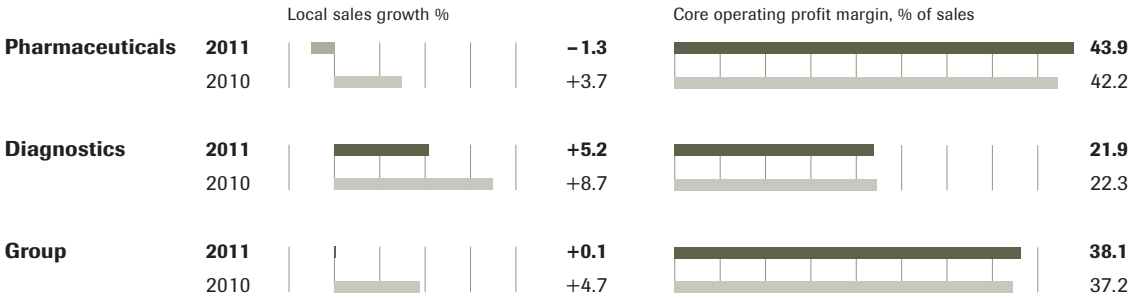
2011 Roche Half-Year Report

Finance in brief

Key results first half 2011



	Six months ended June 2011 (mCHF)	2010 (mCHF)	% change (CHF)	% change (LC)	% of sales 2011	% of sales 2010
Sales	21,671	24,636	–12	0		
Operating profit	7,460	8,478	–12	+3	34.4	34.4
Net income	5,259	5,565	–5	+10	24.3	22.6
Net income attributable to Roche shareholders	5,151	5,468	–6	+10		
Diluted EPS (CHF)	6.04	6.37	–5	+8		
Core results[1]						
Research and development	3,873	4,357	–11	0	17.9	17.7
Core operating profit	8,251	9,159	–10	+5	38.1	37.2
Core EPS (CHF)	6.68	6.95	–4	+10		
Free cash flow						
Operating free cash flow	6,856	6,426	+7	+27	31.6	26.1
Free cash flow	(967)	(1,560)	–38	–83		

	30 June 2011	31 December 2010	% change (CHF)
Net debt	(17,959)	(19,157)	–6
Capitalisation	37,070	41,720	–11
– Debt	26,224	30,058	–13
– Equity	10,846	11,662	–7

1) See pages 61–64 for definition of Core results and Core EPS.
LC = local currencies

Highlights first half 2011

GROUP SALES stable in local currencies. Excluding Tamiflu, Group sales up 2% and Pharmaceuticals Division sales up 1%; Diagnostics Division sales up 5%; on track to meet full-year guidance.

CORE OPERATING PROFIT up 5%, driven primarily by Operational Excellence and continued productivity measures. Core operating profit margin improves by 0.9 percentage points to 38.1% of sales (+1.8 percentage points in local currencies).

Operating free **CASH FLOW** advances significantly by 27% in local currencies (+7% in Swiss francs) and relative to sales by 5.5 percentage points to 31.6% of sales.

Core **EARNINGS PER SHARE** rise 10% in local currencies, due to solid operating performance, lower financing costs and a lower tax rate.

Appreciation of the **SWISS FRANC** against all relevant currencies has a significant impact on the reported half-year results expressed in francs. However, underlying currency exposure is mitigated by large majority of cost base being located outside of Switzerland.

Excellent progress in **LATE-STAGE PIPELINE:** seven out of seven clinical trials deliver positive data to support regulatory submissions for new medicines or new indications for existing products.

OUTLOOK for 2011: Core EPS target increases to around 10% in local currencies.

Roche aims to grow the **DIVIDEND** in line with Core EPS growth, and will at least maintain last year's dividend in Swiss francs.

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Business Review

The Roche Group posted solid operating results in the first half of 2011. Group sales were stable in local currencies (–12% in Swiss francs; +5% in US dollars) at 21.7 billion Swiss francs. Excluding Tamiflu, Group sales increased by 2% in local currencies. The Group's core operating profit grew faster than sales, rising by a robust 5% in local currencies (–10% in Swiss francs) to 8.3 billion Swiss francs. The Group's net income grew even more strongly, advancing 10% on a currency-adjusted basis (–5% in Swiss francs) to 5.3 billion Swiss francs. These results reflect the strength of the Group's businesses as well as the impact of the strong appreciation of the Swiss franc against all currencies relevant for Roche since the first half of 2010. Roche's research and development activities also yielded some very strong and promising results in the first half of 2011. Seven out of seven clinical studies reported positive data that will support regulatory submissions for approval of new products or new indications for existing products. Based on its half-year results, Roche increases its full-year earnings outlook for 2011.

Sales

Group sales were stable in local currencies (–12% in Swiss francs; +5% in US dollars) at 21.7 billion Swiss francs. Excluding Tamiflu, Group sales increased by 2% in local currencies.

Cancer medicines, Lucentis and Actemra/RoActemra lead pharmaceuticals portfolio

Sales in the Pharmaceuticals Division, excluding Tamiflu, were up 1%. Including Tamiflu, sales declined by 1% in local currencies (–13% in Swiss francs; +4% in US dollars) to 16.8 billion Swiss francs, reflecting the expected decrease in sales of Avastin and Tamiflu as well as generic erosion following expiries of CellCept patents and continued competitive pressure on the NeoRecormon/Epogin franchise. The combined impact of US healthcare reforms, European austerity measures and price cuts in Japan reduced sales by an incremental 217 million Swiss francs in the first half of 2011, compared with the previous period. In the second half, the expected impact will be significantly lower at around 100 million Swiss francs. Demand for the cancer medicines Herceptin, MabThera/Rituxan, Xeloda and Tarceva, the eye medication Lucentis and the rheumatoid arthritis biotherapeutic Actemra/RoActemra continued to show robust growth.

