicine T–DM1 (for advanced HER2-positive breast cancer) based on positive phase II results.
- Positive phase III trial results with Avastin in advanced ovarian cancer.
- Innovative compounds designed to treat aggressive skin cancer (BRAF inhibitor) and lower cardiovascular risk in type 2 diabetes (aleglitazar) enter phase III clinical testing.
- Novel compounds for schizophrenia (GlyT1 inhibitor) and hepatitis C (polymerase inhibitor) to enter late-phase clinical development.

Diagnostics

- Diagnostics sales grow 9% in local currencies (7% in Swiss francs; 12% in US dollars) – significantly faster than the global IVD market – driven primarily by Professional Diagnostics, Diabetes Care and Applied Science.
- Operating profit rises substantially, up 45% in local currencies (47% in Swiss francs).
- Eighteen major new tests and instruments launched in their first markets.
- Strong benefit of cobas 4800 HPV test in screening for cervical cancer demonstrated by ATHENA, the largest clinical trial ever performed in this indication.

Barring unforeseen events.

Contents

Letter to Shareholders

Franz B. Humer

Severin Schwan

Dear Shareholders

Your company achieved a good operating performance in the first half of 2010 despite an increasingly challenging market environment. On a currency-adjusted basis Group sales grew 5% (3% in Swiss francs) to 24.6 billion Swiss francs. Operating profit before exceptional items saw a very positive increase of 11% in local currencies (10% in Swiss francs) to 8.8 billion Swiss francs, more than twice the growth in sales.

Net income grew even more strongly, rising 37% to 5.6 billion Swiss francs. This was mainly due to the fact that the exceptional charges incurred for the Genentech integration in the first half of 2010 were much lower than in 2009. Excluding exceptional items, net income attributable to Roche shareholders was up 8% (in Swiss francs). Core earnings per share, which excludes exceptional items, amortisation and impairment of intangible assets, increased 11% in local currencies (9% in Swiss francs).

Sales by the Pharmaceuticals Division in the first half-year rose 4% in local currencies (1% in Swiss francs) to 19.4 billion Swiss francs, with growth from key products in the oncology, ophthalmology, inflammatory and autoimmune diseases and anemia portfolios more than offsetting the expected significant decline in Tamiflu sales. Continued strong demand for our cancer medicines enabled us to reinforce our leading position in this key market segment. The market response to our novel rheumatoid arthritis treatment Actemra following its launch in the US at the start of the year has been promising. Sales of the antiinfluenza medicine Tamiflu decreased sharply compared with the first half of 2009, which saw a strong rise in demand due to the pandemic A (H1N1) 2009 influenza virus ('swine flu') outbreak. Excluding Tamiflu, pharmaceutical sales grew 6% in local currencies, again ahead of the global market.

Diagnostics continued to grow much faster than the market as a whole, posting a sales increase of 9% in local currencies in the first half of 2010. Products introduced in 2009 experienced a strong market response, and 18 additional major products were launched in the first half of 2010. The main growth drivers were Professional Diagnostics, Diabetes Care and Applied Science. The acquisition of Medingo Ltd, completed in the second quarter, broadened our portfolio of innovative insulin delivery technologies and further strengthened our position in the fast-growing diabetes care market.

The challenges in our market environment increased significantly in the first half-year. The recently approved healthcare reform in the US has already led to greater rebates on medications to the federal assistance programme Medicaid. In Europe the financial crisis has increased pressure on government budgets, causing some countries to announce substantial price reductions on pharmaceutical products.

We are facing this increasing pressure by maintaining our focus on innovation and improving our productivity.

A clear focus on scientific excellence will remain the foundation of our success as we continue to develop medicines and diagnostics that create tangible added value for doctors and patients. In doing so, we are able to build on one of the leading research and development pipelines in the industry. In addition, our current marketed products face only limited exposure to patent risks and generic competition in the next few years.

We also made progress in advancing our research and development pipeline in the first half of 2010: two late-stage clinical studies showed that treatment with Avastin helped patients with ovarian cancer live longer without further tumour growth. In July we also filed a US marketing application for our new breast cancer medicine T–DM1, which gives new hope to women who are no longer responding to existing treatments. Moreover, innovative compounds to treat aggressive skin cancer (BRAF inhibitor) and lower cardiovascular risk in patients with diabetes who have survived a heart attack (aleglitazar) reached the last phase of clinical development. Other promising compounds for the negative symptoms of schizophrenia (GlyT1 inhibitor) and hepatitis C (HCV polymerase inhibitor) are expected to enter late-phase clinical development in the second half of the year.

By contrast, studies with Avastin in gastric and prostate cancer did not meet their endpoints; we decided to end development of ocrelizumab for rheumatoid arthritis due to an unfavourable risk-benefit analysis; and development of taspoglutide, our type 2 diabetes treatment, has been delayed.

The merger of Genentech and Roche last year further increased our innovative strength. As the world's largest biotech company, we are ideally equipped to translate insights into disease biology into new treatments and tests. Roche's global oncology pipeline alone

includes 22 new products, five of which are in late-phase clinical development. With our focus on medicines and tests that bring significant benefits to patients, we have what it takes to remain successful in an increasingly challenging healthcare market.

We would like to thank all of our more than 80,000 Group employees worldwide for their outstanding dedication and professionalism.

Based on our good half-year results, we confirm our full-year outlook for 2010: we expect mid-single-digit sales growth for the Roche Group and the Pharmaceuticals Division in 2010. This excludes Tamiflu sales, which are very difficult to predict. For the Diagnostics Division we expect sales to grow significantly ahead of the global market. We are also aiming to achieve a double-digit increase in core earnings per share at constant exchange rates in 2010.

Franz B. Humer
Chairman of the Board

Severin Schwan
Chief Executive Officer

Group and Divisional Results

Roche Group

Good half-year results

The Roche Group posted strong operating results in the first half of 2010. Group sales grew by 5% in local currencies (3% in Swiss francs; 7% in US dollars) to 24.6 billion Swiss francs. The Pharmaceuticals Division increased its sales by 4% in local currencies (1% in Swiss francs; 6% in US dollars) to 19.4 billion Swiss francs. Demand for the cancer drugs Avastin, MabThera/Rituxan, Herceptin, Xeloda and Tarceva continued to show strong growth. Overall sales of oncology products rose 9% in local currencies in the first half year, enabling Roche to solidify its leading market position in this segment. Other major growth drivers in the Pharmaceuticals Division included Lucentis in ophthalmology, Actemra/RoActemra for rheumatoid arthritis and Mircera for anemia. These positive factors more than offset the expected significant decline in Tamiflu sales. Excluding Tamiflu, sales growth was 6% in local currencies, again ahead of market growth. The Diagnostics Division expanded its market leadership as sales reached 5.3 billion Swiss francs in the first six months of 2010, a 9% growth rate in local currencies (7% in Swiss francs; 12% in US dollars). This strong growth was led by the Professional Diagnostics unit's immunoassay business and Diabetes Care's Accu-Chek Aviva, Accu-Chek Performa and newly launched Accu-Chek Mobile blood glucose monitoring systems, followed by Applied Science with strong growth in the cell analysis segment.

The Group's operating profit before exceptional items increased significantly by 11% in local currencies (10% in Swiss francs), again substantially above sales growth. This rise was driven by the growth in sales and by further productivity improvements. The Pharmaceuticals Division improved its operating profit (before exceptional items) by 9% in local currencies and 7% in Swiss francs to 8.0 billion Swiss francs, due primarily to higher sales and cost synergies from the Genentech integration. The Diagnostics Division's operating profit grew substantially, advancing 45% in local currencies and 47% in Swiss francs to 947 million Swiss francs, due mainly to strong sales growth and ongoing programmes to increase operational efficiency.

Group net income increased 37% to 5.6 billion Swiss francs, primarily as a result of the much lower exceptional charges incurred in respect of the Genentech transaction in the first half of 2010 compared with 2009. Excluding exceptional items, Group net income attributable to Roche shareholders rose 8% in Swiss francs. Core earnings per share, which does not include exceptional items or amortisation and impairment of intangible assets, increased 11% in local currencies (9% in Swiss francs).

The Group's operating free cash flow remained very solid at 6.4 billion Swiss francs. Roche is accelerating repayment of the 48.2 billion Swiss francs borrowed on the capital market to finance the acquisition of all outstanding shares of Genentech in the first half of 2009. On 30 June 2010, 27% of the notes and bonds had already been repaid. Furthermore, in the second half of 2010 Roche will also repay, ahead of schedule, the 2.5 billion US dollar note due 1 March 2012. By the end of 2010 Roche will thus have repaid one third of the debt incurred to finance the Genentech transaction.

Full-year outlook for 2010 confirmed

Despite lower Tamiflu sales (expected to total 1 billion Swiss francs in the current year, down from 3.2 billion Swiss francs in 2009) and the more challenging market environment, Roche confirms its full-year outlook for 2010 on the basis of the positive half-year results.

Barring unforeseen events, Roche expects local currency sales growth in the mid-single-digit range for the Group and the Pharmaceuticals Division in 2010 (excluding Tamiflu sales). For the Diagnostics Division, Roche expects to grow significantly above the market.

Roche is also aiming for double-digit growth in core earnings per share at constant exchange rates.

Key figures: Pharmaceuticals Division

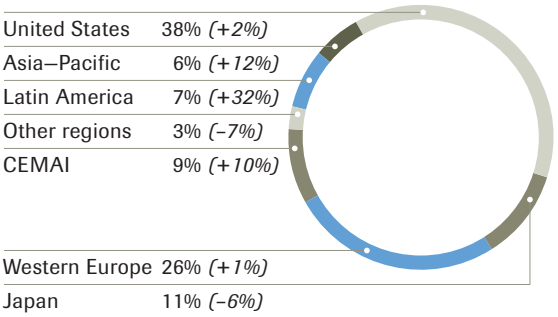
	In millions of CHF	% change in CHF	% change in local currencies	% of sales
Sales	19,386	1	4	100
– United States	7,372	–2	2	38
– Western Europe	5,044	–3	1	26
– Japan	2,061	–6	–6	11
– International (Asia–Pacific, CEMAI[1], Latin America, Canada, Others)	4,909	16	14	25
Operating profit before exceptional items	8,009	7	9	41.3
Operating free cash flow	6,123	–6	–4	31.6
Research and development	4,036	–1	2	20.8

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

Pharmaceuticals

In the first half of 2010 the Pharmaceuticals Division recorded solid sales growth thanks to demand for key products, as well as a further improvement in profitability. At the same time Roche continued to advance novel investigational medicines in its strong R&D pipeline, with two promising new compounds – RG7204 (BRAF inhibitor; malignant melanoma) and RG1439 (aleglitazar; cardiovascular high risk in type 2 diabetes) – entering phase III clinical testing as planned. Another two new compounds – RG1678 (GlyT1 inhibitor; negative symptoms of schizophrenia) and RG7128 (HCV polymerase inhibitor; hepatitis C infection) are expected to enter late-stage development in the second half-year.

Sales by region



Italics = growth rates (local currencies).
CEMAI: Central and Eastern Europe, Middle East, Africa, Central Asia, Indian Subcontinent.

Results and main business developments

Sales by the Pharmaceuticals Division in the first half-year rose 4% in local currencies (1% in Swiss francs; 6% in US dollars) to 19.4 billion Swiss francs, with the growth of key products more than offsetting significantly lower sales of Tamiflu, CellCept and NeoRecormon/Epogin, as well as the initial effects of US healthcare reforms and European austerity measures. The primary growth contributors were Avastin, MabThera/Rituxan, Herceptin, Lucentis, Xeloda and Actemra/RoActemra. Excluding Tamiflu, the division's sales increased 6% in local currencies, compared with a global pharmaceuticals market growth rate of almost 5%[1].

Sales growth was recorded in all key regions except Japan. An increase of 2%[2] in the US reflects significantly lower sales of CellCept and Tamiflu, and initial healthcare reform impacts affecting all major products. Slower growth in Western Europe (1%) was due primarily to markedly lower sales of Tamiflu and NeoRecormon and the effects of the first government austerity measures introduced in Greece, Spain and other countries in the second quarter. Excluding Tamiflu, sales in the US and Western Europe increased 4% and 5%, respectively, ahead of the corresponding market growth rates. A decline in sales of 6% in Japan reflects both lower Tamiflu sales and the impact of revised National Health Insurance reimbursement prices that came into effect in April; excluding Tamiflu, Japanese sales grew 2% in a flat

1 Pharmaceutical market growth according to IMS (to end of March 2010).
2 Unless otherwise stated, all growth rates are in local currencies.

market. Double-digit sales growth in the International region (14%, or 11% excluding Tamiflu) was driven by increased demand for key medicines, especially in emerging markets.

Operating profit before exceptional items again grew faster than sales, advancing 9% in local currencies (7% in Swiss francs) to 8.0 billion Swiss francs. The corresponding margin increased 2.2 percentage points to 41.3%, driven by good sales growth and efficiency measures, including synergies from the merger with Genentech. Excluding impairment of intangible assets, research and development expenses declined 1% in local currencies versus the prior-year period, despite continued investment in the Group's strong late-stage pipeline and costs associated with the discontinuation of the ocrelizumab rheumatoid arthritis programme (see p. 13, below).

The division's operating free cash flow in the first half-year remained strong at 6.1 billion Swiss francs. The decrease of 4% in local currencies compared with the year-earlier period primarily reflects the payment of certain large year-end 2009 accruals, including employee retention and severance payments in 2010 and higher royalty payments relating to strong Tamiflu sales in the second half of 2009. The Pharmaceuticals Division is on track to achieve its goal of pre-tax annual synergies of approximately 1 billion Swiss francs by 2011. Synergies of 800 million Swiss francs are expected in 2010. For more information on the division's operating results, see the Financial Review (pp. 20, ff.).

Sales review – selected key products

The Roche Group's key cancer medicines, eye medication Lucentis, and new products Actemra/RoActemra (rheumatoid arthritis) and Mircera (renal anemia) were the major drivers of first-half Pharmaceuticals Division sales.

Sales of **Avastin** (bevacizumab), for advanced colorectal, breast, lung and kidney cancer, and for relapsed glioblastoma (a type of brain tumour), rose 14% to 3.4 billion Swiss francs. Sustained growth in all regions, particularly in Western Europe (up 13%) and the United States (7%), continued to be driven by uptake in colorectal, breast and/or lung cancer, the product's largest indications. Apart from the United States, where penetration rates are already high, patient share in all three indications continues to grow strongly. First-half sales by Chugai in Japan were particularly strong (up 52%), driven by sustained growth in colorectal cancer and the ongoing launch of Avastin for non-small cell lung cancer.

Overall sales (oncology and autoimmune diseases) of **MabThera/Rituxan** (rituximab), for non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL) and rheumatoid arthritis (RA), rose 9% to 3.3 billion Swiss francs. Sustained growth in the oncology segment was driven by further expansion of market share in all lines of CLL therapy and continued strong use in the product's core NHL indications. Sales growth in the RA segment continued to be driven by increased use in patients with an inadequate response to one or more tumour necrosis factor inhibitors and by six-month repeat treatment intervals.

Global sales of **Herceptin** (trastuzumab), for HER2-positive breast cancer and advanced stomach cancer, increased 8% to 2.8 billion Swiss francs in the first half-year. Growth was driven by further penetration in the early and metastatic breast cancer settings, particularly in emerging markets. Solid growth was also recorded in Western Europe (9%) and the US (6%). First signs of uptake of Herceptin in HER2-positive advanced stomach cancer are being seen in EU markets following approval of this new indication in January. Lower sales in Japan (–17%) reflect the impact of revised reimbursement prices that came into effect in April.

Xeloda (capecitabine), for colorectal, stomach and breast cancer, delivered strong sales growth in the first six months of 2010, up 19% to 732 million Swiss francs. Sales were driven primarily by strong gains in the United States (26%) and Japan (82%). Sales in Japan are benefitting from an expanded metastatic colorectal cancer indication approved in 2009. Growth in China, the product's second-largest market after the US, is being fuelled mainly by use of the medicine in advanced stomach cancer.

Sales of **Tarceva** (erlotinib), for advanced lung and pancreatic cancer, increased 8% to 674 million Swiss francs in the first half-year, driven primarily by growth in the International region (14%) and the US (6%). Solid sales growth in Japan (28%) reflects continuing market penetration.

Top-selling pharmaceutical products – Roche Group

Product	Active substance	Indication	Sales in millions of CHF	% change in local currencies
Avastin	bevacizumab	colorectal cancer, breast cancer, non-small cell lung cancer, kidney cancer, glioblastoma	3,393	14
MabThera/Rituxan	rituximab	non-Hodgkin's lymphoma, chronic lymphocytic leukemia, rheumatoid arthritis	3,301	9
Herceptin	trastuzumab	HER2-positive breast cancer, advanced HER2-positive stomach cancer	2,806	8
Pegasys	peginterferon alfa-2a	hepatitis B and C	869	5
Xeloda	capecitabine	colorectal cancer, breast cancer, stomach cancer	732	19
Tamiflu	oseltamivir	treatment and prevention of influenza A and B	710	–31
CellCept	mycophenolate mofetil	transplantation	702	–23
Lucentis[1]	ranibizumab	wet age-related macular degeneration, macular edema following retinal vein occlusion	697	27
NeoRecormon, Epogin	epoetin beta	anemia	677	–13
Tarceva	erlotinib	advanced non-small cell lung cancer, advanced pancreatic cancer	674	8

1 US sales. Lucentis is marketed by Novartis outside the United States.

Pegasys (peginterferon alfa-2a), for hepatitis B and C, posted a 5% increase in sales to 869 million Swiss francs, with the main growth contributions coming from the International region (16%), especially CEMAI[3] and Asia–Pacific countries. Sales are being driven by new clinical trial data that further confirm the superiority of Pegasys over other treatment options, increased use in the treatment of hepatitis B, and higher rates of hepatitis diagnosis and treatment in emerging markets.