Compared with the year-earlier period, half-year sales grew 2% in local currencies in the United States. Sales in Western Europe decreased overall by 4% driven by European austerity measures. Excluding Tamiflu sales, Asia–Pacific and Latin America showed strong double-digit growth, whilst sales in Japan slightly decreased by 1% due to biennial price cuts. (See *Sales by product and region* on page 16–18 for more details.)

Diagnostics maintains market leadership

The Diagnostics Division posted sales of 4.9 billion Swiss francs, an increase of 5% in local currencies (–8% in Swiss francs; +10% in US dollars), maintaining its global market leadership. Once again growth was driven by strong performances by Professional Diagnostics (+9%), with its expanding menu of immunoassays for the fully automated cobas modular analysers, and by Tissue Diagnostics (+16%), with its growing portfolio of advanced tissue staining tests[1]. Sales grew in all regions, with the strongest gains in Asia–Pacific (+17%) and Latin America (+13%). (See *Sales by business area and region* on pages 22 and 23 for more details.)

1 Immunohistochemistry (IHC) and *in situ* hybridisation (ISH).

Operating Profit and Net Income

Group profitability and cash generation improve further

The Group's core operating profit increased significantly by 5% in local currencies (–10% in Swiss francs), again growing substantially faster than sales. The Group's core operating profit margin improved by 0.9 percentage points to 38.1 (+1.8 percentage points in local currencies), driven mainly by savings from the Operational Excellence programme. The core operating profit margin was up by 1.7 percentage points in the Pharmaceuticals Division (+2.7 percentage points in local currencies), while in the Diagnostics Division it remained stable (–0.2 percentage points in local currencies).

Core operating profit in the Pharmaceuticals Division grew 5% in local currencies (–10% in Swiss francs) to 7.4 billion Swiss francs. The profitability increase was driven by the Operational Excellence programme, other productivity improvements and resource prioritisation. Operational Excellence led to a reduction in marketing and distribution expenses and research and development costs. The Diagnostics Division's core operating profit grew 5% (–9% in Swiss francs) to 1.1 billion Swiss francs.

Group net income rose 10% in local currencies (–5% in Swiss francs). This was due to a solid operating performance, lower financing costs and a lower tax rate.

Core earnings per share (Core EPS), which excludes non-core items such as global restructuring charges and amortisation and impairment of intangible assets, increased 10% in local currencies (–4% in Swiss francs). The Eurobond repurchase in June had a negative impact on Core EPS growth of 1 percentage point.

The solid business performance and ongoing focus on productivity improvements are also reflected in the Group's strong operating free cash flow, which increased by 27% in local currencies to 6.9 billion Swiss francs.

Operational Excellence

The Operational Excellence programme initiated in November 2010 to optimise cost structures and achieve productivity gains, together with further synergies from the Genentech integration, generated savings of 950 million Swiss francs in the first half of 2011. Roche has completed consultations with employee representatives and continues to assist affected employees. The reorganisation or closure of sites in the United States, Austria, Germany and Switzerland is progressing as planned.

Roche is on track to realise annual savings from the Operational Excellence programme of 1.8 billion Swiss francs for 2011, and 2.4 billion Swiss francs by the end of 2012, also as planned.

Outlook

Full-year earnings outlook increased

Based on its half-year results, Roche has increased its full-year earnings outlook for 2011. Barring unforeseen events, Group and Pharmaceuticals sales (excluding Tamiflu) are expected to grow at low single-digit rates in local currencies, reflecting the impact of US healthcare reforms and European austerity measures. Pharmaceuticals sales are thus expected to grow in line with the market. In 2011 Diagnostics sales are again expected to grow significantly ahead of the market, driven by further roll-outs of new products in all business areas. In spite of a more challenging environment and the introduction of an excise tax in the United States, based on its half-year results Roche has increased its Core EPS target for 2011 to around 10% in local currencies. Roche aims to grow the dividend in line with Core EPS growth, and will at least maintain last year's dividend in Swiss francs.

Research and Development Update

Seven positive registration studies

In the first half of 2011, Roche reported positive data from seven clinical studies that will support regulatory submissions for approval of new products or new indications for existing products:

Avastin (relapsed ovarian cancer, OCEANS study) | The phase III study results presented at ASCO (Annual Meeting of the American Society of Clinical Oncology; Chicago, June 1–5) show that an Avastin-based regimen halved the risk of the disease getting worse in women with recurrent ovarian cancer. These data add to the growing body of evidence supporting Avastin's potential role in this disease, which includes two previously presented phase III clinical trials in women with newly diagnosed ovarian cancer.

Tarceva (EGFR-mutated non-small cell lung cancer, EURTAC* study) | The phase III study presented at ASCO showed that Tarceva as a first-line therapy for a genetically distinct type of advanced non-small cell lung cancer (NSCLC) doubled the time people lived without their cancer worsening compared with standard chemotherapy. Roche has applied to the European Medicines Agency (EMA) to extend the current EU label for Tarceva to include first-line use in people with advanced EGFR (epidermal growth factor receptor) activating mutation-positive NSCLC; a regulatory submission in the United States is planned for 2012.

Zelboraf (metastatic melanoma, BRIM3* study) | This phase III study presented at ASCO showed that Zelboraf (vemurafenib, RG7204) significantly improved overall survival in people with previously untreated BRAF V600 mutation-positive metastatic melanoma, compared with chemotherapy. In the study, the risk of death was reduced by 63% for people who received Zelboraf, compared with those who received chemotherapy. In addition, Zelboraf significantly reduced the risk of the disease getting worse by 74% compared with chemotherapy, and also led to significant tumour shrinkage, an important result for this devastating cancer.

Vismodegib (basal cell carcinoma, ERIVANCE study) | This pivotal phase II study showed positive results in people with advanced basal cell carcinoma (BCC) for whom surgery was considered inappropriate. BCC is a form of skin cancer that can cause disfiguring and debilitating effects and can ultimately be life-threatening. Vismodegib is an investigational, oral medicine designed to selectively inhibit signalling in the Hedgehog pathway, which is implicated in more than 90% of BCC cases. Roche is discussing these results with global regulatory authorities.