Sales of the antiinfluenza medicine **Tamiflu** (oseltamivir) totalled 710 million Swiss francs in the first six months, 31% lower than in the prior-year period (1,010 million Swiss francs). Following the exceptional demand seen from March 2009 onwards due to the worldwide influenza A (H1N1) pandemic, global sales of Tamiflu have declined consistently since December. Roche has now filled the bulk of government pandemic orders received in 2009 and early 2010. In addition, with the pandemic in the northern hemisphere apparently past its peak, retail pharmacy sales have slowed. Based on current estimates, Roche now expects full-year sales of Tamiflu of up to 1.0 billion Swiss francs in 2010, down from our previous estimate of approximately 1.2 billion francs.

US sales of **Lucentis** (ranibizumab), for wet age-related macular degeneration and macular edema following retinal vein occlusion, rose 27% compared with the first half of 2009 to 697 million Swiss francs. Robust growth was driven primarily by an increase in the total treated patient population (the number of new patients receiving treatment, plus the time patients are on treatment with Lucentis). In June Genentech commenced the US launch of Lucentis for an additional indication, the treatment of patients with macular edema (swelling in the retina) following retinal vein occlusion. The US Food and Drug Administration (FDA) approved the new indication after a six-month priority review.

3 CEMAI: Central and Eastern Europe, Middle East, Africa, Central Asia, Indian Subcontinent.

In a highly competitive, price-sensitive market, sales of the renal anemia medication **Mircera** (methoxy polyethylene glycol-epoetin beta) rose 72% to 124 million Swiss francs in the first half of 2010, with growth coming predominantly from the predialysis segment. Combined sales of the Group's established anemia medicines, Roche's **NeoRecormon** and Chugai's **Epogin** (epoetin beta), declined 13% to 677 million Swiss francs, due primarily to pricing pressure. Despite increasing competition from biosimilars, Roche's overall share of the European anemia market continues to grow, due mainly to the strong performance of Mircera in the major EU countries and a robust market share by volume for NeoRecormon in the renal indication.

Sales of the novel rheumatoid arthritis medicine **Actemra** (tocilizumab, known as RoActemra in the EU) continued to develop very well in the first six months of 2010. Further growth was recorded in the product's 2009 launch markets, including Germany, with contributions also coming from the ongoing rollouts in France, Spain, Italy, the United States and other countries. Global sales totalled 155 million Swiss francs, an increase of 198% over the first half of 2009. Initial sales in the United States, where Actemra has been available since mid-January, have been encouraging. Market uptake in Japan remained strong, with sales up 67% for the half-year. Now launched in some 50 countries, Actemra/RoActemra is continuously gaining patient share in its approved indications, including use as a first-line biologic treatment.

Sales of **CellCept** (mycophenolate mofetil), for the prevention of solid organ transplant rejection, decreased 23% compared with the year-earlier period to 702 million Swiss francs. US sales have declined sharply since the product's US patent expired in May 2009, and a 58% decrease was recorded in the first half of 2010. Continued generic erosion of US sales is being partly offset by solid growth in certain CEMAI region countries, Japan and other markets.

Development update

In the first half of 2010 the Pharmaceuticals Division filed nine major new marketing applications and gained eleven major regulatory approvals (see table, p.12).

As of 30 June 2010 the division's clinical development portfolio (phase I to III/registration) included 60 new molecular entities and 42 additional indications. In the second quarter of 2010 four projects entered phase I, one entered phase II and three entered phase III development. Five phase I projects were discontinued, of which two were returned to the respective partner and two to exploratory development; two phase II and five phase III projects were discontinued. Full details of the Group's pharmaceutical R&D pipeline are available at www.roche.com.

Phase III data on **Avastin** in previously untreated advanced ovarian cancer from the GOG218 trial, which met its primary endpoint of extending progression-free survival (the period a patient lives without the disease getting worse), were presented at the annual meeting of the American Society of Clinical Oncology (ASCO) in June. In addition, positive results from ICON7, a further trial with Avastin in previously untreated advanced ovarian cancer, were reported in early July. Roche plans to use the results of both trials to support regulatory applications for this additional indication in the EU later this year and in the US in 2011. As a phase III trial with the medicine in prostate cancer did not meet its primary endpoint of extending overall survival, Roche has decided not to pursue regulatory filings for Avastin in this indication. A phase III programme investigating the addition of Avastin to standard treatment with MabThera/Rituxan plus chemotherapy for diffuse large B cell lymphoma, an aggressive form of non-Hodgkin's lymphoma, has been discontinued. The decision was based on the results of a safety and efficacy analysis that showed an unfavourable risk-benefit assessment.

Other key results presented at ASCO included data from the phase III PRIMA trial showing that maintenance treatment with **MabThera/Rituxan** doubles the likelihood of people with follicular lymphoma living without their disease worsening. Roche and Genentech have used the PRIMA results to support applications to expand the medicine's approved cancer indications in the EU and the US.

Chugai's application for approval of **Herceptin** for advanced HER2-positive gastric cancer has been designated for priority review by the Japanese health authorities. The FDA has likewise given priority review status to Genentech's supplemental Biologics License

Major regulatory filings in the first half of 2010[1]

Product	Clinical data supporting filing	Indication and/or dosage form	Country
Actemra	LITHE (2-year data)	prevention of structural joint damage and improvement of physical function in adults with moderately to severely active rheumatoid arthritis	USA
Herceptin + Xeloda	ToGA	advanced HER2-positive gastric cancer	Japan
Herceptin	ToGA	advanced HER2-positive gastric cancer	USA
MabThera/Rituxan	PRIMA	advanced follicular lymphoma, first-line maintenance following induction treatment with MabThera/Rituxan plus chemotherapy	EU, USA, Switzerland
Tarceva	Emerging data from clinical trials, ongoing clinical experience	metastatic non-small cell lung cancer with EGFR-activating mutations, first-line treatment	EU
Trastuzumab–DM1	TDM4374g, TDM4258g	HER2-positive metastatic breast cancer, third-line treatment	USA
Xeloda	NO16968 (XELOXA)	adjuvant colon cancer, combination with oxaliplatin	Switzerland

Major regulatory approvals in the first half of 2010[1]

Product	Clinical data supporting filing	Indication and/or dosage form	Country
Actemra/RoActemra	OPTION, TOWARD, RADIATE, AMBITION, LITHE (6-month data)	rheumatoid arthritis signs and symptoms	USA
	LITHE (2-year data)	reduction of progression of joint damage, improvement of physical function in rheumatoid arthritis, combination with methotrexate	EU
Avastin	AVF 2107, E3200, NO16966 (global); ARTIST (China)	first-line metastatic colorectal cancer	China
Herceptin	ToGA	advanced HER2-positive gastric cancer	EU, Switzerland
Lucentis	CRUISE, BRAVO	macular edema following retinal vein occlusion	USA
Rituxan	REACH	relapsed or refractory chronic lymphocytic leukemia	USA
	CLL-8	first-line chronic lymphocytic leukemia	USA
Tarceva	SATURN	non-small cell lung cancer, first-line maintenance after chemotherapy	USA, EU
Xeloda	NO16968 (XELOXA)	adjuvant colon cancer, combination with oxaliplatin	EU

1 Includes supplemental indications; updated to 7 July 2010.

Application for approval of Herceptin in this indication, with an action date of 20 October 2010.

A data analysis completed in June showed that NO17629, a phase III trial investigating **Xeloda** in combination with docetaxel for the adjuvant (post-surgical) treatment of women with early breast cancer, did not meet its primary endpoint of extending disease-free survival but did meet the secondary endpoint of extending overall survival. The results were not conclusive due to a lower-than-expected event rate that reduced the statistical power of the trial (320 events instead of the 500 originally planned). Roche plans to submit the full results for presentation at a major international medical conference later this year but has decided not to pursue regulatory filings for this indication.

In July Roche and Genentech filed a US marketing application for **trastuzumab–DM1** (T–DM1, RG3502) for the treatment of patients with advanced HER2-positive breast cancer whose disease continues to progress despite previous treatment with multiple HER2-targeted medicines and chemotherapies. The application is based on the results of a phase II trial (TDM4374g) that showed that T–DM1 shrank tumours in one-third of women who had received an average of seven prior medicines for advanced HER2-positive breast cancer. T–DM1 combines the therapeutic effect of trastuzumab (the active ingredient of Herceptin) with the intracellular delivery of DM1, a highly potent cytotoxic (cell-killing) agent. T–DM1 is able to specifically target cancer cells and maximise clinical benefit while minimising harmful side effects from conventional chemotherapy. Several phase II and III trials of T–DM1, either alone or in combination with other medicines, are planned or ongoing.

New data presented at the European League Against Rheumatism (EULAR) congress in June reinforce the role of **Actemra/RoActemra** as an innovative treatment for patients living with rheumatoid arthritis. Data from the phase IIIb ACT-RAY trial and other studies showed that treatment with Actemra/RoActemra can lead to early improvement of inflammation and pre-existing joint damage. Results from the phase III TENDER trial were also presented at EULAR, demonstrating that Actemra/RoActemra is highly effective in the treatment of children with systemic juvenile idiopathic arthritis, a severe childhood arthritis with no current approved treatment. Roche and Genentech plan to file applications for approval of this additional indication in the EU and the US by the end of the year.

In May Roche and its partner Biogen Idec announced that they were discontinuing clinical development of **ocrelizumab** in patients with rheumatoid arthritis (RA). Following a detailed analysis of the efficacy and safety results from the RA programme, the companies concluded that the overall benefit-to-risk profile of ocrelizumab was not favourable in RA, taking into account currently available treatment options, including MabThera/Rituxan.

A phase II study evaluating ocrelizumab for the treatment of patients with relapsing remitting multiple sclerosis, one of the leading causes of neurological disability in young adults, met its primary endpoint in 2009; ocrelizumab showed a strong effect versus placebo with a highly statistically significant reduction in signs of disease activity as measured by brain lesions. Data from the trial have been submitted for presentation at an international scientific conference later this year.

Twenty-four-week data from T-emerge 1, 2, 4, 5 and 7, trials in a phase III programme investigating **taspoglutide** (RG1583) in type 2 diabetes, were presented at the annual American Diabetes Association scientific meeting in June. The results showed that treatment with taspoglutide led to comparable or greater reductions in blood glucose levels versus commonly used treatments for type 2 diabetes, with a low risk of hypoglycemia, and produced clinically meaningful weight loss. Also in June, Roche announced the implementation of a risk mitigation plan in the taspoglutide phase III programme. In ongoing clinical trials, the incidence of hypersensitivity reactions reported as related to taspoglutide is higher than expected for the study population. The reactions are uncommon, and all affected patients have recovered without complications. While the company is currently assessing the impact of the risk mitigation plan on the project, a minimum delay of 12 to 18 months is anticipated.

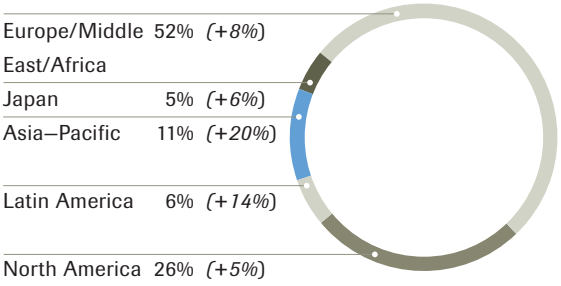
Key figures: Diagnostics Division

	In millions of CHF	% change in CHF	% change in local currencies	As % of sales
Sales	5,250	7	9	100
– Professional Diagnostics	2,449	9	11	47
– Diabetes Care	1,489	4	5	28
– Molecular Diagnostics	604	2	3	11
– Applied Science	449	11	14	9
– Tissue Diagnostics	259	13	17	5
Operating profit	947	47	45	18.0
Operating free cash flow	557	10	9	10.6
Research and development	435	–5	–2	8.3

Diagnostics

Roche's Diagnostics Division performed strongly in the first half of 2010, recording significantly above-market sales growth and further improving profitability. Products introduced in 2009 experienced strong market uptake while 18 major new products were launched in their first markets.

Sales by region



Italics = growth rates.

Results and main business developments

In the first half of 2010 the Diagnostics Division recorded sales of 5.3 billion Swiss francs, an increase of 9% in local currencies (7% in Swiss francs; 12% in US dollars) over the first six months of 2009[1]. This was significantly above the estimated growth of the *in vitro* diagnostics market (6%)[2].

All five business areas contributed to sales growth, led by Professional Diagnostics, Diabetes Care and Applied Science. Sales again outgrew the market in all regions. Asia–Pacific countries, led by China, South Korea and India, posted especially strong gains (20%), driven by Professional Diagnostics and Applied Science. In EMEA[3] sales outperformed the market in both mature and emerging economies, with Professional Diagnostics and Diabetes Care again the main contributors. Professional Diagnostics was also the main growth driver in North America, while Tissue Diagnostics recorded the strongest growth in this region. Sales in E7[4] emerging markets grew 25% and accounted for 12% of total divisional revenues.

The US healthcare reforms signed into law last March are expected to change the US healthcare landscape. While Roche Diagnostics anticipates only a minimal immediate impact, in the long term the US business could benefit from the reforms, which aim to extend insurance coverage and improve treatment of chronic diseases using preventive diagnostics services.

On a Swiss francs basis, the division's operating profit for the half-year increased 47% to 947 million Swiss francs, while the operating profit margin advanced 4.9 percentage points to 18.0%. These increases reflect the strong performance of Roche's key diagnostics products as well as ongoing initiatives to improve

1 Unless otherwise stated, all growth rates are in local currencies.
2 Market growth based on company and independent reports (to end of March 2010).
3 EMEA = Europe, Middle East, Africa.
4 E7 = Brazil, Russia, India, China, South Korea, Mexiko, Turkey.

Roche's top-selling diagnostics

Product lines	Market segment	Business area	Sales in millions of CHF	% change in local currencies
Accu-Chek monitoring systems	Blood glucose monitoring	Diabetes Care	1,370	4
cobas e modules, Modular Analytics, Elecsys	Immunoassays	Professional Diagnostics	982	18
cobas c modules, Modular Analytics, Cobas Integra	Clinical chemistry	Professional Diagnostics	759	6
Cobas AmpliPrep/ Cobas TaqMan	Diagnostics of viral diseases (hepatitis C, hepatitis B, HIV)	Molecular Diagnostics	282	1
immunohistochemistry and *in-situ* hybridisation	Advanced tissue staining	Tissue Diagnostics	217	15
Cobas AmpliScreen, cobas TaqScreen	Blood screening	Molecular Diagnostics	160	3
CoaguChek	Coagulation monitoring	Professional Diagnostics	155	14
cobas systems for blood gases, hospital blood glucose systems	Intensive care	Professional Diagnostics	140	4
MagNA Pure/LightCycler	DNA purification and gene expression	Applied Science	126	13

operational efficiency. For more information, see the Financial Review on page 27.

The division launched a total of 18 major new tests and instruments in their first markets during the first half of 2010 (see table, p. 18). Moreover, final data from ATHENA, a large registration trial investigating the benefits of HPV testing in screening for cervical cancer, and from the randomised STeP trial in diabetes were presented at major scientific congresses. Both trials demonstrated the high medical value of Roche diagnostic products.

In the second quarter Roche completed the acquisition of Medingo Ltd., the developer of a semi-disposable insulin patch pump. The acquisition broadens and strengthens Diabetes Care's portfolio of insulin delivery technologies, which represent a fast-growing and highly attractive market.

Business area highlights

Professional Diagnostics

Professional Diagnostics' half-year sales advanced 11% to 2,449 million Swiss francs. This was more than twice the market growth rate. Immunoassays and clinical chemistry, the unit's two largest segments by sales, remained the biggest contributors to growth, with half-year sales up 18% and 6%, respectively. The successful rollout of the cobas 8000 modular analyser series continued in EU and Asia–Pacific countries, with Chinese approval successfully obtained for the clinical chemistry modules. Sales of point-of-care solutions rose 7%, led by strong double-digit growth from coagulation monitoring products.

Professional Diagnostics launched four new immunoassays in the first half of 2010: in the EU and other markets that recognise CE Mark certification a test for free b-HCG/PAPP-A to evaluate the risk of trisomy 21 and in the US a STAT NT-pro BNP test for the risk of heart failure, a test for rubella infection in women, and an anti-HCV test for the presumptive diagnosis of hepatitis C infection, which completes Roche's comprehensive test menu for infectious diseases. In addition, four new or next-generation products for clinical chemistry were launched in the EU and other markets that recognise CE Mark certification.

Professional Diagnostics and the American College of Cardiology began a unique collaboration to develop a biomarker web portal that will enable physicians to access the latest information about biomarkers in cardiology and apply it in clinical practice in real time. The portal will include collections of case studies by

leading experts and peer-reviewed articles, as well as a forum where physicians can interface directly with key opinion leaders in the field.

Diabetes Care

Diabetes Care strengthened its global market leadership as its sales grew 5% to 1,489 million Swiss francs. With strong double-digit growth the Accu-Chek Aviva/Accu-Chek Performa blood glucose (BG) monitoring systems remained the main growth drivers supported by the successful roll-out of the sleek Nano versions, designed especially for younger frequent testers. Market uptake of Accu-Chek Mobile, the first and only strip-free BG monitoring system, remained strong, with the product now available in 12 countries in Europe and Asia–Pacific.