Lucentis (diabetic macular edema – two studies, RISE and RIDE) | 24-month results from the two pivotal phase III trials (RISE and RIDE) assessing the efficacy and safety of Lucentis (ranibizumab injection) in people with diabetic macular edema (DME) were presented at the American Diabetes Association 71st Scientific Sessions, 24–28 June in San Diego. The studies showed that patients who received Lucentis experienced significant, rapid and sustained improvement in vision compared with those who received placebo (sham) injections. Additional analyses showed patients who received Lucentis were significantly more likely to achieve 20/40 vision and experience less progression of the underlying diabetic retinopathy disease. Genentech plans to file a supplemental biologics license application (sBLA) with the US Food and Drug Administration (FDA) for Lucentis in DME later this year.

Pertuzumab (HER2-positive metastatic breast cancer, CLEOPATRA* study) | In July, Roche reported that CLEOPATRA, a pivotal phase III study, met its primary endpoint. The study showed that people with HER2-positive metastatic breast cancer who received the combination of two targeted medicines, pertuzumab and Herceptin plus docetaxel chemotherapy lived significantly longer without their disease getting worse (progression-free survival, PFS) than people who received only Herceptin and docetaxel.

Important proof-of-concept studies

In addition, several important phase II proof-of-concept studies delivered positive results in the first half of 2011, including:

MetMAb* in advanced metastatic NSCLC – phase II data presented at ASCO – decision taken to start phase III development | MetMAb is a unique investigational antibody designed to target Met, a protein (or receptor) associated with poor outcome in many cancers. The phase II data presented at ASCO showed that people with non-small cell lung cancer (NSCLC) whose tumours had high levels of Met, as determined by Roche's tissue-based companion diagnostic, lived twice as long without their disease getting worse when they received MetMAb plus Tarceva (erlotinib), compared with Tarceva alone. Roche plans to start a phase III study later this year.

T–DM1* vs. Herceptin+docetaxel in 1st line HER2-positive metastatic breast cancer – final phase II data to be presented at ESMO | This phase II trial, known as TDM4450g, compared trastuzumab emtansine (T–DM1), Herceptin with the chemotherapy covalently bound to it, as a single agent with the combination of individual Herceptin (trastuzumab) and chemotherapy (docetaxel) in previously untreated patients. The results showed that patients treated with T–DM1 lived significantly longer with their disease under control (PFS) and experienced fewer side effects typical of chemotherapy. Roche has submitted this data for presentation at the 36th Congress of the European Society of Medical Oncology (ESMO) to be held 23–27 September 2011 in Stockholm.

GA101 vs. MabThera in relapsed indolent NHL – phase II data to be presented at ASH – phase III front-line studies started | Final results from a phase II study comparing single-agent GA101, a next-generation anti-CD20 antibody, with single-agent MabThera/Rituxan in patients with relapsed indolent non-Hodgkin's lymphoma (NHL) became available in the first half of 2011. The study, known as GAUSS, showed a positive efficacy signal for GA101 vs. MabThera/Rituxan, resulting in the start of two phase III registration trials in first-line diffuse large B-cell lymphoma (DLBCL) and first-line indolent NHL. The phase III programme also includes ongoing phase III studies which are assessing GA101 in chronic lymphocytic leukemia and relapsed/refractory indolent NHL. The final data from GAUSS will be submitted for presentation at the American Society of Hematology (ASH) annual meeting (San Diego, December 10–13, 2011).

Lebrikizumab* in asthma – phase II data to be presented at ERS – decision taken to start phase III development | Lebrikizumab is a monoclonal antibody targeting interleukin-13, a messenger substance in the body that is thought to trigger inflammation in asthmatic patients. In the first half of 2011, results became available from MOLLY, a phase II randomised, double-blind, placebo-controlled, dose-ranging study designed to evaluate lebrikizumab in adult asthma patients who are not taking inhaled corticosteroids. Based on these positive results, Roche has decided to move lebrikizumab into phase III studies, which are expected to start in 2012. MOLLY and the supporting MILLY study were submitted for presentation at the European Respiratory Society annual congress (Amsterdam, September 24–28, 2011).

Six of the studies* mentioned above include the use of a Roche companion diagnostic to better tailor treatment to the patient population of interest. This underlines the significant progress Roche is making in personalised healthcare for the benefit of patients and more effective healthcare delivery.

As of 30 June 2011, the Pharmaceuticals Division's clinical development portfolio (phase I to III and registration) includes 66 new molecular entities and 41 additional indications. In the second quarter of 2011 seven projects entered phase I, five entered phase II, and two entered phase III development. Furthermore, two projects were discontinued (1 phase I, 1 phase II) and two were returned to the respective partner. Full details of the Group's pharmaceutical R&D pipeline are available at www.roche.com.

In May Roche and Merck entered into non-exclusive agreements to improve the treatment, diagnosis and awareness of hepatitis C in the United States. Roche and Merck will collaborate in promotional, educational and research and development activities. In July 2011, the companies extended the promotional and educational aspects of the agreements to Europe and the rest of the world.