In June EU approval was received for maltose-independent test strip chemistries for the Accu-Chek Aviva and Accu-Chek Performa product lines. FDA approvals for these strip chemistries are expected later this year and will enable the latest additions to the Accu-Chek portfolio to be launched in the US.

Double-digit sales growth in the insulin delivery segment was driven mainly by continued strong uptake of Accu-Chek Combo. This new combination of insulin pump and BG monitoring system was launched in another ten markets and is now available in 19 countries in Europe and Asia–Pacific. Diabetes Care completed the acquisition of the micropump specialist Medingo Ltd. The company's innovative semi-disposable micropump will broaden Roche's portfolio of insulin delivery technologies and strengthen its position in this fast-growing market.

The final results of STeP (Structured Testing Program), a prospective, one-year controlled, randomised, clinical trial conducted in the US, were presented at the Annual Meeting of the American Diabetes Association in June. Data from close to 500 non-insulin-dependent type 2 diabetes patients demonstrated that glycemic control significantly improves when both patients and physicians participate in a collaborative programme to gather, interpret and appropriately utilise structured self-monitoring of blood glucose.

Molecular Diagnostics

Molecular Diagnostics continued its steady performance through the first half of 2010, with sales advancing 3% to 604 million Swiss francs. Growth was led by increased blood screening revenues (3%) and related instrument sales particularly in EMEA, gains in virology in North America and Asia–Pacific, and further cobas 4800 placements launched in late 2009.

In the second quarter the FDA approved Roche's new dual-PCR target HIV test, the first quantitative viral-load test to detect two regions of a target genome. Thanks to this test, which substantially improves physicians' ability to make informed treatment decisions, Molecular Diagnostics won a major contract in South Africa for over half a million tests per year.

In July the FDA approved the LightCycler MRSA Advanced Test, which provides improved and much faster screening for methicillin-resistant *Staphylococcus aureus* (MRSA) in healthcare settings. This is one of the fastest-growing segments in the North American molecular diagnostics market.

Roche has obtained a worldwide co-exclusive licence from Johns Hopkins University for the development of diagnostics assays for the biomarker phosphoinositide 3-kinase (PI3K). The PI3K pathway plays a significant role in several cancer types, including colorectal, gastric, breast and endometrial, and is currently a main focus of cancer drug development.

Molecular Diagnostics and Qiagen have resolved a dispute over distribution rights for a set of companion diagnostic products developed and manufactured by Qiagen subsidiary DxS Ltd. Under the terms of the settlement Roche maintains its rights to distribute the DxS TheraScreen EGFR and KRAS mutation kits, which aim to support identifying patients likely to benefit from a specific cancer treatment.

Final data from ATHENA, a Roche-sponsored US registration trial assessing the utility of the cobas 4800 HPV test to screen for cervical cancer, were presented at the International Papillomavirus Conference in Montreal in July. The data confirm the increased accuracy of human papillomavirus (HPV) DNA testing over conventional cytologic Pap testing. Out of 47,000 women in the trial, one in ten of those aged 30 years or older who tested positive for HPV genotypes 16 or 18 were found to have cervical pre-cancer despite

normal Pap tests. The cobas 4800 HPV test detects all 14 high-risk genotypes of HPV, including separate detection of genotypes 16 and 18. Supported by the ATHENA results, Roche filed the HPV test with the FDA in June. The test received CE Mark certification in late 2009.

Applied Science

Sales by Applied Science for the half-year rose 14% to 449 million Swiss francs. Robust growth in the cell analysis segment was driven by the full integration of the Innovatis product portfolio as well as the xCELLigence system for real-time cell analysis. The custom biotech segment (formerly reported as industrial business) performed very strongly (+25%) benefiting from the worldwide economic recovery. Demand for the MagNA Pure and LightCycler product lines for sample preparation and quantitative PCR analysis remained strong (+13%). Excellent sales development in Asia–Pacific continued, with sales up 87% in China.

In May Applied Science launched the new GS Junior DNA sequencer – a medium-throughput benchtop version of the Genome Sequencer FLX System. GS Junior closes the gap between low- and high-throughput sequencing instruments and offers solutions in nearly every field of biological research. Thanks to its size, efficiency and competitive price, it puts next-generation sequencing technology within the reach of thousands more researchers worldwide and is expected to boost sales in the sequencing segment.

In June Applied Science signed an agreement with IBM to develop a nanopore-based single molecule sequencer that will directly read and decode human DNA, based on advancing IBM's 'DNA Transistor' technology. This approach holds promise of significant advantages in costs, throughput, scalability and speed compared with the sequencing technologies currently available or in development.

The microarray business grew 26% helped by strong reagents sales (+63%). NimbleGen completed its offering on the cytogenetics microarray workflow system, including arrays for simultaneous analysis of multiple probes, instruments and reagents, as well as analysis and visualisation software, now providing a comprehensive solution for high-resolution cytogenetics analysis of chromosomal abnormalities.

Tissue Diagnostics

With sales up 17% to 259 million Swiss francs, Tissue Diagnostics continued to outperform the market in all key regions. Advanced tissue staining – immunohistochemistry (IHC) and *in situ* hybridisation (ISH) – remained the main growth driver, thanks primarily to a robust 17% rise in IHC reagent sales and excellent growth in sales of ISH probes. Strong uptake (+28%) of the BenchMark Ultra system for simultaneous IHC and ISH testing on a single platform continued. The product is now available in 51 countries. VANTAGE, an advanced workflow management system for improved productivity and patient safety, continued to gain momentum in the market, with sales more than doubling compared with the year-earlier period.

A dual colour/dual hapten HER2 ISH DNA Probe Cocktail (DDISH) supporting the diagnosis of breast and gastric cancers was launched in the EU and other markets which recognise CE Mark certification. It enables determination of the HER2 gene and a control on a single slide, allowing clinicians to accurately and timely assess the likelihood of response to HER2-targeted treatment with Herceptin. In addition, a DNA probe targeting the Insulin Growth Factor 1 Receptor (IGF1R) gene received CE Mark certification expanding Tissue Diagnostics' non-small cell lung cancer biomarker panel, which also includes assays for Epithelial Growth Factor Receptor and MET.

Tissue Diagnostics signed an agreement with AsymmetRx Inc, giving the business area exclusive licence and distribution rights for diagnostic use of the p63 biomarker, the gold standard for the differential diagnosis of prostate cancer. The rollout of Roche's p63 antibody started in the US in July. A European launch is expected later this year.

Tissue Diagnostics further expanded its advanced staining portfolio in Europe and Asia–Pacific with the launch of BenchMark GX, an economic low-volume automated tissue staining instrument. This platform is designed for cancer diagnostics professionals who want to expand their test menu and adopt automation at an entry level investment. In addition, Discovery ULTRA, an automated platform for IHC and ISH in the research setting, was launched in the US and the EU, offering improved ease-of-use, workflow and system flexibility. Further launches are expected later this year in Asia–Pacific and Latin America.

Major product launches in the first half of 2010

Business area	Product	Quarter
Professional Diagnostics	Immunoassay for free b-HCG/PAPP-A to evaluate the risk of trisomy 21 (Down syndrome) (EU)	Q1
	Accelerated (STAT) immunoassay for NT-pro BNP to evaluate the risk of heart failure (US)	Q1
	Immunoassay for rubella IgM antibody to evaluate the rubella infection in women (US)	Q1
	Immunoassay for qualitative analysis of hepatitis C virus for presumptive diagnosis of HCV infection (US)	Q2
	New generation clinical chemistry tests for HbA1c and ferritin (EU)	Q2
	Two new quality controls for clinical chemistry (EU): including PreciControl ClinChem Multi, which consolidates 12 separate quality control samples previously needed for the analysis of 55 parameters into two control samples	Q2
	cobas 8000 modular analyser series, c 701/c 502 modules (China)	Q2
	cobas 8000 modular analyser series (7 countries in EU, APAC)	Q1–2
Diabetes Care	Accu-Chek Mobile: the first and only strip-free blood glucose monitoring system (3 countries in EU, APAC)	Q1–2
	Accu-Chek Combo: a combination of insulin pump and blood glucose monitoring system (10 countries in EU, APAC)	Q1–2
	Nano-versions of Accu-Chek Aviva and Accu-Chek Performa (5 countries in EU, LATAM)	Q1–2
Molecular Diagnostics	Dual target HIV test: Cobas AmpliPrep/Cobas TaqMan test for simultaneous detection of two separate regions of the HIV genome (US)	Q2
	MRSA Advanced Test: automated real-time PCR-based test for methicillin-resistant *Staphylococcus aureus* (US)	Q2
	cobas 4800 system with *in vitro* diagnostic tests for *Chlamydia trachomatis* (CT), *Neisseria gonorrhoeae* (NG) and the human papillomavirus (HPV) (13 countries in EU, APAC)	Q1–2
Applied Science	NimbleGen CGX-6 multiplex array for high-resolution analysis of chromosomal abnormalities: capable of analysing six samples simultaneously (worldwide)	Q1
	GS Junior: economic benchtop next-generation sequencing system for smaller laboratories (worldwide)	Q2
	NimbleGen cytogenetic workflow system offering a complete solution for high-resolution cytogenetic analysis: includes instruments, arrays, analysis and visualisation software (worldwide)	Q2
Tissue Diagnostics	HER2 dual colour/dual hapten ISH DNA Probe Cocktail (DDISH) for the diagnosis of breast and gastric cancer (EU)	Q2
	IGF1R ISH DNA probe for the diagnosis of non-small cell lung cancer (EU)	Q2
	p63 antibody for the diagnosis of prostate cancer (US)	Q2
	BenchMark GX: economical low-volume automated advanced tissue staining platform (EU, APAC)	Q2
	Discovery ULTRA: automated advanced tissue staining platform for research settings (US, EU)	Q1–2

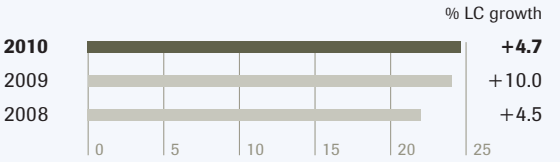
EU = European Union; US = United States; APAC = Asia–Pacific. Black type = new product / first market launch.

Finance

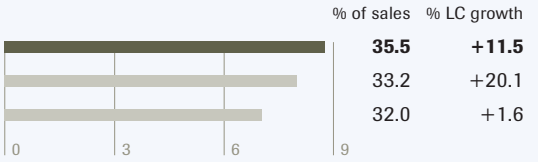
Financial Review

Group operating results

Sales | in billions of CHF



Operating profit before exceptional items | in billions of CHF



In the first half of 2010 the Group achieved a solid operating performance. Sales grew by 5% in local currencies (3% in Swiss francs; 7% in US dollars) to 24.6 billion Swiss francs, with the Pharmaceuticals Division representing 79% of Group sales and the Diagnostics Division contributing 21%. Sales growth was considerably lower than the 10% achieved in the first half of 2009 when Tamiflu was a major growth contributor. Demand for the oncology drugs Avastin, MabThera/Rituxan, Herceptin, Xeloda and Tarceva continued to grow strongly. Additional major growth drivers in the Pharmaceuticals Division were Lucentis in ophthalmology, Actemra/RoActemra in rheumatoid arthritis and Mircera in anemia. These positive factors more than offset the decline in Tamiflu sales, the reduction in CellCept sales due to US patent expiry in May 2009 and the initial impacts of the US healthcare reforms. In the Diagnostics Division the main growth areas were Professional Diagnostics, Diabetes Care and Applied Science. Sales growth in both divisions, excluding Tamiflu, exceeded market growth. The Pharmaceuticals Division is completing the integration and restructuring activities at Genentech, and the Group is continuing to pay down the debt issued in the first half of 2009 to finance the Genentech transaction.

The Group's operating profit before exceptional items increased by 11% in local currencies (10% in Swiss francs), once more significantly above the sales growth of 5%, driven by top line growth and further productivity improvements. Marketing and distribution costs remained at around the prior year's level and research and development costs were also basically stable. The Pharmaceuticals Division increased its operating profit before exceptional items by 9% in local currencies, driven primarily by higher sales, cost synergies from the Genentech integration and resource prioritisation. Operating profit growth in the Diagnostics Division was 45% in local currencies, mainly resulting from sales growth and the ongoing operational efficiency programmes, although increased instrument placements and launch activities are expected in the second half of 2010. The Group's operating profit margin before exceptional items increased by 2.3 percentage points, with the Pharmaceuticals Division improving by 2.2 percentage points and the Diagnostics Division by 4.9 percentage points. Overall, exchange rate movements had a negligible effect on the margin developments.

The Group's operating free cash flow remained strongly positive at over 6 billion Swiss francs. There was a decrease of 4% in local currencies (5% in Swiss francs), principally arising from payments of certain large year-end 2009 accrued liabilities, notably for Tamiflu royalties and employee retention/severance schemes. The free cash flow in the first half of 2010 decreased by 3.7 billion Swiss francs to an outflow of 1.6 billion Swiss francs. This was primarily due to the interest payments on the new debt issued to fund the Genentech transaction which had no comparable payments in the first half of 2009, the non-recurrence of the one-time tax benefit in 2009 of 1.1 billion Swiss francs following the Genentech transaction and higher dividend payments.

The Pharmaceuticals Division incurred exceptional operating expenses of 278 million Swiss francs relating to the ongoing restructuring and integration arising from the Genentech transaction. This was significantly lower than in 2009 with 1,942 million Swiss francs relating to the Genentech transaction and an increase in provisions for major legal cases of 421 million Swiss francs. As a result of the decrease in exceptional costs of 2.1 billion Swiss francs between the current and comparative periods, there is an increase in the Group's operating profit of 51% in Swiss francs (52% in local currencies).

Group operating results for the six months ended 30 June 2010

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	19,386	5,250	–	24,636
Operating profit before exceptional items	8,009	947	(200)	8,756
– margin, % of sales	41.3	18.0	–	35.5
Operating free cash flow	6,123	557	(254)	6,426
– margin, % of sales	31.6	10.6	–	26.1

Group operating results – Development of results compared to the six months ended 30 June 2009

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase in local currencies	+4	+9	–	+5
Operating profit before exceptional items				
– % increase in local currencies	+9	+45	+47	+11
– margin: percentage point increase	+2.2	+4.9	–	+2.3
Operating free cash flow				
– % increase in local currencies	–4	+9	+12	–4
– margin: percentage point increase	–2.4	+0.3	–	–2.1

Pharmaceuticals operating results

The Pharmaceuticals Division increased its sales by 4% in local currencies (1% in Swiss francs; 6% in US dollars) to 19.4 billion Swiss francs. Excluding Tamiflu, local growth was 6%, again ahead of market growth. Operating profit before exceptional items grew 9% in local currencies and 7% in Swiss francs to 8.0 billion Swiss francs. The operating profit margin before exceptional items further increased by 2.2 percentage points driven by good sales growth and an under-proportional growth in costs across all function areas. Exchange rate movements had a negligible effect on the margin development.

Marketing efforts focused on the growing oncology and rheumatoid arthritis portfolios, especially for the broader indications of Avastin and Herceptin, and the launch of Actemra/RoActemra. Marketing costs in local currencies were kept stable through tight cost management, in spite of an increase in allowances for bad debts in Southern Europe. The increase of research and development costs seen in previous years was halted. Investments in the first half of 2010, excluding intangible asset impairments, declined by 1% in local currencies due to resource prioritisation while securing long-term growth through the rich pipeline.

Pharmaceuticals Division results for the six months ended 30 June

	2010 (mCHF)	2009 (mCHF)	% change (CHF)	% change (local currencies)
Sales	19,386	19,104	+1	+4
Royalties and other operating income	784	1,047	–25	–23
Cost of sales	(4,369)	(4,648)	–6	–3
Marketing and distribution	(3,292)	(3,342)	–1	0
Research and development	(4,036)	(4,058)	–1	+2
General and administration	(464)	(640)	–28	–25
Operating profit before exceptional items	**8,009**	**7,463**	**+7**	**+9**
– margin, % of sales	41.3	39.1	+2.2	+2.1
Operating free cash flow	**6,123**	**6,497**	**–6**	**–4**
– margin, % of sales	31.6	34.0	–2.4	–2.5

Sales

Sales by therapeutic area | The major growth drivers were key products in the oncology, ophthalmology, inflammation/autoimmune/transplantation, anemia and virology therapeutic areas. In virology, sales of Tamiflu decreased substantially due to unusually high sales in the first half of 2009 arising from the A (H1N1) 2009 influenza virus ('swine flu'). Sales in the renal anemia therapeutic area slightly decreased in an increasingly competitive, cost-sensitive market. Sales in inflammation/autoimmune/transplantation declined due to the negative impact from the CellCept patent expiry in the United States in May 2009. This one-time effect was only partly offset by the continued success of MabThera/Rituxan in rheumatoid arthritis as well as the excellent uptake of Actemra/RoActemra.