Positive results in key clinical trials in the first half of 2011

Product	Indication	Trial (phase)	Outcome	Aim
Avastin	previously treated (recurrent), platinum-sensitive ovarian cancer, versus chemotherapy	OCEANS (III); ICON7 (III)	significantly improved PFS	potential new indication
Tarceva	advanced non-small cell lung cancer with EGFR-activating mutations, first-line treatment, versus chemotherapy; personalised medicine	EURTAC (III)	significantly improved PFS	potential new indication
Zelboraf (vemurafenib; RG7204, PLX4032)	previously untreated BRAF V600 mutation-positive metastatic melanoma, versus chemotherapy; personalised medicine	BRIM 3 (III)	significantly improved OS[1] and PFS[1]	registration
Vismodegib (RG3616)	advanced basal cell carcinoma, (open-label trial, single-arm)	ERIVANCE BCC (II/ SHH4476g)	objective response rate (tumour shrinkage)	registration
Lucentis	diabetic macular edema, compared with sham injection	RIDE, RISE (III), 2-yr data	rapid and sustained improvement in vision (significantly improved eye chart scores versus baseline)	potential new indication
Pertuzumab	HER2-positive metastatic breast cancer	CLEOPATRA (III)		registration
MetMAb (in combination with Tarceva)	2nd/3rd line NSCLC; investigational personalised medicine	OAM4558g (II)	significantly improved PFS; and OS	proof of concept
Trastuzumab emtansine (T–DM1)	HER2-positive metastatic breast cancer, first-line treatment, versus Herceptin plus chemotherapy; personalised medicine	TDM4450g (II)	significantly improved PFS	proof of concept
GA101 vs. MabThera	relapsed indolent NHL	(II)		proof of concept
Lebrikizumab	asthma; adult patients not taking, or inadequately controlled by, inhaled cortisosteroids; personalised medicine	(II)		proof of concept
Actemra/ RoActemra (tocilizumab)	moderate to severe rheumatoid arthritis; Actemra/RoActemra monotherapy (vs. combination Actemra & methotrexate)	ACT-RAY (IIIb)	efficacy (remission) and safety	additional data for label update

1 OS — overall survival; PFS — progression-free survival.

Regulatory and Commercial Milestones

Pharmaceuticals

As of 30 June 2011, Roche's Pharmaceuticals Division had received 9 major approvals this year in the EU countries, including Japan and the US, and had filed 4 new indications for established products and one new product, all of which will help drive growth in future (see tables on page 10). These include:

Avastin breast cancer label extended | In early July, the European Commission approved an extension to the Avastin (bevacizumab) EU breast cancer label. Avastin may now be used in combination with Xeloda (capecitabine) for the first-line treatment of women with metastatic breast cancer in whom other chemotherapy options, including taxanes and anthracyclines, are not considered appropriate. However, in the US after a hearing the US Food and Drug Administration's (FDA) Oncologic Drug Advisory Committee (ODAC) recommended that the approval of Avastin in metastatic breast cancer (mBC) be withdrawn. Both authorities had access, and referred to, the same clinical trials, but drew very different conclusions about Avastin, which has approval for treatment of breast cancer in over 80 countries. The ODAC's recommendation is not the final decision. Roche and the FDA's Center for Drug Evaluation and Research have the opportunity to submit documents summarising their position by July 28. Thereafter, the FDA Commissioner will make a final decision on whether Avastin should remain approved for mBC. No formal date has been set for that decision.

Filing for targeted melanoma therapy and companion test | In May, Roche submitted a new drug application in the United States and Europe for Zelboraf (also known as vemurafenib, RG7204 and PLX4032) for BRAF-mutated, metastatic melanoma. Roche has also submitted an application to the US authorities for a PCR-based companion diagnostic, the cobas 4800 BRAF V600 Mutation test.

Inflammatory and autoimmune treatments approved in new indications | In April, the US Food and Drug Administration (FDA) approved Actemra for the treatment of active systemic juvenile idiopathic arthritis (sJIA), a rare, debilitating condition affecting children. The use of RoActemra in sJIA has been given positive CHMP opinion in the EU. Also in April Rituxan received FDA approval as a treatment for two forms of anti-neutrophil cytoplasmic antibody (ANCA)-associated vasculitis, a rare autoimmune disease.

Diagnostics

In the first half of 2011, Roche Diagnostics launched 26 major tests, delivering enhanced information for medical decision-making, and 7 new or upgraded instruments in key markets (see table on page 11). Highlights include:

Expanding offering in cervical cancer diagnostics | In April the FDA approved Roche's new HPV (human papillomavirus) molecular test. The test individually identifies the high-risk HPV genotypes 16 and 18, which are responsible for more than 70% of cervical cancers, and 12 others as a pooled result. The test thereby helps detect disease missed by current screening methods. Roche plans to expand its offering in this area by acquiring mtm laboratories AG (Germany), a tissue and cellular diagnostics company specialised in cervical cancer early detection. mtm's proprietary antibodies will complement Roche's HPV molecular test and tissue diagnostics portfolio to help physicians identify cancer precursors and high-grade disease. The transaction is expected to close in the coming weeks.

HER2 biomarker test for personalised healthcare | In June Roche received FDA approval for its HER2 Dual ISH test. It is the first fully automated ISH assay able to detect both the HER2 gene and chromosome 17 on a single tissue slide and determine HER2 gene status within the morphological context of the tumour. This enables verifying whether a breast cancer patient is HER2-positive and thus likely to respond to therapy with Herceptin.

Vitamin D total adds to large immunoassay menu | In mid-May Roche launched its Vitamin D total test in countries that recognise the CE mark[1], expanding its menu of over 90 immunoassays for the cobas family of fully automated modular analysers. Roche's assay uses a protein-binding mechanism to measure the amount of vitamins D2 and D3 in serum and plasma with high precision and speed.

1 Certification that an *in vitro* diagnostic product complies with all requirements for use in the European Union.

Pharmaceuticals Division – Major regulatory approvals in the first half of 2011[1]

Product	Clinical data supporting filing	Indication	Country
Avastin in combination with Xeloda		metastatic breast cancer	EU
Actemra	LITHE (2-year data)	rheumatoid arthritis, reduction or inhibition of progression of joint damage and improvement of physical function	USA
	TENDER	systemic onset juvenile idiopathic arthritis	USA (EU – positive CHMP)
Herceptin	ToGA	advanced HER2-positive stomach cancer in patients who are not candidates for curative surgery	Japan
MabThera/Rituxan	PRIMA	advanced follicular lymphoma, first-line maintenance following induction treatment with Rituxan/MabThera plus chemotherapy	USA
	RAVE	WG/MPA (Wegener's Granulomatosis and Microscopic Polyangiitis), 2 severe forms of ANCA-associated vasculitis	USA
Tarceva	SATURN	non-small cell lung cancer, first-line maintenance after chemotherapy	China
Xeloda	data in the public domain	advanced or recurrent stomach cancer in patients who are not candidates for curative surgery	Japan
	XELOXA	adjuvant colon cancer, combination with oxaliplatin	Switzerland

1 Includes additional indications.

Pharmaceuticals Division – Major regulatory filings in the first half of 2011[1]

Product	Clinical data supporting filing	Indication	Country
Avastin	ICON-7, GOG 218	metastatic ovarian cancer	Switzerland
Herceptin	NOAH	neoadjuvant breast cancer	EU
MabThera	RAVE	ANCA-associated vasculitis	Switzerland
RoActemra	TENDER	systemic onset juvenile idiopathic arthritis	Switzerland
Zelboraf (vemurafenib)	BRIM 2, BRIM 3	BRAF-mutated metastatic melanoma	EU, USA, Switzerland, Australia, New Zealand, Brazil

1 Includes additional indications.

Diagnostics Division – Major launches in the first half of 2011

Product name	Product description	Market	Quarter
Professional Diagnostics			
cobas c 702	clinical chemistry module with throughput of 2,000 tests/hour, part of the cobas 8000 modular analyser series for high-volume laboratories	EU	Q1
5 immunoassays			
– Vitamin D total	measures vitamins D2 and D3 with high precision	EU	Q2
– HBsAg quant	measures hepatitis B viral load for therapy monitoring	EU	Q1
– HE4	biomarker: enhances detection of early ovarian cancer	EU	Q1
– hGH	supports diagnosis of human growth hormone disorders	EU, US	Q1–2
– CMV Avidity	helps distinguish primary/non-primary cytomegalovirus infections in pregnancy	EU	Q1
Molecular Diagnostics			
5 molecular tests			
– HPV	detects high-risk human papillomavirus (HPV) genotypes 16 and 18 individually and 12 others as a pooled result	US	Q2
– MPX 2.0	blood screening test: detects HIV, HCV and HBV with increased sensitivity	EU	Q2
– CMV	first fully automated test to monitor cytomegalovirus infections	EU	Q1
– DPX	detects parvovirus B19 and HAV simultaneously in human plasma	US	Q1
– HIV-1 2.0	dual test, detects two HIV subtypes with enhanced reliability	EU	Q2
Applied Science			
LightCycler Nano	compact instrument for real-time PCR analysis enabling 32 samples per run; low-throughput type of the LightCycler instrument series	WW	Q2
GS FLX+	upgraded sequencing instrument and kit enabling extended read lengths of up to 1,000 base pairs	WW	Q2
GS GType HLA Primer Sets	for HLA genotyping on the GS Junior and GS FLX sequencing systems	WW	Q1
SeqCap EZ Choice	microarray: tool to prepare DNA samples for sequencing studies	WW	Q1
Tissue Diagnostics			
HER2 Dual ISH	dual colour probe ISH assay: supports the diagnosis of breast cancer	US	Q2
IHC Primary Antibodies	14 new antibodies for oncology testing including anti-ERG (prostate cancer) and anti-DOG1 (gastrointestinal cancer)	EU, US	Q1–2
OptiView	next-generation detection system for BenchMark instruments: improves visualisation in IHC assays and reduces test time	EU, US	Q2
Ultimate Reagent Access	expedited tissue slide processing providing greater throughput and reduced test time	EU, US	Q2
Virtuoso	next-generation software for viewing, managing and sharing digital tissue images	EU, US	Q1–2
iScan Coreo Au	high-speed scanner for digitisation of tissue slides with superior image quality	EU	Q2

black type = new product/first market launch, grey type = new product/launch in additional markets.
EU = European Union; US = United States; WW = worldwide.

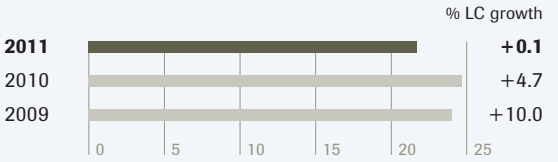
DOG1 = discovered on GIST-1; ERG = ETS (E-twenty-six) related gene; GS = genome sequencer; HAV = hepatitis A virus; HBV = hepatitis B virus; HBsAg = hepatitis B surface antigen; HCV = hepatitis C virus; HE4 = human epididymis secretory protein E4; HIV = human immunodeficiency virus; HLA = human leucocyte antigen; IHC = immunohistochemistry; ISH = *in situ* hybridisation; PCR = polymerase chain reaction.

Finance

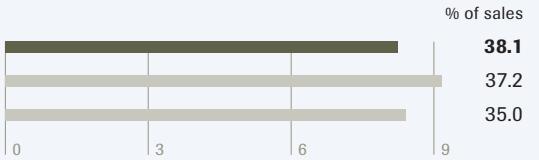
Financial Review

Group results

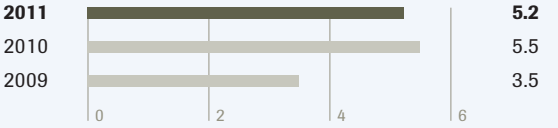
Sales | in billions of CHF



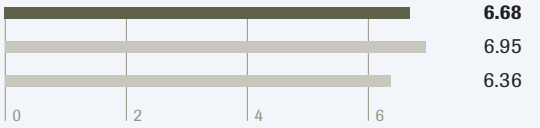
Core operating profit | in billions of CHF



Net income attributable to Roche shareholders | in billions of CHF



Core EPS | in CHF



The Roche Group's results for the first half of 2011 showed growth in net income of 10% in local currencies. This was driven by a solid operating performance, lower financing costs and a lower tax rate. Continued pressure on sales prices was compensated by increased sales volume. Operating costs decreased primarily as a result of the Operational Excellence programme announced in November 2010.