Pharmaceuticals Division – Sales by therapeutic area for the six months ended 30 June 2010

Therapeutic area	Sales (mCHF)	% of sales	% change (local currencies)
Oncology	11,063	57	+9
Virology	2,103	11	–12
Inflammation/Autoimmune/Transplantation	1,497	8	–4
Metabolism/Bone	1,313	7	0
Renal anemia	625	3	–2
Others	2,785	14	+5
Total	**19,386**	**100**	**+4**

Sales by product | In the first half of 2010 the Top 20 Pharmaceuticals products, which represented 88% of the Pharmaceuticals portfolio, grew 5% in total with the majority of products showing sales growth. The local sales growth of the Pharmaceuticals Division was primarily driven by six products: Avastin, MabThera/Rituxan, Herceptin, Lucentis, Xeloda and Actemra/RoActemra. These products represent 57% of the portfolio (2009: 53%; 2008: 50%) and together generated almost 1 billion Swiss francs of additional sales in the first half of 2010 compared to 2009. Sales of other products declined, as the contribution to sales growth from the renal anemia medication Mircera could not fully offset the lower sales of some products due to generic erosion following patent expiry and the voluntary withdrawal of Raptiva from the US market in 2009.

Pharmaceuticals Division – Sales of Top 20 products for the six months ended 30 June 2010

Product	Sales (mCHF)	% of sales	% change (local currencies)	Franchise
Avastin	3,393	17	+14	Oncology
MabThera/Rituxan	3,301	17	+9	Oncology/IAT [1]
Herceptin	2,806	14	+8	Oncology
Pegasys	869	4	+5	Virology
Xeloda	732	4	+19	Oncology
Tamiflu	710	4	–31	Virology
CellCept	702	4	–23	IAT [1]
Lucentis	697	4	+27	Ophthalmology
NeoRecormon/Epogin	677	3	–13	Renal anemia/Oncology
Tarceva	674	3	+8	Oncology
Bonviva/Boniva	544	3	+8	Metabolism/Bone
Xolair	324	2	+8	Respiratory diseases
Valcyte/Cymevene	296	2	+11	Virology
Pulmozyme	264	1	+8	Respiratory diseases
Activase/TNKase	227	1	+3	Cardiovascular diseases
Nutropin	193	1	–5	Metabolism/Bone
Xenical	183	1	–12	Metabolism/Bone
Neutrogin	167	1	–11	Oncology
Rocephin	165	1	+2	Infectious diseases
Actemra/RoActemra	155	1	+198	IAT [1]
Total Top 20 products	**17,079**	**88**	**+5**	
Other products	2,307	12	–5	
Total	**19,386**	**100**	**+4**	

1) Inflammation/Autoimmune/Transplantation.

Sales by region | The worldwide pandemic A (H1N1) 2009 influenza virus ('swine flu') outbreak that began in the first half of 2009 and other pandemic sales in the first quarter of 2009 resulted in unusually high sales for Tamiflu in the first half of the comparative period. The significant decline in demand since December 2009 led to varying impacts across regions which are shown in the table below. The following comments focus on the business excluding Tamiflu. In the United States sales continued to grow by 4% in local currencies driven by the oncology products and Lucentis in spite of the substantial decline in CellCept (down by 58%, with a negative impact on growth of 4 percentage points) due to patent expiry. In addition the initial impact of the US healthcare reforms in the first half of 2010 was a reduction of 122 million US dollars (132 million Swiss francs) in sales through increased rebates, affecting all major products. Sales in Western Europe increased by 5% due to the strong oncology portfolio and good uptake of Actemra/RoActemra and Mircera. CEMAI, Latin America and Asia–Pacific regions showed strong growth driven by MabThera/Rituxan, Avastin, Herceptin, Pegasys, Xeloda and Mircera. Sales in Japan increased by 2% as the continued success of Avastin, Actemra/RoActemra, Xeloda and Tarceva outweighed the impact from biennial price cuts in Japan, which became effective 1 April 2010.

Pharmaceuticals Division – Sales by region for the six months ended 30 June 2010

Region	Sales (mCHF)	% of sales	% change (local currencies)	% change excluding Tamiflu (local currencies)
United States	7,372	38	+2	+4
Western Europe	5,044	26	+1	+5
Japan	2,061	11	–6	+2
CEMAI [1)]	1,815	9	+10	+11
Latin America	1,457	7	+32	+19
Asia–Pacific	1,112	6	+12	+12
Other regions	525	3	–7	–9
Total	**19,386**	**100**	**+4**	**+6**

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

Operating results

Royalties and other operating income | The decline of 23% in local currencies was in particular due to 357 million Swiss francs lower income from out-licensing agreements. This mainly comes from the non-recurrence of significant milestone payments in 2009 from GlaxoSmithKline (84 million Swiss francs related to orlistat OTC approval by the EU and 81 million Swiss francs for Bonviva/Boniva) and milestone income at Chugai in the first half of 2009. These one-time effects were only partly offset in 2010 by higher royalty income. In total royalties and other operating income as a percentage of sales decreased by 1.5 percentage points to 4.0% (2009: 5.5%).

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Royalty income	691	612	+17
Income from out-licensing agreements	35	392	–91
Income from disposal of products and other	58	43	+36
Total	**784**	**1,047**	**–23**

Cost of sales | Costs decreased by 3% in local currencies as a result of lower costs from collaboration agreements, lower royalty expenses and lower amortisation of intangible assets. As a percentage of sales, cost of sales declined to 22.5% (2009: 24.3%). The 4% increase in manufacturing cost of goods sold and period costs was due to higher sales volumes. The first half of 2010 also includes the impacts of productivity improvements, offset by unfavourable product mix effects. The comparative period includes the one-time impact of the inventory write-off of 141 million Swiss francs for the voluntary withdrawal of Raptiva from the US market. Royalty expenses were 7% lower mainly due to lower sales of CellCept and Tamiflu, partly offset by higher royalties on Bonviva/Boniva of 118 million Swiss francs as a result of a contractual change with GlaxoSmithKline. Expenses for collaboration and profit-sharing agreements decreased by 10%, primarily as a result of the same amended agreement with GlaxoSmithKline for Bonviva/Boniva, with expenses of 71 million Swiss francs (2009: 221 million Swiss francs). Expenses from collaboration agreements with Biogen Idec, Novartis and OSI in the US increased to 743 million Swiss francs (2009: 729 million Swiss francs) driven by the increase in sales of MabThera/Rituxan, Xolair and Tarceva. Amortisation of intangible assets was 42% lower as certain acquisition intangibles were fully amortised by the end of 2009.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(2,405)	(2,371)	+4
Royalty expenses	(1,031)	(1,146)	–7
Collaboration and profit-sharing agreements	(854)	(989)	–10
Restructuring expenses	2	(1)	–
Amortisation of intangible assets	(80)	(141)	–42
Impairment of property, plant and equipment	(1)	–	–
Impairment of intangible assets	–	–	–
Total	**(4,369)**	**(4,648)**	**–3**

Marketing and distribution | Costs were kept stable in local currencies at 3.3 billion Swiss francs and as a percentage of sales decreased by 0.5 percentage points to 17.0% (2009: 17.5%). Sales and marketing efforts focussed on the oncology portfolio with the rollout of additional approved indications of Avastin and Herceptin, continued rollouts and support of Actemra/RoActemra in rheumatoid arthritis, Bonviva/Boniva and Pegasys, and on emerging markets. Bad debt provisions were increased significantly taking into account the financial crisis, particularly in Southern Europe. These higher costs were compensated by lower product promotion and field force expenses for other products.

Research and development | The increase of research and development costs seen in previous years was halted. Investments in the first half of 2010, excluding intangible asset impairments, declined by 1% in local currencies due to resource prioritisation while securing long-term growth through the promising pipeline. Research and development costs as a percentage of sales were 20.8% compared to 21.2% in the first half of 2009 and 24.3% in the second half of 2009. The main focus areas were the metabolism franchise, some new phase III initiations requiring smaller studies and investments in the earlier stage neurology portfolio, which were offset by lower life cycle investments in oncology and inflammation. Research and development expenses also included the immediate recognition of the remaining costs of 73 million Swiss francs necessary to cover the termination of the ocrelizumab rheumatoid arthritis development programme, which was partially offset by the payment received from Novartis for opting in to the Lucentis study on the treatment of macular edema following retinal vein occlusion. Impairments of intangible assets were 102 million Swiss francs relating to decisions to discontinue work on certain compounds based on new clinical and preclinical data. In addition, the Pharmaceuticals Division spent 51 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 4.0 billion Swiss francs on internal and purchased research and development from in-licensing and other alliance deals, representing 20.5% of sales. No acquisitions were made in the interim period, compared to the 48 million Swiss francs consideration on the acquisition of Memory Pharmaceuticals in the comparative period.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Research and development expenses	4,036	4,058	+2
Less non-cash items			
– Amortisation of intangible assets	(10)	(21)	–54
– Impairment of intangible assets	(102)	–	–
Research and development expenses excluding non-cash items	**3,924**	**4,037**	**–1**
Product intangibles – not available for use	51	96	–45
Technology intangibles	–	–	–
Research and development related capital expenditure	**51**	**96**	**–45**
Total investments in research and development	**3,975**	**4,133**	**–2**

General and administration | Overall costs decreased by 25% in local currencies, driven by lower administration costs and an organisational shift effective from 1 January 2010 of certain finance, IT and communication functions to Corporate. In the first half of 2009 administration costs of 38 million Swiss francs (0.2 percentage points of sales) for these functions were included in the results of the Pharmaceuticals Division. The reduction in administration costs was mainly due to synergies following the Genentech transaction. Other factors include the release of a legal provision, the absence of restructuring expenses and some gains on the disposal of property, plant and equipment which contributed to the overall reduction. General and administration expenses as a percentage of sales decreased to 2.4% from 3.4%.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Administration	(536)	(663)	–18
Legal and environmental settlements	13	(6)	–
Business combinations	–	–	–
Restructuring expenses	–	(18)	–100
Gains (losses) on disposal of property, plant and equipment	11	(11)	–
Other general items	48	58	–23
Total	**(464)**	**(640)**	**–25**

Exceptional items

Major legal cases | The interim period contains no additional costs for major legal cases while in the comparative period provisions for major legal cases were increased by 421 million Swiss francs. Additional information is given in Note 11 to the Interim Financial Statements.

Changes in Group organisation | Effective 26 March 2009 the Group obtained full ownership of Genentech and further continued the implementation of the reorganisation of the Group's US Pharmaceuticals business announced on 21 July 2008. Subsequently, the Group commenced a restructuring of its Pharmaceuticals manufacturing operations, particularly in the biotech network. The majority of the programme has been completed, however during the first half of 2010 further expenses of 278 million Swiss francs were incurred mainly due to site closure and employee-related costs. In the comparative period 1,942 million Swiss francs were incurred mainly for impairment of manufacturing facilities. Additional information is given in Note 8 to the Interim Financial Statements.

The Group currently anticipates that these restructuring activities will be substantially completed by the end of 2010. The total cost is expected to be in the order of 3.3 billion Swiss francs, which includes 2.7 billion Swiss francs that were incurred in years 2008 and 2009. Of this total of 3.3 billion Swiss francs approximately 2.0 billion Swiss francs is non-cash.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Operating profit before exceptional items	**8,009**	**7,463**	**+9**
Major legal cases	–	(421)	–100
Changes in Group organisation	(278)	(1,942)	–85
Operating profit	**7,731**	**5,100**	**+52**

Operating free cash flow

The Pharmaceuticals Division generated a strong operating free cash flow of 6.1 billion Swiss francs. The decrease of 4% in local currencies compared to the first half of 2009 is driven by the increase in net working capital of 1.8 billion Swiss francs which was mainly due to the payment of some large year-end accruals including the payment of the employee retention/severance schemes in 2010 and higher royalty payments relating to strong Tamiflu sales in the second half of 2009. The higher levels of third-party receivables arose from both the growth of the business, particularly in Latin America and the Middle East, as well as higher days sales outstanding levels, particularly in Southern Europe. Operating profit cash adjustments decreased mainly due to the 1.6 billion Swiss francs non-cash element of changes in Group organisation in the comparative period. As operating profit is higher by the same amounts, there is no net impact from these adjustments on the total operating free cash flow. In summary the overall positive cash flow generation was maintained at over 6 billion Swiss francs and as a percentage of sales the division's operating free cash flow decreased to 31.6% compared to 34.0% in the first half of 2009.

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

	2010 (mCHF)	2009 (mCHF)
Operating profit	7,731	5,100
Operating profit cash adjustments [1]	932	3,079
(Increase)/decrease in net working capital		
– Accounts receivable	(512)	(410)
– Inventories	159	75
– Accounts payable	(1,415)	(517)
– Other	(43)	16
Total (increase)/decrease in net working capital	**(1,811)**	**(836)**
Investments in property, plant and equipment	(676)	(750)
Investments in intangible assets	(53)	(96)
Operating free cash flow	**6,123**	**6,497**
– as % of sales	31.6	34.0

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 property, plant and equipment and intangibles assets with their cash equivalents. A detailed breakdown is provided on page 68.

Diagnostics operating results

The Diagnostics Division increased sales to 5.3 billion Swiss francs in the first six months of 2010, growing 9% in local currencies (7% in Swiss francs; 12% in US dollars), thereby strengthening its leading market position. The operating profit increased by 45% in local currencies and by 47% in Swiss francs to 947 million Swiss francs although increased instrument placements and launch activities are expected in the second half of 2010. The operating profit margin increased by 4.9 percentage points driven by the high sales growth with further positive effects from a more favourable product mix, manufacturing efficiency gains and tight management of operating expenses. Exchange rate movements had a negligible effect on the margin development. During the interim period the division completed the acquisition of Medingo for a total consideration of 210 million Swiss francs, thereby broadening the portfolio of innovative insulin delivery technologies and strengthening its position in the diabetes care business.

Diagnostics Division results for the six months ended 30 June

	2010 (mCHF)	2009 (mCHF)	% change (CHF)	% change (local currencies)
Sales	5,250	4,902	+7	+9
Royalties and other operating income	94	69	+36	+40
Cost of sales	(2,501)	(2,452)	+2	+4
Marketing and distribution	(1,254)	(1,225)	+2	+4
Research and development	(435)	(460)	–5	–2
General and administration	(207)	(190)	+9	+12
Operating profit	**947**	**644**	**+47**	**+45**
– margin, % of sales	18.0	13.1	+4.9	+4.5
Operating free cash flow	**557**	**507**	**+10**	**+9**
– margin, % of sales	10.6	10.3	+0.3	+0.1

Sales

Diagnostics continued to grow significantly above the market with an increase of 9% in local currencies over the first half of 2009. The major drivers of sales growth were Professional Diagnostics, Diabetes Care and Applied Science. Strong sales growth of 11% in Professional Diagnostics was due to immunodiagnostics following a continuing high number of placements of the cobas 6000 modular analyser, combined with the rollout of the new cobas 8000 modular analyser series in Europe, Latin America and Asia–Pacific. The menu was further strengthened by four new immunoassays, including FDA approval of the HCV test. In Diabetes Care, the main growth drivers of the 5% growth were the Accu-Chek Aviva/Accu-Chek Performa blood glucose monitoring systems, supported by continued uptake of the Accu-Chek Combo for insulin delivery. Molecular Diagnostics sales grew 3% from new blood screening revenues and related instrument sales, driven largely by the EMEA (Europe, Middle East and Africa) region, increases in virology in North America and Asia–Pacific and the rollout in key markets of the cobas 4800 system for CT/NG and HPV testing. The cell analysis and custom biotech segments, along with the MagNA Pure and LightCycler product lines, drove the sales growth of Applied Science. This was also supported by strong sequencing sales and the successful launch of the GS Junior System. Sales in Tissue Diagnostics were up 17% driven by IHC and ISH reagent sales for advanced staining and the continued uptake of the BenchMark Ultra system, which enables automated IHC and ISH testing.

Diagnostics Division – Sales by business area for the six months ended 30 June 2010

Business area	Sales (mCHF)	% of sales	% change (local currencies)
Professional Diagnostics	2,449	47	+11
Diabetes Care	1,489	28	+5
Molecular Diagnostics	604	11	+3
Applied Science	449	9	+14
Tissue Diagnostics	259	5	+17
Total	**5,250**	**100**	**+9**

Sales by region | Sales continued to outgrow their respective market in all regions. Sales in the Europe, Middle East and Africa (EMEA) region outperformed the market in both mature and emerging economies, with Professional Diagnostics and Diabetes Care remaining the main contributors. Sales in North America grew above the market despite the tough economic and operating environment, with Professional Diagnostics and Tissue Diagnostics being the main contributors to growth. The Asia–Pacific region showed particularly strong performance of 20% local currency growth, led by China, South Korea and India. The main growth drivers were Professional Diagnostics and Applied Science. Sales in Latin America, notably in Mexico, Argentina and Brazil, grew and overall sales growth in Japan was significantly higher than the market, primarily due to Professional Diagnostics. Sales in the E7 emerging markets (Brazil, Russia, India, China, South Korea, Mexico and Turkey) accounted for 12% of divisional sales, growing by 25%.

Diagnostics Division – Sales by region for the six months ended 30 June 2010

Region	Sales (mCHF)	% of sales	% change (local currencies)
EMEA [1]	2,739	52	+8
North America	1,348	26	+5
Asia–Pacific	588	11	+20
Latin America	325	6	+14
Japan	250	5	+6
Total	**5,250**	**100**	**+9**

1) Europe, Middle East and Africa.