The strengthening of the Swiss franc against major currencies had a significant negative impact on the results expressed in Swiss francs. However the underlying currency translation exposure arising from non-Swiss franc revenues is mitigated by the majority of the Group's cost base being located outside Switzerland. In the first half of 2011 the Group's net income was 5.3 billion Swiss francs, an increase of 10% in local currencies, but a decrease of 5% when translated into Swiss francs.

Core EPS, which excludes non-core items such as global restructuring charges and amortisation and impairment of intangible assets, increased by 10% in local currencies (decrease of 4% when translated into Swiss francs).

Sales

In the first half of 2011 sales were stable in local currencies (–12% in Swiss francs; +5% in US dollars) at 21.7 billion Swiss francs. Excluding Tamiflu, Group sales increased by 2% in local currencies. Sales in the Pharmaceuticals Division excluding Tamiflu rose 1% in local currencies. Demand for Herceptin, Lucentis, MabThera/Rituxan, Actemra/RoActemra, Activase/TNKase, Xolair, Xeloda and Mircera continued to grow strongly. This positive development was offset by various factors. Sales of Avastin were lower due to the regulatory and reimbursement uncertainty regarding the metastatic breast cancer indication. In addition the impacts of US healthcare reforms, European austerity measures and price cuts in Japan introduced in 2010, amounted to a reduction in sales of 509 million Swiss francs in the first half of 2011 compared to 292 million Swiss francs in the first half of 2010. Sales of CellCept continued to decline due to the generic erosion following patent expiry. The Diagnostics Division recorded sales of 4.9 billion Swiss francs, an increase of 5% in local currencies, thereby strengthening its leading market position. The major growth areas were Professional Diagnostics and Tissue Diagnostics.

Divisional operating results for the six months ended 30 June 2011

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	16,815	4,856	–	21,671
Core operating profit	7,385	1,063	(197)	8,251
– margin, % of sales	43.9	21.9	–	38.1
Operating profit	6,820	841	(201)	7,460
– margin, % of sales	40.6	17.3	–	34.4
Operating free cash flow	6,476	617	(237)	6,856
– margin, % of sales	38.5	12.7	–	31.6

Divisional operating results – Development of results compared to the six months ended 30 June 2010

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase in local currencies	–1	+5	–	0
Core operating profit				
– % increase in local currencies	+5	+5	0	+5
– margin: percentage point increase	+1.7	–0.4	–	+0.9
Operating profit				
– % increase in local currencies	+3	+3	+2	+3
– margin: percentage point increase	+0.7	–0.7	–	0.0
Operating free cash flow				
– % increase in local currencies	+24	+42	–5	+27
– margin: percentage point increase	+6.9	+2.1	–	+5.5

Core operating results

The Group expanded the presentation of its core results in 2010. Previously only Core EPS was shown, but now the full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. This allows a transparent assessment of both the actual results and the underlying performance of the business. The core concept is fully described on pages 61 to 64 and reconciliations between the IFRS and core results are given there.

On a core basis, the operating profit of the Group and the Pharmaceuticals Division increased by 5% in local currencies (–10% in Swiss francs) while sales in local currencies remained stable. The profit increase was driven by the Operational Excellence programme, further productivity improvements and resource prioritisation. The Operational Excellence programme led to a decline in marketing and distribution expenses and research and development costs. Further efficiency improvements in general and administration costs were more than offset by 80 million Swiss francs of expenses for the new Branded Pharmaceutical Product Fee in the US, part of the US healthcare reforms. Core operating profit in the Diagnostics Division increased by 5% in local currencies, mainly due to higher sales. The Group's core operating profit margin improved by 0.9 percentage points to 38.1% of sales, with the Pharmaceuticals Division increasing by 1.7 percentage points and Diagnostics Division decreasing by 0.4 percentage points. The strong Swiss franc had a negative effect on the margin developments of 0.9 percentage points on Group level, 1.0 percentage points for the Pharmaceuticals Division and 0.2 percentage points for the Diagnostics Division.

Operational Excellence

In November 2010 the Group announced the details of the Operational Excellence programme and the implementation of the programme is on track. The restructuring measures resulted in costs of 1.3 billion Swiss francs in 2010 and a further 0.4 billion Swiss francs in the first half of 2011. These further costs were incurred largely in the Pharmaceuticals Division for employee transfers and site closures and disposals. The site at Palo Alto, California, has been divested for a net gain of 45 million Swiss francs, while impairment charges of 117 million Swiss francs have been recorded in respect of the imminent divestment of the site at Boulder, Colorado. The Group has announced that it will not divest the chemical production facility in Florence, South Carolina, given the unfavourable market for chemical production assets and the Group's expected future capacity requirements for small molecules.

East Japan Earthquake

The earthquake on 11 March 2011 damaged the Chugai production plant at Utsunomiya and temporarily interrupted the supply of certain Diagnostics products from third party suppliers. To date the earthquake has not had a material impact on the Group's results, in particular sales in Japan have not been materially affected. It is expected that almost all of the production facilities at the Utsunomiya plant will be fully operational again from August 2011. Total costs incurred for write-offs of property, plant and equipment and inventories at Chugai in the first half of 2011 were 64 million Swiss francs.

Treasury and taxation

Financial income was 0.4 billion Swiss francs, an increase of 24% mainly due to foreign currency devaluation effects in Venezuela in the first half of both 2011 and 2010. Financing costs were 1.2 billion Swiss francs, a decrease of 0.3 billion Swiss francs, with interest costs being 9% lower in local currencies as debt is repaid. Tax expenses were lower by 17% at 1.4 billion Swiss francs and the Group's effective core tax rate decreased to 22.0% compared to 23.8% in the first half of 2010 mainly due to the enactment of the US research and development tax credit and a lower tax rate in Basel, Switzerland.