Operating results

Royalties and other operating income | Income of 94 million Swiss francs, an increase of 40% in local currencies driven by 19% higher royalty income and 12 million Swiss francs increased out-licensing income, both coming from PCR license contracts.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Royalty income	75	65	+19
Income from out-licensing agreements	14	2	+842
Income from disposal of products and other	5	2	+116
Total	**94**	**69**	**+40**

Cost of sales | Cost of sales increased by 4% in local currencies due to an increase of the same amount in manufacturing cost of goods sold and period costs. The growth was under proportional to sales growth, despite the continued investments to expand market share through meter placements and an increased installed instrument base, with related higher depreciation. Royalty expenses increased by 30% in local currencies mainly due to increased sales in immunochemistry, especially HCV, while amortisation of intangible assets declined by 2% in local currencies. As a percentage of sales, costs decreased to 47.6% in the first half of 2010 compared to 50.0% in the same period of 2009.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(2,111)	(2,073)	+4
Royalty expenses	(173)	(138)	+30
Collaboration and profit-sharing agreements	–	(1)	–100
Restructuring expenses	–	–	–
Amortisation of product intangibles	(217)	(229)	–2
Impairment of property, plant and equipment	–	–	–
Impairment of product intangibles	–	(11)	–100
Total	**(2,501)**	**(2,452)**	**+4**

Marketing and distribution | The division introduced 18 major new products to their initial markets in the first half of 2010. The increase of 4% in local currencies mainly reflects higher costs in Tissue Diagnostics. Marketing and distribution as a percentage of sales decreased to 23.9% compared to 25.0% in the interim period of 2009.

Research and development | Costs decreased by 2% in local currencies as a result of tight cost control, in particular in Professional Diagnostics, Applied Science and Molecular Diagnostics. As a percentage of sales, research and development costs decreased to 8.3% from 9.4% in the first half of 2009.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Research and development expenses	435	460	–2
Less non-cash items			
– Amortisation of intangible assets	(2)	(4)	–39
– Impairment of intangible assets	–	–	–
Research and development expenses excluding non-cash items	**433**	**456**	**–2**

General and administration | General and administration costs increased by 12% in local currencies, primarily driven by SAP implementation costs at Ventana Medical Systems in the United States. Overall higher administration costs were only partly offset by lower restructuring expenses. Total general and administration costs as a percentage of sales remained stable at 4.0%.

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

	2010 (mCHF)	2009 (mCHF)	% change (local currencies)
Administration	(176)	(173)	+4
Legal and environmental settlements	–	–	–
Business combinations	(3)	–	–
Restructuring expenses	(6)	(14)	–52
Gains (losses) on disposal of property, plant and equipment	–	(1)	–100
Other general items	(22)	(2)	Over 1,000
Total	**(207)**	**(190)**	**+12**

Operating free cash flow

The Diagnostics Division increased its operating free cash flow as a percentage of sales ratio despite a tough economic and collection environment. Main drivers were a higher operating profit margin, partly offset by increases in accounts receivable especially in certain European countries such as Greece, and slightly higher inventory levels resulting from the launch of key product.

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

	2010 (mCHF)	2009 (mCHF)
Operating profit	947	644
Operating profit cash adjustments [1]	608	603
(Increase) decrease in net working capital		
– Accounts receivable	(235)	(90)
– Inventories	(126)	(69)
– Accounts payable	(79)	(55)
– Other	(2)	(30)
Total (increase) decrease in net working capital	**(442)**	**(244)**
Investments in property, plant and equipment	(540)	(495)
Investments in intangible assets	(16)	(1)
Operating free cash flow	**557**	**507**
– as % of sales	10.6	10.3

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 property, plant and equipment and intangibles assets with their cash equivalents. A detailed breakdown is provided on page 68.

Corporate operating costs

General and administration | Costs in the interim period were 47% higher in local currencies at 200 million Swiss francs (137 million Swiss francs in 2009) mainly due to the new Group organisation effective 1 January 2010. Since the beginning of 2010, administration costs include certain finance, IT and communication functions which were previously part of the Pharmaceuticals Division. In the first half of 2009 these costs were 38 million Swiss francs. Operating free cash flow was a net outflow of 254 million Swiss francs (2009: net outflow of 226 million Swiss francs) driven by the higher operating expenses.

Foreign exchange impact on operating results

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

Growth for the six months ended 30 June

	% change (local currencies)		% change (CHF)	
	2010	2009	2010	2009
Sales	+5	+10	+3	+9
Operating profit before exceptional items	+11	+20	+10	+13

Exchange rates against the Swiss franc

	30 June 2010	Average to 30 June 2010	31 December 2009	Average to 30 June 2009
1 USD	1.08	1.08	1.04	1.13
1 EUR	1.32	1.44	1.49	1.50
100 JPY	1.22	1.18	1.12	1.18

In the interim period 2010 the average rates for the US dollar and the euro were lower against the Swiss franc compared to the first half of 2009, while the yen remained stable and most other currencies were higher against the Swiss franc. For sales these developments resulted in a growth being 2 percentage points lower in Swiss franc terms compared to the local currency basis. Operating profit before exceptional items growth expressed in Swiss francs was only 1 percentage point lower than in local currencies due to a different currency structure of operating costs than of sales. The sensitivity of Group sales and operating profit before exceptional items to a 1% movement in foreign currencies against the Swiss franc during the first half of 2010 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2010

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Operating profit before exceptional items (mCHF)
US dollar	88	26
Euro	63	32
Japanese yen	23	7
All other currencies	60	38

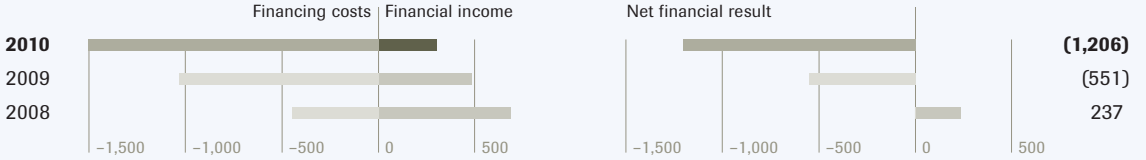
Non-operating results

Non-operating results for the six months ended 30 June

	2010 (mCHF)	2009 (mCHF)	% change (CHF)
Operating profit	**8,478**	**5,607**	**+51**
Associates	–	–	–
Financial income	302	484	–38
Financing costs	(1,508)	(1,035)	+46
Exceptional financing costs	–	(365)	–100
Profit before taxes	**7,272**	**4,691**	**+55**
Income taxes	(1,800)	(1,678)	+7
Income taxes on exceptional items	93	1,038	–91
Net income	**5,565**	**4,051**	**+37**
Attributable to			
– Roche shareholders	5,468	3,473	+57
– Non-controlling interests	97	578	–83
Net income before exceptional items	**5,750**	**5,741**	**0**
Attributable to			
– Roche shareholders	5,653	5,213	+8
– Non-controlling interests	97	528	–82

The interim period of 2010 includes a full six months of interest expenses for the new debt of 48 billion Swiss francs issued in 2009 to finance the Genentech transaction, compared to only three months in the first half of 2009. The first half in 2010 also includes 144 million Swiss francs loss on early redemption of debt. In the first six months of 2010 financing costs therefore increased by 473 million Swiss francs or 46% to 1,508 million Swiss francs, exceeding financial income by 1,206 million Swiss francs. In addition, the comparative period in 2009 included exceptional financing costs of 365 million Swiss francs for one-time costs directly attributable to the Genentech transaction. The Group's effective tax rate before exceptional items increased to 23.8% compared to 22.6% in the first half of 2009 mainly due to the non-renewal of the US research and development tax credit rules so far in 2010. Net income increased by 37% primarily driven by significantly lower exceptional items than in the comparative period. Excluding these, net income was stable. The income attributable to Roche shareholders (before exceptional items) was 8% higher compared to the interim period 2009 due to the further improving operating performance and lower non-controlling interests more than compensating for the higher financing costs arising from the Genentech transaction.

Net financial result before exceptional items | in millions of CHF



Financial income

Financial income was 302 million Swiss francs in the first half of 2010, declining 38% compared to 2009. Interest income and income from debt securities were 31 million Swiss francs, down 79% due to decreases in interest rates on reduced debt security holdings. The net foreign exchange result was a loss of 81 million Swiss francs compared to a gain of 48 million Swiss francs in 2009. The loss includes hedging cost as well as losses arising from the currency devaluation in Venezuela. Net income from equity securities was 81 million Swiss francs compared to 35 million Swiss francs in 2009. Expected returns on pension plan assets were 286 million Swiss francs, up 11% compared to 2009 due to increases in value of the pension plan assets. A full analysis of financial income is given in Note 5 to the Interim Financial Statements.

Financing costs

Financing costs were 1,508 million Swiss francs, an increase of 473 million Swiss francs or 46% compared to 2009. The main driver was interest expenses, which increased by 310 million Swiss francs or 45%, reflecting six months of financing costs in 2010 compared to only three months in 2009 for the debt issued in 2009 in connection with the Genentech transaction. Financing costs also include 144 million Swiss francs for the loss on early redemption of debt as Group has exercised its option to call for redemption 2.5 billion US dollars of notes that were due 1 March 2012. The interest cost of pension plans was 336 million Swiss francs, an increase of 2% compared to 2009, due to a higher defined benefit obligation. A full analysis of financing costs is given in Note 5 to the Interim Financial Statements.

Exceptional financing costs

There were no exceptional financing costs in 2010. The comparative period includes financing costs of 365 million Swiss francs, which were directly attributable to the financing of the Genentech transaction in 2009. A full analysis of exceptional financing costs is given in Note 5 to the Interim Financial Statements.

Income taxes

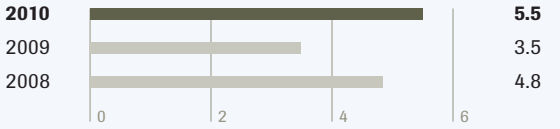
The Group's effective tax rate before exceptional items increased by 1.2 percentage points to 23.8% in the first half of 2010 (2009: 22.6%). The main reason for the increase of the effective tax rate was the non-renewal of the US research and development tax credit rules so far in 2010 and from adjustments recognised for the taxes of prior periods. The increase from these two items was partially offset by the tax benefit on the interest expenses in relation to the funding of the Genentech transaction. A tax benefit of 93 million Swiss francs was recorded for the exceptional items described above. The exceptional items in 2009, which were mainly in the United States, had an overall positive impact on the total effective tax rate in the comparative period.

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

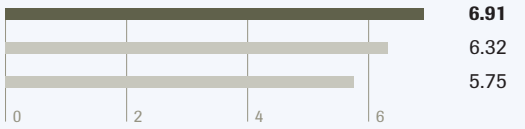
	2010			2009		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate before exceptional items	7,550	(1,800)	23.8	7,419	(1,678)	22.6
Major legal cases	–	–	–	(421)	163	38.7
Changes in Group organisation	(278)	93	33.5	(1,942)	814	41.9
Exceptional financing costs	–	–	–	(365)	61	16.7
Group's effective tax rate	**7,272**	**(1,707)**	**23.5**	**4,691**	**(640)**	**13.6**

Net income and Earnings per share

Net income attributable to Roche shareholders | in billions of CHF



Core EPS | in CHF



In the first six months of 2010 Group's net income increased by 37% to 5.6 billion Swiss francs compared to the interim period in 2009. This increase is mainly due to the much lower exceptional charges incurred in respect of the Genentech transaction in 2010 compared to 2009. Excluding exceptional items, net income remained at prior year's level, and the portion attributable to Roche shareholders rose 8%.

Net income attributable to Roche shareholders rose 57% to 5.5 billion Swiss francs. The comparative period included 431 million Swiss francs attributable to Genentech non-controlling interests until 25 March 2009. The Genentech transaction has a positive impact on net income attributable to Roche shareholders and earnings per share, as the synergy savings and the elimination of the allocation to non-controlling interests more than compensate for the costs of financing the transaction.

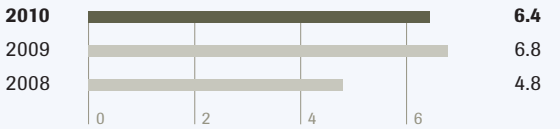
Diluted EPS for the six months ended 30 June

	2010 (CHF)	2009 (CHF)	% change
Group	6.37	4.00	+59
Core	6.91	6.32	+9

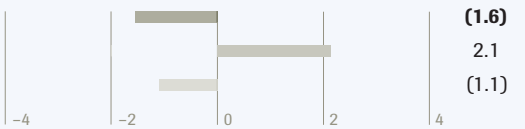
The increase in diluted EPS was due to the increase in net income attributable to Roche shareholders, as described above. The Core EPS, which excludes exceptional items and amortisation and impairment of intangible assets, increased 9% in Swiss francs (11% in local currencies). Supplementary net income and EPS information is given on page 67. This includes calculations of Core EPS and reconciles these to the Group's published IFRS results.

Cash flows and net debt

Operating free cash flow | in billions of CHF



Free cash flow | in billions of CHF



Free cash flow for the six months ended 30 June

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
2010				
Operating profit	7,731	947	(200)	8,478
Operating profit cash adjustments	932	608	10	1,550
(Increase) decrease in net working capital	(1,811)	(442)	(45)	(2,298)
Investments in property, plant and equipment	(676)	(540)	(19)	(1,235)
Investments in intangible assets	(53)	(16)	–	(69)
Operating free cash flow	**6,123**	**557**	**(254)**	**6,426**
Treasury activities				(1,208)
Taxes paid				(1,564)
Dividends paid				(5,214)
Free cash flow				**(1,560)**
2009				
Operating profit	5,100	644	(137)	5,607
Operating profit cash adjustments	3,079	603	–	3,682
(Increase) decrease in net working capital	(836)	(244)	(88)	(1,168)
Investments in property, plant and equipment	(750)	(495)	(1)	(1,246)
Investments in intangible assets	(96)	(1)	–	(97)
Operating free cash flow	**6,497**	**507**	**(226)**	**6,778**
Treasury activities				191
Taxes paid				(486)
Dividends paid				(4,353)
Free cash flow				**2,130**

The free cash flow of the Group in the first half of 2010 decreased by 3.7 billion Swiss francs to an outflow of 1.6 billion Swiss francs. This decrease was primarily due to higher interest, tax and dividend payments.

The operating free cash flow decreased by 5%. This was mainly caused by increases in net working capital of 2.3 billion Swiss francs, in particular due to payments of certain large year-end 2009 accruals, notably for Tamiflu royalties and employee retention/severance schemes, and increases in accounts receivables. Capital expenditure for property, plant and equipment included investments in new Pharmaceuticals research and production facilities in Switzerland, Germany and the United States. Operating profit cash adjustments decreased by 2.1 billion Swiss francs to 1.6 billion Swiss francs, mainly due to large non-cash exceptional items in 2009. As the operating profit increased by the same amounts, there is no net impact on the operating free cash flow from these items. 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. A detailed breakdown of this is provided on page 68.

In the first quarter of 2010 large interest payments were made for the new debt issued in 2009 with no comparable payments in the first quarter of 2009. Some of this debt has only a single annual interest payment in the first quarter of each year. This is the main reason for the decrease in free cash flow from treasury activities of 1.4 billion Swiss francs, resulting in an overall outflow of 1.2 billion Swiss francs.

Total taxes paid in the interim period of 2010 was 1.6 billion Swiss francs. This was higher than the same period of 2009 because the comparative period included the one-time 1.1 billion Swiss francs tax benefit on the settlement of stock options with Genentech employees upon closing of the Genentech transaction in March 2009.

Total dividends paid in the first half of 2010 was 5.2 billion Swiss francs, an increase of 0.9 billion Swiss francs compared to 2009, reflecting the 20% increase of the annual Roche Group dividend.

Net debt | in millions of CHF

31 December 2009	
Cash and cash equivalents	2,442
Marketable securities	16,107
Long-term debt	(36,143)
Short-term debt	(6,273)
Net debt at beginning of period	**(23,867)**
Free cash flow for six months ended 30 June 2010	(1,560)
Transactions in own equity instruments	(135)
Business combinations, net of divestments of subsidiaries	(178)
Hedging and collateral arrangements	(2,711)
Currency translation, fair value and other movements	931
Net change in net debt	**(3,653)**
30 June 2010	
Cash and cash equivalents	1,979
Marketable securities	6,941
Long-term debt	(31,454)
Short-term debt	(4,986)
Net debt at end of period	**(27,520)**

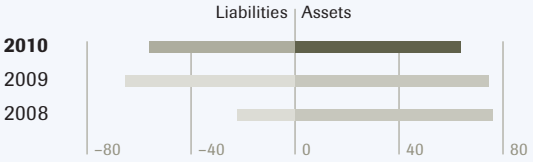
The net debt position of the Group is 27.5 billion Swiss francs, an increase of 3.7 billion Swiss francs from 31 December 2009. This was mainly due to the negative free cash flow of 1.6 billion Swiss francs described above, and to a translation loss of 1.8 billion Swiss francs on consolidation of the total debt in the Group's US affiliates due to a weaker Swiss franc compared to US dollar. During the interim period there were payments by the Group of 2.7 billion Swiss francs from the hedging and collateral arrangements, which were set up following the financing of the Genentech transaction (see below). Total currency translation and fair value effects were 0.9 billion Swiss francs. These consist primarily of the 1.8 billion Swiss franc translation loss on consolidation referred to above and local foreign exchange gains of 2.6 billion Swiss francs arising from the non-US dollar debt in the Group's US affiliates. These gains offset the hedging and collateral cash outflow within total net debt.

The Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. The total exposure hedged at issuance of these bonds and notes was approximately 25 billion Swiss francs (see Note 27 to the 2009 Annual Financial Statements). Collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. As the fair value of the derivative instruments moved down due to the strengthening of the US dollar during the first six months of 2010, cash collateral of 2.0 billion Swiss francs was delivered by Roche. This reduced the 31 December 2009 cash collateral balance in favour of Roche of 1.5 billion Swiss francs to a balance in favour of the third party financial institutions at 30 June 2010 of 0.5 billion Swiss francs. The collateral balance in relation to the hedges on the non-US dollar denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to the Swiss franc and pound sterling. Currently the collateral balance moves by approximately 200 million US dollars if all of these foreign exchange rates move by 1% simultaneously. Collateral volatility will decrease to less than 100 million dollars for each 1% movement in foreign exchange rates by mid-2013 as the non-US dollar denominated bonds and notes will be repaid. The realised loss on derivatives in the interim period was 0.7 billion Swiss francs and relates mainly to hedges on the non-US dollar denominated bonds and notes.

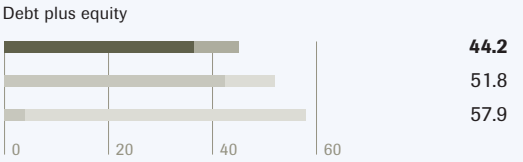
The redemption on due dates in the first quarter of 2010 of the 3 billion US dollar and 1.5 billion euro floating rate notes further contributed to the decline of 9.6 billion Swiss francs in liquid funds. However, this had no impact on the net debt position.

Balance sheet

Balance sheet | in billions of CHF



Capitalisation | in billions of CHF



2009 and 2008 per 31 December.

Condensed balance sheet

	30 June 2010 (mCHF)	31 December 2009 (mCHF)	% change
Property, plant and equipment	17,801	17,697	+1
Goodwill and intangible assets	14,346	14,266	+1
Other non-current assets	3,979	4,123	–3
Cash and marketable securities	8,920	18,549	–52
Other current assets	18,806	19,930	–6
Total assets	**63,852**	**74,565**	**–14**
Debt (current and non-current)	(36,440)	(42,416)	–14
Other non-current liabilities	(6,978)	(6,941)	+1
Other current liabilities	(12,633)	(15,794)	–20
Total liabilities	**(56,051)**	**(65,151)**	**–14**
Total net assets	**7,801**	**9,414**	**–17**
Capital and reserves attributable to Roche shareholders	5,540	7,366	–25
Equity attributable to non-controlling interests	2,261	2,048	+10
Total equity	**7,801**	**9,414**	**–17**
Debt	36,440	42,416	–14
Equity	7,801	9,414	–17
Capitalisation	**44,241**	**51,830**	**–15**

A full consolidated balance sheet is given on page 45 of the Interim Financial Statements.

Non-current assets | Property, plant and equipment was broadly stable with capital expenditure additions being slightly higher than depreciation and with no significant net currency movements. Goodwill and intangible assets were also slightly higher with the increase from the Medingo acquisition being largely offset by amortisation and impairment. An element of the increase was also due to the US dollar strengthening by 4% against the Swiss franc during the first half. This has an impact since the majority of intangible assets and goodwill are denominated in US dollars.

Current assets | Accounts receivable and inventories increased only moderately in local currencies, with the weakening of the euro having an impact on the overall balances in Swiss francs. The carrying value of derivative assets decreased by 1.5 billion Swiss francs, consistent with the decrease in the carrying value of the debt that they are hedging. Cash and marketable securities declined by 52% as described in the cash flows and net debt commentary above.

Debt | The carrying value of debt, mainly from the financing of the Genentech transaction, decreased by 14% to 36.4 billion Swiss francs. This reduction reflects the redemption on due dates in the first quarter of 2010 of the 3 billion US dollar and 1.5 billion euro floating rate notes. A detailed reconciliation of the debt movements is provided in Note 12 to the Interim Financial Statements.

Other non-current and current liabilities | The overall balance decreased by 3 billion Swiss francs mainly due to the repayment of the 1.5 billion Swiss francs collateral payable. In addition accounts payable and other accrued liabilities decreased by 1.5 billion Swiss francs, due to the payment in the first half of 2010 of accrued interest on debt, accrued royalties, notably in respect of Tamiflu sales in the second half of 2009, and accrued employee retention/severance schemes.

Total net assets/equity | The most significant movements in equity were the net income of 5.6 billion Swiss francs and the dividend payments of 5.2 billion Swiss francs. Overall capitalisation, being total debt plus equity, declined by 15%. Debt was lower due to repayments and equity was lower as the net income for the first six months was more than offset by the annual dividend and currency translation movements of 1.4 billion Swiss francs.

Debt

To finance the Genentech transaction, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs in February and March 2009. Of the debt raised in early 2009, 27% had already been repaid by 30 June 2010. Additionally the Group has exercised its option to call for early redemption on 9 September 2010 notes with a principal value of 2.5 billion US dollars that were due 1 March 2012.

The maturity schedule of the Group's bonds and notes outstanding at 30 June 2010 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts at 30 June 2010 by contractual maturity [1]

	US dollar principal (mUSD)	Euro principal (mEUR)	UK Sterling principal (mGBP)	Swiss franc principal (mCHF)	Total [2] (mUSD)	Total [2] (mCHF)
2010	3,000	–	–	–	3,000	3,247
2011	931	–	–	–	931	1,008
2012	–	–	–	2,500 [3]	2,310	2,500
2013	–	5,250 [3]	–	–	6,396	6,923
2014	2,750	–	–	–	2,750	2,977
2015–2020	5,500	2,750 [3]	1,250 [3]	1,500	12,118	13,118
2021 and beyond	3,000	1,750 [3]	250	–	5,508	5,963
Total	**15,181**	**9,750**	**1,500**	**4,000**	**33,013**	**35,736**

1) Bonds and notes where options for early redemption have been exercised are shown at the expected date of redemption.
2) Total translated at 30 June 2010 exchange rates.
3) The proceeds from these bonds and notes were swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar denominated bonds and notes.

The Group plans to meet its debt obligations using cash generated from the ongoing business. In the full year 2009 the free cash flow was 8.9 billion Swiss francs, which includes the cash generated from operations, as well as payment of interest, tax and dividends. In the first half of 2010 free cash flow was an outflow of 1.6 billion Swiss francs, which includes 5.2 billion Swiss francs used for the payment of the annual dividend. Of the debt raised to finance the Genentech transaction, approximately 33% will have been repaid by the end of 2010.

For short-term financing requirements, the Group has a commercial paper programme in the United States under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 2.5 billion euros and 950 million US dollars available as back-stop lines. Commercial paper notes totalling 0.4 billion US dollars were outstanding as of 30 June 2010. For longer term financing the Group maintains strong long-term investment-grade credit ratings of AA- by Standard & Poor's and A2 by Moody's which should facilitate efficient access to international capital markets.

As described above in the commentary on the net debt position, in 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk.

Financial risks

The Group's risk profile changed significantly in 2009 following the Genentech transaction, as bonds and notes of 48.2 billion Swiss francs were issued. As a consequence at 30 June 2010 the Group has a net debt position of 28 billion Swiss francs (31 December 2009: net debt position of 24 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

Asset allocation | A considerable portion of the cash and marketable securities the Group currently holds is being used for debt redemptions. Liquid funds are either held as cash or are invested in high-quality, investment-grade fixed income securities with an investment horizon to meet those liquidity requirements. During the first six months of 2010, Roche reduced its money market portfolio by 10.8 billion Swiss francs as the instruments matured or were sold.

Cash and marketable securities

	30 June 2010 (mCHF)	30 June 2010 (% of total)	31 December 2009 (mCHF)	31 December 2009 (% of total)
Cash and cash equivalents	1,979	22	2,442	13
Money market instruments	4,284	48	15,040	81
Bonds, debentures and other investments	2,390	27	753	4
Shares	267	3	314	2
Total cash and marketable securities	**8,920**	**100**	**18,549**	**100**

Credit risk | Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Group. Despite significant market difficulties since mid-2008, the rating profile of the Group's 8.7 billion Swiss francs fixed income marketable securities remained strong, with 98% being invested in the A-AAA range. As noted previously the Group signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 10.5 billion Swiss francs. Since the beginning of the year there have been increasing financial difficulties in certain Southern European countries, particularly Greece. The Group is a leading supplier to the Greek healthcare sector and has trade receivables with the Greek public customers. In May 2010 the Greek government has proposed an offer to settle large parts of trade receivables at a discount with government bonds, redeemable between 2011 and 2013. Some portion is offered to be settled in cash. The Group is carefully monitoring the situation and assesses its options to manage these counterparty exposures. During the first half of 2010 bad debt provisions were increased to reflect these latest developments.

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

Even after the Genentech transaction, Roche enjoys strong long-term investment-grade credit ratings of AA- by Standard & Poor's and A2 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 4.8 billion Swiss francs (31 December 2009: 5.1 billion Swiss francs) of which 4.3 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 30 June 2010 no debt has been drawn under these credit lines.

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

Market risk of financial instruments

	30 June 2010 (mCHF)	31 December 2009 (mCHF)
VaR – Interest rate component	559	717
VaR – Foreign exchange component	45	43
VaR – Other price component	42	57
Diversification	(71)	(98)
VaR – Total	**575**	**719**

At 30 June 2010 the total VaR of the financial assets and liabilities was 575 million Swiss francs (31 December 2009: 719 million Swiss francs). The interest rate VaR decreased to 559 million Swiss francs reflecting the ageing of debt, the revised repayment date for the 2.5 billion US dollar notes from 2012 to 2010 and a higher duration of fixed income assets held. As all issued debt is held at amortised cost, the interest rate VaR is a sole metric for economic fair value changes, but there is no impact on the carrying value or profit and loss of the Group. The foreign exchange VaR remained stable. Other price risk arises mainly from movements in the prices of equity securities and declined slightly as equity securities holdings were reduced. At 30 June 2010 the Group held equity securities with a market value of 0.5 billion Swiss francs (31 December 2009: 0.6 billion Swiss francs). This includes holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations.

Further information on financial risk management and financial risks and the VaR methodology is included in Note 32 to the 2009 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. In 2008 the Group early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements', which are required to be implemented from 1 January 2010 at the latest. The Group has also implemented various other amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

Roche Group
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 66.

Roche Group consolidated income statement for the six months ended 30 June 2010 | in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales[2]	**19,386**	**5,250**	**–**	**24,636**
Royalties and other operating income[2]	784	94	–	878
Cost of sales	(4,369)	(2,501)	–	(6,870)
Marketing and distribution	(3,292)	(1,254)	–	(4,546)
Research and development[2]	(4,036)	(435)	–	(4,471)
General and administration	(464)	(207)	(200)	(871)
Operating profit before exceptional items[2]	**8,009**	**947**	**(200)**	**8,756**
Changes in Group organisation[8]	(278)	–	–	(278)
Operating profit[2]	**7,731**	**947**	**(200)**	**8,478**
Associates				–
Financial income[5]				302
Financing costs[5]				(1,508)
Profit before taxes				**7,272**
Income taxes[6]				(1,800)
Income taxes on exceptional items[6]				93
Net income				**5,565**
Attributable to				
– Roche shareholders				5,468
– Non-controlling interests				97

Earnings per share and non-voting equity security	
Basic (CHF)	6.39
Diluted (CHF)	6.37

Roche Group consolidated income statement for the six months ended 30 June 2009 | in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales[2]	**19,104**	**4,902**	**–**	**24,006**
Royalties and other operating income[2]	1,047	69	–	1,116
Cost of sales	(4,648)	(2,452)	–	(7,100)
Marketing and distribution	(3,342)	(1,225)	–	(4,567)
Research and development[2]	(4,058)	(460)	–	(4,518)
General and administration	(640)	(190)	(137)	(967)
Operating profit before exceptional items[2]	**7,463**	**644**	**(137)**	**7,970**
Major legal cases[11]	(421)	–	–	(421)
Changes in Group organisation[8]	(1,942)	–	–	(1,942)
Operating profit[2]	**5,100**	**644**	**(137)**	**5,607**
Associates				–
Financial income[5]				484
Financing costs[5]				(1,035)
Exceptional financing costs[5]				(365)
Profit before taxes				**4,691**
Income taxes[6]				(1,678)
Income taxes on exceptional items[6]				1,038
Net income				**4,051**
Attributable to				
– Roche shareholders				3,473
– Non-controlling interests				578
Earnings per share and non-voting equity security				
Basic (CHF)				4.04
Diluted (CHF)				4.00

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

	Six months ended 30 June	
	2010	2009
Net income recognised in income statement	**5,565**	**4,051**
Other comprehensive income		
Available-for-sale investments	(22)	259
Cash flow hedges	(146)	(9)
Currency translation of foreign operations	(1,394)	2,610
Defined benefit post-employment plans	(362)	733
Other comprehensive income, net of tax	**(1,924)**	**3,593**
Total comprehensive income	**3,641**	**7,644**
Attributable to		
– Roche shareholders	3,377	6,684
– Non-controlling interests	264	960
Total	**3,641**	**7,644**

Roche Group consolidated balance sheet | in millions of CHF

	30 June 2010	31 December 2009
Non-current assets		
Property, plant and equipment	17,801	17,697
Goodwill[9]	8,438	8,261
Intangible assets[10]	5,908	6,005
Associates	15	16
Financial long-term assets	439	481
Other long-term assets	501	452
Deferred income tax assets	2,402	2,573
Post-employment benefit assets	622	601
Total non-current assets	**36,126**	**36,086**
Current assets		
Inventories	5,595	5,648
Accounts receivable	10,415	10,461
Current income tax assets	210	244
Other current assets	2,586	3,577
Marketable securities	6,941	16,107
Cash and cash equivalents	1,979	2,442
Total current assets	**27,726**	**38,479**
Total assets	**63,852**	**74,565**
Non-current liabilities		
Long-term debt[12]	(31,454)	(36,143)
Deferred income tax liabilities	(925)	(1,099)
Post-employment benefit liabilities	(4,962)	(4,726)
Provisions[11]	(711)	(700)
Other non-current liabilities	(380)	(416)
Total non-current liabilities	**(38,432)**	**(43,084)**
Current liabilities		
Short-term debt[12]	(4,986)	(6,273)
Current income tax liabilities	(2,377)	(2,478)
Provisions[11]	(1,539)	(1,618)
Accounts payable	(1,838)	(2,300)
Accrued and other current liabilities	(6,879)	(9,398)
Total current liabilities	**(17,619)**	**(22,067)**
Total liabilities	**(56,051)**	**(65,151)**
Total net assets	**7,801**	**9,414**
Equity		
Capital and reserves attributable to Roche shareholders	5,540	7,366
Equity attributable to non-controlling interests	2,261	2,048
Total equity	**7,801**	**9,414**

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

	Six months ended 30 June 2010	2009
Cash flows from operating activities		
Cash generated from operations[14]	10,564	9,670
(Increase) decrease in net working capital	(2,298)	(1,168)
Payments made for defined benefit post-employment plans	(155)	(318)
Utilisation of provisions	(370)	(413)
Other operating cash flows	–	165
Cash flows from operating activities, before income taxes paid	**7,741**	**7,936**
Income taxes paid	(1,564)	(486)
Total cash flows from operating activities	**6,177**	**7,450**
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,235)	(1,246)
Purchase of intangible assets	(69)	(97)
Disposal of property, plant and equipment	53	77
Disposal of intangible assets	–	–
Disposal of products	20	33
Business combinations[7]	(178)	(84)
Divestments of subsidiaries	–	–
Interest and dividends received	38	268
Sales of marketable securities	26,740	13,186
Purchases of marketable securities	(17,164)	(12,714)
Other investing cash flows	78	(322)
Total cash flows from investing activities	**8,283**	**(899)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes[12]	–	48,197
Redemption and repurchase of bonds and notes[12]	(5,438)	–
Increase (decrease) in commercial paper[12]	193	67
Increase (decrease) in other debt	(23)	(150)
Hedging and collateral arrangements[12]	(2,711)	2,487
Change in ownership interest in subsidiaries		
– Genentech[3]	–	(52,708)
– Memory[7]	–	(6)
Equity contribution by non-controlling interests	14	–
Interest paid	(1,529)	(119)
Dividends paid	(5,214)	(4,353)
Equity-settled equity compensation plans, net of transactions in own equity instruments	(210)	(162)
Other financing cash flows	–	–
Total cash flows from financing activities	**(14,918)**	**(6,747)**
Net effect of currency translation on cash and cash equivalents	(5)	(1,591)
Increase (decrease) in cash and cash equivalents	**(463)**	**(1,787)**
Cash and cash equivalents at beginning of period	2,442	4,915
Cash and cash equivalents at end of period	**1,979**	**3,128**

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

	Share capital	Retained earnings	Reserves			Total	Non-controlling interests	Total equity
			Fair value	Hedging	Translation			
Six months ended 30 June 2009								
At 1 January 2009	**160**	**52,081**	**(231)**	**9**	**(7,540)**	**44,479**	**9,343**	**53,822**
Net income	–	3,473	–	–	–	3,473	578	4,051
Available-for-sale investments	–	–	254	–	–	254	5	259
Cash flow hedges	–	–	–	(24)	–	(24)	15	(9)
Currency translation of foreign operations	–	–	(17)	(1)	2,266	2,248	362	2,610
Defined benefit post-employment plans	–	733	–	–	–	733	–	733
Total comprehensive income	**–**	**4,206**	**237**	**(25)**	**2,266**	**6,684**	**960**	**7,644**
Business combinations[7]	–	–	–	–	–	–	4	4
Dividends	–	(4,300)	–	–	–	(4,300)	(54)	(4,354)
Equity compensation plans, net of transactions in own equity instruments	–	305	–	–	–	305	177	482
Changes in ownership interests in subsidiaries								
– Genentech[3]	–	(43,777)	–	–	–	(43,777)	(8,464)	(52,241)
– Memory[7]	–	(2)	–	–	–	(2)	(4)	(6)
Changes in non-controlling interests	–	(17)	–	–	–	(17)	17	–
At 30 June 2009	**160**	**8,496**	**6**	**(16)**	**(5,274)**	**3,372**	**1,979**	**5,351**
Six months ended 30 June 2010								
At 1 January 2010	**160**	**11,835**	**99**	**65**	**(4,793)**	**7,366**	**2,048**	**9,414**
Net income	–	5,468	–	–	–	5,468	97	5,565
Available-for-sale investments	–	–	(22)	–	–	(22)	–	(22)
Cash flow hedges	–	–	–	(146)	–	(146)	–	(146)
Currency translation of foreign operations	–	–	9	1	(1,571)	(1,561)	167	(1,394)
Defined benefit post-employment plans	–	(362)	–	–	–	(362)	–	(362)
Total comprehensive income	**–**	**5,106**	**(13)**	**(145)**	**(1,571)**	**3,377**	**264**	**3,641**
Dividends	–	(5,144)	–	–	–	(5,144)	(65)	(5,209)
Equity compensation plans, net of transactions in own equity instruments	–	(59)	–	–	–	(59)	–	(59)
Changes in non-controlling interests	–	–	–	–	–	–	–	–
Equity contribution by non-controlling interests	–	–	–	–	–	–	14	14
Other movements	–	(90)	68	22	–	–	–	–
At 30 June 2010	**160**	**11,648**	**154**	**(58)**	**(6,364)**	**5,540**	**2,261**	**7,801**

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 66.

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 2010 (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 2009 (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 21 July 2010.

The Interim Financial Statements have been prepared in accordance with the accounting policies and methods of computation set out in the Annual Financial Statements, except for the accounting policy changes described below 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.

The Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenue from the sale or licensing of products or technology to third parties. Certain headquarter activities are reported as 'Corporate'. These consist of corporate headquarters, including the Corporate Executive Committee, corporate communications, corporate human resources, corporate finance, including treasury, taxes and pension fund management, corporate legal and corporate safety and environmental services. Sub-divisional information for Roche Pharmaceuticals and Chugai, the previously aggregated operating segments within the Pharmaceuticals Division, is also presented.

Changes in accounting policies

In 2008 the Group early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements', which are required to be implemented from 1 January 2010 at the latest. In 2010 the Group has implemented various amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

The Group is currently assessing the potential impacts of the other new and revised standards and interpretations that will be effective from 1 January 2011 and beyond, and which the Group has not early adopted. The Group does not anticipate that these will have a material impact on the Group's overall results and financial position.

2. Operating segment information

Divisional information | in millions of CHF

Six months ended 30 June	Pharmaceuticals 2010	Pharmaceuticals 2009	Diagnostics 2010	Diagnostics 2009	Corporate 2010	Corporate 2009	Group 2010	Group 2009
Revenues from external customers								
Sales	19,386	19,104	5,250	4,902	–	–	24,636	24,006
Royalties and other operating income	784	1,047	94	69	–	–	878	1,116
Total	**20,170**	**20,151**	**5,344**	**4,971**	**–**	**–**	**25,514**	**25,122**
Revenues from other operating segments								
Sales	2	3	7	5	–	–	9	8
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(9)	(8)
Total	**2**	**3**	**7**	**5**	**–**	**–**	**–**	**–**
Segment results								
Operating profit before exceptional items	8,009	7,463	947	644	(200)	(137)	8,756	7,970
Major legal cases	–	(421)	–	–	–	–	–	(421)
Changes in Group organisation	(278)	(1,942)	–	–	–	–	(278)	(1,942)
Operating profit	**7,731**	**5,100**	**947**	**644**	**(200)**	**(137)**	**8,478**	**5,607**
Capital expenditure								
Business combinations	–	57	257	50	–	–	257	107
Additions to property, plant and equipment	569	671	540	484	49	1	1,158	1,156
Additions to intangible assets	52	96	19	1	–	–	71	97
Total capital expenditure	**621**	**824**	**816**	**535**	**49**	**1**	**1,486**	**1,360**
Research and development								
Research and development costs	4,036	4,058	435	460	–	–	4,471	4,518
Other segment information								
Depreciation of property, plant and equipment	581	600	389	342	4	3	974	945
Amortisation of intangible assets	90	162	221	234	–	–	311	396
Impairment of property, plant and equipment	49	1,049	–	–	–	–	49	1,049
Impairment of goodwill	–	–	–	–	–	–	–	–
Impairment of intangible assets	102	174	–	11	–	–	102	185
Equity compensation plan expenses	129	383	17	15	6	7	152	405

Pharmaceuticals sub-divisional information | in millions of CHF

Six months ended 30 June	Roche Pharmaceuticals 2010	Roche Pharmaceuticals 2009	Chugai 2010	Chugai 2009	Pharmaceuticals Division 2010	Pharmaceuticals Division 2009
Revenues from external customers						
Sales	17,325	16,920	2,061	2,184	19,386	19,104
Royalties and other operating income	780	998	4	49	784	1,047
Total	**18,105**	**17,918**	**2,065**	**2,233**	**20,170**	**20,151**
Revenues from other operating segments						
Sales	700	719	88	21	788	740
Royalties and other operating income	8	7	22	21	30	28
Elimination of income within division					(816)	(765)
Total	**708**	**726**	**110**	**42**	**2**	**3**
Segment results						
Operating profit before exceptional items	7,892	7,073	326	474	8,218	7,547
Elimination of inter-divisional profit					(209)	(84)
Sub-total	**7,892**	**7,073**	**326**	**474**	**8,009**	**7,463**
Major legal cases	–	(421)	–	–	–	(421)
Changes in Group organisation	(278)	(1,942)	–	–	(278)	(1,942)
Operating profit	**7,614**	**4,710**	**326**	**474**	**7,731**	**5,100**
Capital expenditure						
Business combinations	–	57	–	–	–	57
Additions to property, plant and equipment	492	580	77	91	569	671
Additions to intangible assets	52	96	–	–	52	96
Total capital expenditure	**544**	**733**	**77**	**91**	**621**	**824**
Research and development						
Research and development costs	3,663	3,741	389	342	4,052	4,083
Elimination of costs within division					(16)	(25)
Total	**3,663**	**3,741**	**389**	**342**	**4,036**	**4,058**
Other segment information						
Depreciation of property, plant and equipment	505	540	76	60	581	600
Amortisation of intangible assets	53	126	37	36	90	162
Impairment of property, plant and equipment	49	1,049	–	–	49	1,049
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	102	174	–	–	102	174
Equity compensation plan expenses	128	382	1	1	129	383

3. Genentech

Genentech transaction

On 12 March 2009, Roche entered into a merger agreement with Genentech pursuant to which the Group made a successful tender offer to purchase all of the shares of Genentech not already owned by the Group for USD 95.00 per share in cash (the 'Genentech transaction'). As a result, Genentech became a wholly-owned subsidiary of the Group, effective 26 March 2009.

The cash consideration for the purchase of all public shares, including shares issuable under Genentech's outstanding employee stock option plans and payment of related fees and expenses, amounted to approximately 47 billion US dollars, as set out in the table below. These amounts have been recorded to equity as a change in ownership interest in subsidiaries in 2009.

Genentech transaction

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

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

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 2010 the Group's interest in Chugai was 61.6% (31 December 2009: 61.6%). 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.

Dividends

The dividends distributed to third parties holding Chugai shares during the interim period totalled 57 million Swiss francs (2009: 47 million Swiss francs) and have been recorded to equity. Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

5. Financial income and financing costs

Financial income | in millions of CHF

	Six months ended 30 June 2010	2009
Gains on sale of equity securities	90	37
(Losses) on sale of equity securities	(3)	(2)
Dividend income	1	1
Gains (losses) on equity security derivatives, net	3	1
Write-downs and impairments of equity securities	(10)	(2)
Net income from equity securities	**81**	**35**
Interest income	31	137
Gains on sale of debt securities	1	–
(Losses) on sale of debt securities	(1)	(9)
Gains (losses) on debt security derivatives, net	–	20
Gains (losses) on financial assets at fair-value-through-profit-or-loss, net	–	–
Write-downs and impairments of long-term loans	–	(3)
Net interest income and income from debt securities	**31**	**145**
Expected return on plan assets of defined benefit plans	286	257
Foreign exchange gains (losses), net	288	(742)
Gains (losses) on foreign currency derivatives, net	(369)	790
Net foreign exchange gains (losses)	**(81)**	**48**
Net other financial income (expense)	(15)	(1)
Total financial income	**302**	**484**

Financing costs | in millions of CHF

	Six months ended 30 June 2010	2009
Interest expense	(994)	(684)
Amortisation of debt discount [12]	(26)	(17)
Gains (losses) on debt derivatives, net	(1)	1
Gains (losses) on redemption and repurchase of bonds and notes, net [12]	(144)	–
Gains (losses) on financial liabilities at fair-value-through-profit-or-loss, net [12]	–	6
Time cost of provisions	(7)	(11)
Interest cost of defined benefit plans	(336)	(330)
Total financing costs	**(1,508)**	**(1,035)**

Net financial income | in millions of CHF

	Six months ended 30 June 2010	2009
Financial income	302	484
Financing costs	(1,508)	(1,035)
Net financial income	**(1,206)**	**(551)**
Financial result from Treasury management	(1,156)	(478)
Financial result from Pension management	(50)	(73)
Net financial income	**(1,206)**	**(551)**

Exceptional financing costs

As described in Note 3, effective 26 March 2009 the Group purchased all publicly owned shares of Genentech for USD 95.00 per share in cash, with the total cash consideration of the transaction, including shares issuable under Genentech's outstanding employee stock option plans and payment of related fees and expenses, being approximately 52.7 billion Swiss francs.

In order to execute this transaction, the Group liquidated certain debt securities into cash in the interim period of 2009. This resulted in a net loss on these transactions of 226 million Swiss francs. Furthermore, due to the prevailing financial conditions at that time, the Group issued bonds and notes in advance of the transaction totalling 48.2 billion Swiss francs through a series of debt offerings, as described in Note 27 to the Annual Financial Statements. The interest expense on these instruments for the bridging period between their issue and the completion of the Genentech transaction on 26 March 2009 was 139 million Swiss francs.

These amounts are disclosed separately in the income statement for the interim period of 2009 in order to fairly present the Group's results in the overall context of the Genentech transaction and related reorganisations in the Group's Pharmaceuticals Division. The total income tax benefit recorded in the interim period of 2009 in respect of exceptional financing costs was 61 million Swiss francs.

Exceptional financing costs | in millions of CHF

	Six months ended 30 June 2010	2009
Gain (loss) on liquidation of debt securities	–	(226)
Interest expense incurred on newly issued bonds and notes during bridging period	–	(139)
Total exceptional financing costs	**–**	**(365)**

6. Income taxes

Income tax expenses | in millions of CHF

	Six months ended 30 June 2010	2009
Current income taxes	(1,604)	(1,744)
Adjustments recognised for current tax of prior periods	13	75
Deferred income taxes	(209)	(9)
Total income tax (expense)/benefit	**(1,800)**	**(1,678)**

Exceptional income taxes

As described in Note 8, the Group incurred exceptional expenses totalling 278 million Swiss francs (2009: 1,942 million Swiss francs) in connection with the Genentech transaction and the related reorganisations in the Group's pharmaceuticals business. Furthermore, as described in Note 5, the Group incurred exceptional financing costs in the interim period of 2009 totalling 365 million Swiss francs in connection with the financing of the Genentech transaction. As disclosed in Note 11, expenses incurred in respect of major legal cases for the interim period of 2009 were 421 million Swiss francs. The income tax effects of these items, as shown in the table below, are disclosed separately in the income statement in order to fairly present the Group's results in the overall context of the Genentech transaction and related reorganisations in the Group's Pharmaceuticals Division. In the interim period of 2009 an income tax benefit of 147 million Swiss francs was recorded in respect of Genentech's stock options plans that was clearly attributable to the Genentech transaction, and therefore has been allocated as part of exceptional income taxes.

Exceptional income tax expenses | in millions of CHF

	Six months ended 30 June	
	2010	2009
Current income taxes	95	122
Deferred income taxes	(2)	916
Total income tax (expense)/benefit on exceptional items	**93**	**1,038**

Reconciliation of the Group's effective tax rate

	2010			2009		
Six months ended 30 June	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate before exceptional items	7,550	(1,800)	23.8	7,419	(1,678)	22.6
Major legal cases[11]	–	–	–	(421)	163	38.7
Changes in Group organisation[8]	(278)	93	33.5	(1,942)	814	41.9
Exceptional financing costs[5]	–	–	–	(365)	61	16.7
Group's effective tax rate	**7,272**	**(1,707)**	**23.5**	**4,691**	**(640)**	**13.6**

7. Business combinations

Acquisitions – 2010

Effective 28 May 2010 the Group acquired a 100% controlling interest in Medingo Ltd. ('Medingo'), a majority-owned subsidiary of the Elron group, based in Israel. Medingo is engaged in the development of a semi-disposable insulin patch pump and is reported as part of the Diagnostics operating segment. The acquisition broadens the Group's portfolio of innovative insulin delivery technologies and strengthens its position in the diabetes care business. The total purchase consideration was 210 million Swiss francs, of which 178 million Swiss francs was paid in cash and 32 million Swiss francs from a contingent consideration arrangement. The payment from this arrangement is based on the achievement of four separate performance milestones that may arise between 2012 and 2014 and the range of outcomes, undiscounted, is between zero and 42 million US dollars, equivalent to 45 million Swiss francs at 30 June 2010 exchange rates. A liability of 32 million Swiss francs was recognised at the acquisition date, based on management's best estimate of the probability-adjusted expected cash outflow from the arrangement. As at 30 June 2010 the amount recognised for this arrangement was unchanged, based on the most recent management estimates.

The purchase consideration has been allocated as follows:

Acquisitions – 2010: net assets acquired | in millions of CHF

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Property, plant and equipment	2	–	2
Goodwill	–	–	–
Intangible assets			
– Product intangibles: in use	–	178	178
– Marketing intangibles	–	–	–
– Product intangibles: not available for use	–	–	–
Inventories	–	–	–
Deferred income taxes	–	(45)	(45)
Cash	–	–	–
Other net assets (liabilities)	(2)	–	(2)
Net identifiable assets (liabilities)	**–**	**133**	**133**
Non-controlling interests			–
Goodwill			77
Purchase consideration			**210**

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

The fair value of other net assets (liabilities) does not include any receivables.

Directly attributable transaction costs of 1 million Swiss francs were incurred in this acquisition. These are reported within general and administration expenses in the current period as part of the operating result of the Diagnostics operating segment.

Acquisitions – 2010: 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					
Medingo	–	–	(1)	(3)	(2)
Estimated impact on results if acquisition assumed effective 1 January 2010					
Medingo	–	–	(7)	(16)	(12)

The above figures exclude directly attributable transaction costs of 1 million Swiss francs. Corresponding tax impacts are also excluded.

Acquisitions – 2010: net cash outflow | in millions of CHF

	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(178)	–	(178)

Acquisitions – 2009

Effective 1 January 2009 the Group acquired an 89.6% controlling interest in Memory Pharmaceuticals Corp. ('Memory') for a cash consideration of 48 million Swiss francs. Subsequent to the effective date of the acquisition, the Group purchased the remaining shares in Memory held by third parties to give the Group a 100% interest in Memory. The additional cash consideration was 6 million Swiss francs, which has been recorded to equity as a change in ownership interest in subsidiaries. There were other minor business combinations in the Diagnostics business with a total purchase consideration of 57 million Swiss francs, of which 55 million Swiss francs was in cash and 2 million Swiss francs from a contingent consideration arrangement. These transactions are fully described in Note 7 to the Annual Financial Statements.

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

	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(103)	19	(84)

The above cash consideration paid does not include the subsequent payment of 6 million Swiss francs to purchase the remaining shares in Memory held by third parties to give the Group a 100% interest in Memory. This is reported as financing cash flow in the statement of cash flows within the heading 'Change in ownership interest in subsidiaries'.

8. Changes in Group organisation

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

As described in Note 3, the Genentech transaction was completed effective 26 March 2009. Following this the Pharmaceuticals Division initiated a detailed integration programme to align the Genentech business and the rest of the Roche's pharmaceuticals business. Genentech's South San Francisco site is being established as the headquarters of the pharmaceuticals business in the US, including commercial operations for the US market. Genentech Research and Early Development is being set up as an autonomous unit while Genentech's late-stage development activities are being integrated with the global Pharmaceuticals Division network. The integration programme includes prioritising projects within the shared portfolio and eliminating activities that are either duplicated or no longer required, notably in the administration function.

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

The Group currently anticipates that these restructuring activities will be substantially completed by the end of 2010. The total cost is expected to be in the order of 3.3 billion Swiss francs, which includes 2.7 billion Swiss francs that were incurred in 2008 and 2009. Of this total of 3.3 billion Swiss francs approximately 2.0 billion Swiss francs is non-cash.

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

Changes in Group organisation | in millions of CHF

	Six months ended 30 June	
	2010	2009
Employee-related costs		
– Termination costs	37	149
– Pensions and other post-employment benefits	–	(31)
– Genentech Employee Retention Program expenses	–	20
– Genentech stock options: accelerated vesting expenses	–	236
– Other retention plans and other employee benefits	6	28
– Other employee-related costs	52	31
Total employee-related costs	**95**	**433**
Site closure costs		
– Impairment of property, plant and equipment	20	1,049
– Accelerated depreciation of property, plant and equipment	40	48
– Other site closure costs	35	181
Total site closure costs	**95**	**1,278**
Impairment of intangible assets	–	174
Other reorganisation expenses	88	57
Total	**278**	**1,942**

The total income tax benefit recorded in respect of changes in Group organisation was 93 million Swiss francs (2009: 814 million Swiss francs).