Free cash flow

The Group's operating free cash flow increased to 6.9 billion Swiss francs. The increase of 27% in local currencies (+7% in Swiss francs) was driven by the strong operating performance and a relatively smaller increase in net working capital compared to the first half of 2010 more than compensating for the cash costs of the Operational Excellence programme. The free cash flow in the interim period of 2011 was an outflow of 1.0 billion Swiss francs compared to 1.6 billion Swiss francs in the comparative period, with the main factor being the annual dividend payment of 5.7 billion Swiss francs (5.2 billion Swiss francs in 2010). The improvement was primarily due to a higher operating free cash flow and lower tax payments, partly offset by the higher dividend payment. The Group continued to pay down the debt issued in the first half of 2009 to finance the Genentech transaction, with a further 3.1 billion Swiss francs of bonds and notes repaid in the first half of 2011.

Pharmaceuticals operating results

Pharmaceuticals Division sales declined by 1% in local currencies (–13% in Swiss francs; +4% in US dollars) to 16.8 billion Swiss francs. Excluding Tamiflu, local currency sales increased by 1%, as growth in the underlying business offset lower sales of Avastin, CellCept and Bonviva/Boniva and the negative impacts of the healthcare reforms in the US, austerity measures in Europe and price cuts in Japan. Core operating profit grew 5% in local currencies (–10% in Swiss francs) to 7.4 billion Swiss francs. The core operating profit margin for the Pharmaceuticals Division further increased by 1.7 percentage points driven by the growth of the underlying business and Operational Excellence cost savings. Exchange rate movements had a negative effect on the margin development of 1.0 percentage points.

In the first half of 2011 the Pharmaceuticals Division incurred non-core expenses of 0.4 billion Swiss francs for the Operational Excellence programme. Of this 0.2 billion Swiss francs relate to employee and reorganisation costs and 0.2 billion Swiss francs are site closure and divestment costs, notably for the manufacturing site at Boulder, Colorado. Further non-core expenses of 64 million Swiss francs were incurred as a result of the East Japan Earthquake.

Pharmaceuticals Division results for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (CHF)	% change (local currencies)
Sales	16,815	19,386	–13	–1
Royalties and other operating income	746	784	–5	+11
Cost of sales	(3,607)	(4,289)	–16	–6
Marketing and distribution	(2,665)	(3,292)	–19	–9
Research and development	(3,442)	(3,924)	–12	–2
General and administration	(462)	(477)	–3	+8
Core operating profit	**7,385**	**8,188**	**–10**	**+5**
– margin, % of sales	43.9	42.2	+1.7	+2.7
Operating profit	**6,820**	**7,731**	**–12**	**+3**
– margin, % of sales	40.6	39.9	+0.7	+1.6
Operating free cash flow	**6,476**	**6,123**	**+6**	**+24**
– margin, % of sales	38.5	31.6	+6.9	+8.0

Sales

Sales by therapeutic area | The major growth drivers were key products in the oncology, ophthalmology and inflammation/autoimmune/transplantation therapeutic areas. Sales in inflammation/autoimmune/transplantation increased with the continued success of MabThera/Rituxan in rheumatoid arthritis and the strong uptake of Actemra/RoActemra, more than offsetting the negative impact from the CellCept patent expiry in the United States and Western Europe. In virology, sales of Tamiflu continued to decline substantially. Sales in the renal anemia therapeutic area declined in a highly competitive market, and were negatively impacted by competition from biosimilars in Europe.

Pharmaceuticals Division – Sales by therapeutic area for the six months ended 30 June 2011

Therapeutic area	Sales (mCHF)	% of sales	% change (local currencies)
Oncology	9,804	58	+1
Inflammation/Autoimmune/Transplantation	1,421	9	+7
Virology	1,402	8	–25
Metabolism/Bone	1,064	6	–9
Ophthalmology	792	5	+36
Renal anemia	513	3	–11
Others	1,819	11	–1
Total	**16,815**	**100**	**–1**

Sales by product | Sales of the Top 20 Pharmaceuticals products, which represented 88% of the Pharmaceuticals portfolio, were overall at the same local currency level as the first half of 2010 with the majority of products showing sales growth. Local sales growth of the Pharmaceuticals Division was mainly from eight products: Herceptin, Lucentis, MabThera/Rituxan, Actemra/RoActemra, Activase/TNKase, Xolair, Xeloda and Mircera. The combined sales of these products grew at 12% in local currencies and represent 49% of the portfolio (excluding Tamiflu) and together generated, in local currencies, almost 1.0 billion Swiss francs of additional sales in the first half of 2011 compared to 2010.

MabThera/Rituxan | For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL) and rheumatoid arthritis (RA). Sales growth in the oncology franchise of 6% in local currencies was driven by the ongoing roll-out of the new first-line maintenance indication in follicular lymphoma approved in October 2010 in Europe and January 2011 in the US, and by further uptake in CLL. Sales growth of 10% in the International region, including key emerging markets, was mainly due to continued uptake for NHL indications. Sales growth in the RA franchise of 10% was attributable to increased use in patients with no or inadequate response to tumour necrosis factor (TNF) inhibitors.

Avastin | For advanced colorectal, breast, lung and kidney cancer, and for relapsed glioblastoma (a type of brain tumour). In the United States sales were down by 15% in local currencies, being affected by regulatory and reimbursement uncertainty regarding the metastatic breast cancer indication. Penetration rates in all other indications remained unaffected. In Western Europe, sales were down 10%, mostly due to austerity measures affecting all products, and some volume decline in the breast cancer indication. Sales growth of 12% was recorded in the International region. The business continues to develop Avastin for additional indications including ovarian cancer and glioblastoma which will help drive future growth. Encouraging results for ovarian cancer have been presented at this year's ASCO conference.

Herceptin | For HER2-positive breast cancer and HER2-positive metastatic (advanced) stomach cancer. Sales grew particularly strongly in the International region and Japan, with local currency growth of 24% and 14% respectively. Equivalent growth in the United States and Western Europe was 5% and 3% respectively. The growth was mainly due to expanded access in developing countries, increased HER2 testing and continued uptake in HER2-positive gastric cancer.