9. Goodwill

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

Six months ended 30 June 2010	
At 1 January 2010	8,261
Business combinations[7]	77
Impairment charge	–
Currency translation effects	100
At 30 June 2010	**8,438**
Allocation by operating segment	
– Roche Pharmaceuticals	2,206
– Chugai	135
– Diagnostics	6,097
Total Group	**8,438**

There are no accumulated impairment losses in goodwill.

10. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles	Technology intangibles	Total
Six months ended 30 June 2010					
At 1 January 2010	3,528	2,304	21	152	6,005
Business combinations[7]	178	–	–	–	178
Additions	4	51	–	16	71
Disposals	–	–	–	–	–
Transfers	44	(9)	–	(35)	-
Amortisation charge	(297)	–	(2)	(12)	(311)
Impairment charge	–	(102)	–	–	(102)
Currency translation effects	5	62	(2)	2	67
At 30 June 2010	**3,462**	**2,306**	**17**	**123**	**5,908**
Allocation by division					
– Pharmaceuticals	892	1,738	–	107	2,737
– Diagnostics	2,570	568	17	16	3,171
Total Group	**3,462**	**2,306**	**17**	**123**	**5,908**

Classification of amortisation and impairment expenses | in millions of CHF

	Six months ended 30 June 2010		Six months ended 30 June 2009	
	Amortisation	Impairment	Amortisation	Impairment
Cost of sales				
– Pharmaceuticals	80	–	141	–
– Diagnostics	217	–	229	11
Marketing and distribution				
– Diagnostics	2	–	1	–
Research and development				
– Pharmaceuticals	10	102	21	–
– Diagnostics	2	–	4	–
Changes in Group organisation				
– Pharmaceuticals	–	–	–	174
Total	**311**	**102**	**396**	**185**

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.

2010 | In the Pharmaceuticals operating segment a net impairment charge of 102 million Swiss francs was recorded. An impairment charge of 71 million Swiss francs was recorded, which relates to a decision to stop development of one compound with an alliance partner. The assets concerned, which were not yet being amortised, were fully written down by these charges. A further charge of 47 million Swiss francs was recorded, resulting from a portfolio prioritisation decision on a project acquired as part of a previous business combination. The asset concerned, which was not yet being amortised, was written down to its recoverable value of 95 million Swiss francs. A reversal of previously recorded impairment loss of 16 million Swiss francs was recorded, which follows from the latest clinical data assessment of the project concerned.

2009 | In the Pharmaceuticals operating segment an impairment charge of 174 million Swiss francs was recorded, which relates to the Pharmaceuticals Division reorganisation (see Note 8). In the Diagnostics operating segment an impairment charge of 11 million Swiss francs was recorded, which relates to reduced revenue expectations of a project with an alliance partner. The assets concerned were fully written down by these charges.

11. Provisions and contingent liabilities

Provisions | in millions of CHF

	30 June 2010	31 December 2009
Legal provisions	529	549
Environmental provisions	249	247
Restructuring provisions	436	532
Employee provisions	270	278
Other provisions	766	712
Total provisions	**2,250**	**2,318**
Of which		
– Current portion	1,539	1,618
– Non-current portion	711	700
Total provisions	**2,250**	**2,318**

Payments in the interim period from previously recorded provisions totalled 370 million Swiss francs (2009: 413 million Swiss francs).

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. There were no such items in the interim period. In the interim period of 2009 provisions for major legal cases were increased by 421 million Swiss francs, based on management's estimates at that time of the ultimate liabilities that were expected to arise, taking into account the development of the various litigation and arbitration processes and any negotiations to resolve these cases.

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

On 28 June 2003 Mr Ubaldo Bao Martinez filed a lawsuit against the Porriño Town Council and Genentech España S.L. in the Contentious Administrative Court Number One of Pontevedra, Spain. The lawsuit challenged the Town Council's decision to grant licenses to Genentech España S.L. for the construction and operation of a warehouse and biopharmaceutical manufacturing facility in Porriño, Spain. On 16 January 2008 the Administrative Court ruled in favour of Mr Bao on one of the claims in the lawsuit and ordered the closing and demolition of the facility, subject to certain further legal proceedings. On 12 February 2008 Genentech España S.L. and the Town Council filed appeals of the Administrative Court decision at the High Court in Galicia, Spain. On 16 March 2010 Genentech received notice that it prevailed over Mr Bao on the appeal. This decision revokes the January 2008 ruling in its entirety.

There have been certain procedural developments in the other significant litigation matters described in Note 25 to the Annual Financial Statements. However these do not significantly affect the assessment of the Group's management concerning the adequacy of the total provisions recorded for legal proceedings.

12. Debt

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

Six months ended 30 June 2010	
At 1 January 2010	42,416
Proceeds from issue of bonds and notes	–
Redemption and repurchase of bonds and notes	(5,438)
Increase (decrease) in commercial paper	193
Increase (decrease) in other debt	(23)
(Gains) losses on redemption and repurchase of bonds and notes, net[5]	144
Amortisation of debt discount[5]	26
(Gains) losses on financial liabilities at fair-value-through-profit-or-loss, net[5]	–
Currency translation effects and other	(878)
At 30 June 2010	**36,440**
Consisting of	
– Bonds and notes	35,539
– Commercial paper	474
– Amounts due to banks and other financial institutions	125
– Genentech leasing obligations	281
– Finance lease obligations	2
– Other borrowings	19
Total debt	**36,440**
Reported as	
– Long-term debt	31,454
– Short-term debt	4,986
Total debt	**36,440**

Issuance of bonds and notes – 2010

The Group did not issue any bonds or notes during the interim period of 2010.

Issuance of bonds and notes – 2009

The Group financed the Genentech transaction (see Note 3) by a combination of the Group's own funds, bonds, notes and commercial paper. The Group raised net proceeds of 48.2 billion Swiss francs through a series of debt offerings, as described in Note 27 to the Annual Financial Statements. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

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

	Six months ended 30 June 2010	2009
US dollar denominated notes	–	21,681
European Medium Term Note programme euro and sterling denominated notes	–	18,556
Swiss franc denominated bonds	–	7,960
Total	**–**	**48,197**

Currency swaps | Subsequent to the debt issuances, the proceeds of all of the European Medium Term Note programme notes and 6,485 million Swiss francs of the Swiss franc denominated bonds were swapped into US dollars. As a result, in these financial statements, the notes have economic characteristics similar to US dollar denominated bonds and notes.

Collateral agreements | Collateral agreements were entered with the derivative counterparties to the above currency swaps to mitigate counterparty risk. As the fair value of the derivative instruments moved down during the first half of 2010 due to a stronger US dollar, a total of 2.0 billion Swiss francs cash collateral was delivered by the Group during the interim period (2009 interim period: 1.3 billion Swiss francs delivered to the Group). This collateral is recorded as a decrease in cash and a corresponding increase in current assets. The carrying value of current assets in respect of these agreements is 0.5 billion Swiss francs (31 December 2009: accrued liabilities of 1.5 billion Swiss francs). The realised loss on derivatives in the interim period was 0.7 billion Swiss francs (2009: realised gain of 1.2 billion Swiss francs) and relates mainly to hedges on the non-US dollar denominated bonds and notes.

Repayment and redemption of bonds and notes – 2010

Redemption of US dollar denominated notes | On the due date of 25 February 2010 the Group redeemed notes with a principal of 3 billion US dollars at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months LIBOR plus 1.13%. The cash outflow was 3,244 million Swiss francs and there was no gain or loss recorded on the redemption.

Redemption of European Medium Term Note programme notes | On the due date of 4 March 2010 the Group redeemed notes with a principal of 1.5 billion euros at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months EURIBOR plus 1.05% (plus 0.92% including hedging). The cash outflow was 2,194 million Swiss francs and there was no gain or loss recorded on the redemption.

Cash outflows from repayment and redemption of bonds and notes | in millions of CHF

	Six months ended 30 June	
	2010	2009
US dollar denominated notes	3,244	–
European Medium Term Note programme euro denominated notes	2,194	–
Total	**5,438**	**–**

Early redemption of US dollar denominated notes | On 29 June 2010 the Group resolved to exercise its option to call for redemption the US dollar denominated 4.50% fixed rate notes due 1 March 2012 with a principal of 2.5 billion US dollars. The Group will redeem these notes on 9 September 2010 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker on the third business day preceding the redemption. A cash outflow of approximately 2,626 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The revised carrying value of these notes at 30 June 2010 is 2,623 million US dollars (2,839 million Swiss francs). The increase in carrying value of 133 million US dollars (144 million Swiss francs) is recorded within financing costs (see Note 5) as a loss on redemption. The effective interest rate of these notes before the redemption is 4.84%.

Subsequent to the end of the interim period, the Group redeemed the Genentech Senior Notes with a due date of 15 July 2010 at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 4.53%. The cash outflow was 500 million US dollars and there was no gain or loss recorded on the redemption.

Repayment and redemptions of bonds and notes – 2009

There were no repayments or redemptions of bonds and notes during the interim period of 2009.

Commercial paper

Roche Holdings, Inc. commercial paper program | In March 2009 the Group established a commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. Committed credit lines of 2.5 billion euros and 950 million US dollars are available as back-stop lines. Maturity of the notes under the program cannot exceed 365 days from the date of issuance. At 30 June 2010 unsecured commercial paper notes with a principal of 438 million US dollars and an interest rate of 0.20% were outstanding.

Movements in obligations under commercial paper programmes | in millions of CHF

Six months ended 30 June 2010	
At 1 January 2010	270
Cash proceeds (payments), net	193
Currency translation effects	11
At 30 June 2010	**474**

13. Equity

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009, as described in Note 3. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by the Group in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the Group was reduced in the interim period of 2009 by 52.2 billion Swiss francs, of which 8.4 billion Swiss francs was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the Group's net equity, but has no effect on the Group's business or its dividend policy.

Share capital 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 856 million (2009: 859 million).

Dividends

On 2 March 2010 the shareholders approved the distribution of a dividend of 6.00 Swiss francs per share and non-voting equity security (2009: 5.00 Swiss francs) in respect of the 2009 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 5,144 million Swiss francs (2009: 4,300 million Swiss francs) and has been recorded against retained earnings in 2010.

Own equity instruments

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

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

	30 June 2010 (millions)	31 December 2009 (millions)
Non-voting equity securities	7.4	6.7
Derivative instruments	9.4	7.4
Total	**16.8**	**14.1**

The Group holds none of its own shares.

14. Statement of cash flows

Cash generated from operations | in millions of CHF

	Six months ended 30 June 2010	2009
Net income	5,565	4,051
Add back non-operating (income) expense		
– Associates	–	–
– Financial income[5]	(302)	(484)
– Financing costs[5]	1,508	1,035
– Exceptional financing costs[5]	–	365
– Income taxes[6]	1,800	1,678
– Income taxes on exceptional items[6]	(93)	(1,038)
Operating profit	**8,478**	**5,607**
Depreciation of property, plant and equipment[2]	974	945
Amortisation of intangible assets[2]	311	396
Impairment of property, plant and equipment[2]	49	1,049
Impairment of intangible assets[2]	102	185
Operating expenses for defined benefit post-employment plans	132	148
Operating expenses for equity-settled equity compensation plans	158	411
Net (income) expense for provisions	340	935
Other adjustments	20	(6)
Cash generated from operations	**10,564**	**9,670**

Review Report of the Statutory Auditor

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 2010 and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended, and selected explanatory notes (the interim consolidated financial statements) on pages 42 to 65. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated 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 interim consolidated financial statements as at 30 June 2010 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG

KPMG AG

John A. Morris
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 21 July 2010

Supplementary Information

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	
	2010	2009
Net income	5,565	4,051
Major legal cases	–	421
– Income taxes	–	(163)
	–	258
Changes in Group organisation	278	1,942
– Income taxes	(93)	(814)
	185	1,128
Exceptional financing costs	–	365
– Income taxes	–	(61)
	–	304
Net income before exceptional items	**5,750**	**5,741**
Non-controlling interests		
– Net income	(97)	(578)
– Exceptional items (changes in Group organisation)	–	50
	(97)	(528)
Net income attributable to Roche shareholders (before exceptional items)	**5,653**	**5,213**
Amortisation and impairment of intangible assets[1)]	413	408
– Income taxes	(135)	(142)
– Non-controlling interests	–	(13)
	278	253
Core net income	**5,931**	**5,466**

1) The 2009 total does not include impairment of intangible assets of 174 million Swiss francs that are already included in 'Changes in Group organisation' (see Note 8 to the Interim Financial Statements).

EPS (continuing businesses before exceptional items) and Core EPS

Six months ended 30 June	EPS (continuing businesses before exceptional items)		Core EPS	
	2010	2009	2010	2009
Net income (millions of CHF)	5,653	5,213	5,931	5,466
Increase in non-controlling share of net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised	–	(34)	–	(35)
Net income used to calculate diluted earnings per share	**5,653**	**5,179**	**5,931**	**5,431**
Per share information (millions of shares and non-voting equity securities)				
Weighted average number of shares and non-voting equity securities in issue	856	859	856	859
Adjustment for equity compensation plans, where dilutive	3	–	2	–
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	**859**	**859**	**858**	**859**
Earnings per share (diluted) (CHF)	**6.58**	**6.03**	**6.91**	**6.32**

Supplementary operating free cash flow information

Divisional operating free cash flow information | in millions of CHF

Six months ended 30 June	Pharmaceuticals 2010	Pharmaceuticals 2009	Diagnostics 2010	Diagnostics 2009	Corporate 2010	Corporate 2009	Group 2010	Group 2009
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	581	600	389	342	4	3	974	945
Amortisation of intangible assets	90	162	221	234	–	–	311	396
Impairment of property, plant and equipment	49	1,049	–	–	–	–	49	1,049
Impairment of intangible assets	102	174	–	11	–	–	102	185
Total	**822**	**1,985**	**610**	**587**	**4**	**3**	**1,436**	**2,575**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	133	388	19	17	6	6	158	411
– Net (income) expense for provisions	243	860	96	75	1	–	340	935
– Net gain from disposals	(31)	(8)	4	2	–	–	(27)	(6)
– Non-cash working capital and other items	73	(34)	(70)	–	(2)	–	1	(34)
Deduct								
– Net cash flow from equity-settled equity compensation plans	(46)	108	(8)	(3)	(7)	(1)	(61)	104
– Utilisation of provisions	(297)	(323)	(71)	(82)	(2)	(8)	(370)	(413)
– Proceeds from disposals	35	103	28	7	10	–	73	110
Total	**110**	**1,094**	**(2)**	**16**	**6**	**(3)**	**114**	**1,107**
Operating profit cash adjustments	**932**	**3,079**	**608**	**603**	**10**	**–**	**1,550**	**3,682**
EBITDA								
Operating profit before exceptional items	8,009	7,463	947	644	(200)	(137)	8,756	7,970
Depreciation, amortisation and impairment								
– Total Group	822	1,985	610	587	4	3	1,436	2,575
– Add back exceptional items	(60)	(1,270)	–	–	–	–	(60)	(1,270)
EBITDA	**8,771**	**8,178**	**1,557**	**1,231**	**(196)**	**(134)**	**10,132**	**9,275**
– margin, % of sales	45.2	42.8	29.7	25.1	–	–	41.1	38.6

Roche Securities

Number of shares and non-voting equity securities

	30 June 2010	30 June 2009
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 2010	2009
Diluted earnings per share and non-voting equity security		6.37	4.00
Core earnings per share and non-voting equity security		6.91	6.32
Stock price of share	Opening	181,00	168.70
	High	191,70	177.10
	Low	157,20	130.30
	Period end	157,20	154.50
Stock price of non-voting equity security	Opening	175,80	162.50
	High	186,00	172.50
	Low	149,10	124.10
	Period end	149,10	147.70

Market capitalisation | in millions of CHF

	30 June 2010	31 December 2009	30 June 2009
Period end	128,804	151,296	127,801

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.

Published by
F. Hoffmann-La Roche Ltd
4070 Basel, Switzerland
Tel. +41 (0)61 688 11 11
Fax +41 (0)61 691 93 91

Media Office
Group Communications
4070 Basel, Switzerland
Tel. +41 (0)61 688 88 88
Fax +41 (0)61 688 27 75

Investor Relations
4070 Basel, Switzerland
Tel. +41 (0)61 688 88 80
Fax +41 (0)61 691 00 14

World Wide Web
www.roche.com

To order publications
Tel. +41 (0)61 688 83 39
Fax +41 (0)61 688 43 43
E-mail: basel.webmaster@roche.com

The picture shows researchers at 454 Life Sciences, a Roche Applied Science centre of excellence that develops and commercialises innovative DNA sequencing solutions. The high-throughput Genome Sequencer FLX and the recently launched medium-throughput bench-top version, Genome Sequencer Junior, give researchers around the world access to Roche's next-generation sequencing technology.

Cautionary statement regarding forward-looking statements

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

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2010 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

The Roche Half-Year Report is published in German and English. For the Finance section, in case of doubt or differences of interpretation, the English shall prevail over the German text.

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

F. Hoffmann-La Roche Ltd
4070 Basel, Switzerland

www.roche.com