Lucentis | For wet age-related macular degeneration (AMD) and macular edema following retinal vein occlusion (RVO). Continued growth in the US of 32% in local currencies was driven by the new RVO indication, while the share of sales for AMD remained stable during the first half of 2011. The publication of results from the CATT study in late April comparing Lucentis with off-label Avastin in patients with wet AMD has so far had limited impact on Lucentis sales in wet AMD. Early research indicates marginal shifts in treatment from Lucentis to Avastin by some physicians. In May researchers from Johns Hopkins University presented a safety analysis of Medicare claims data on AMD treatments which highlighted potential systemic safety issues with Avastin as compared with Lucentis.

Pegasys | For hepatitis B and C, sales declined by 11% in local currencies. Patients are delaying the start of therapy in anticipation of combination therapies with Pegasys and new antivirals that became available in the US in late May and are expected soon in Europe. Pegasys is well positioned to be the foundation for triple combination therapy. In May 2011 Roche entered into non-exclusive agreements with Merck to improve the treatment, diagnosis and awareness of chronic hepatitis C (HCV) in the United States.

Other products | Actemra/RoActemra grew strongly in all regions in the first half of 2011, with overall sales almost doubling with an increase of 99%. Sales growth of the renal anemia medication Mircera could not fully offset lower sales of the established anemia medicines, Roche's NeoRecormon and Chugai's Epogin. CellCept sales declined in the US and Western Europe due to further generic erosion following patent expiry. Sales of Tamiflu were down by 58% as the unusually high pandemic sales in the first half of 2010 did not reoccur in the first half of 2011.

Pharmaceuticals Division – Sales of Top 20 products for the six months ended 30 June 2011

Product	Sales (mCHF)	% of sales	% change (local currencies)	Franchise
MabThera/Rituxan	3,056	18	+6	Oncology/IAT[1]
Avastin	2,726	16	–8	Oncology
Herceptin	2,716	16	+10	Oncology
Lucentis	769	5	+32	Ophthalmology
Pegasys	695	4	–11	Virology
Xeloda	668	4	+4	Oncology
Tarceva	614	4	+4	Oncology
CellCept	538	3	–14	IAT[1]
NeoRecormon/Epogin	493	3	–20	Renal anemia/Oncology
Bonviva/Boniva	394	2	–17	Metabolism/Bone
Xolair	300	2	+11	Respiratory diseases
Valcyte/Cymevene	282	2	+9	Virology
Actemra/RoActemra	277	2	+99	IAT[1]
Tamiflu	262	1	–58	Virology
Pulmozyme	247	1	+8	Respiratory diseases
Activase/TNKase	231	1	+21	Cardiovascular diseases
Nutropin	169	1	+4	Metabolism/Bone
Madopar	150	1	+7	Central nervous system
Mircera	138	1	+25	Renal anemia
Neutrogin	135	1	–14	Oncology
Total Top 20 products	**14,860**	**88**	**0**	
Other products	1,955	12	–10	
Total	**16,815**	**100**	**–1**	

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 still resulted in unusually high pandemic sales for Tamiflu in the first half of 2010, particularly in the International region and Japan. Therefore the following comments focus on the business excluding Tamiflu. Sales in the US increased by 2% in local currencies. There was strong growth in US sales of Lucentis, MabThera/Rituxan, Actemra, Activase/TNKase and Xolair, which together contributed 6 percentage points to the growth. This was in particular offset by a 15% decline in Avastin US sales a result of regulatory and reimbursement uncertainty regarding the metastatic breast cancer indication, which had a negative impact on growth of 3 percentage points. In addition the US healthcare reforms had a negative impact on first half sales of 144 million US dollars (131 million Swiss francs) through increased rebates, affecting all major products, compared to 122 million US dollars (132 million Swiss francs) in the first half of 2010. Sales in Western Europe decreased overall by 4% driven by the European austerity measures with an impact of 164 million euros (208 million Swiss francs) compared to 39 million euros (56 million Swiss francs) in the first half of 2010. There were also lower sales of Avastin (metastatic breast cancer indication), NeoRecormon (price, competition) and CellCept (generic erosion following patent expiry). On the positive side there were sales increases in Western Europe through the uptake of Actemra/RoActemra and strong MabThera/Rituxan and Herceptin sales. Asia–Pacific and Latin America showed strong growth driven by Herceptin, MabThera/Rituxan, Avastin, Xeloda and Actemra. Sales in Japan decreased by 1% as the continued success of Avastin, Actemra/RoActemra and Herceptin could not fully outweigh the impact from biennial price cuts in Japan, which became effective 1 April 2010 (170 million Swiss francs in the first half of 2011 compared to 104 million Swiss francs in the first half of 2010). Sales in Japan were not materially affected by the East Japan Earthquake.

Pharmaceuticals Division – Sales by region for the six months ended 30 June 2011

Region	Sales (mCHF)	% of sales	% change (local currencies)	% change excluding Tamiflu (local currencies)
United States	6,285	37	+2	+2
Western Europe	4,299	26	–4	–4
Japan	1,831	11	–5	–1
CEMAI[1)]	1,566	9	–7	–6
Latin America	1,213	7	–6	+13
Asia–Pacific	1,108	7	+11	+16
Other regions	513	3	+6	+10
International	**4,400**	**26**	**–1**	**+6**
– *of which China*	*460*	*3*	*+33*	*+33*
Total	**16,815**	**100**	**–1**	**+1**

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

Operating results

Royalties and other operating income | The increase of 11% in local currencies was due to higher income from out-licensing agreements and from product disposals. This mainly came from the disposal of Laroxyl rights for certain markets and income from several milestones. These one-time items were partly offset by lower royalty income.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Royalty income	560	691	–5
Income from out-licensing agreements	93	35	+204
Income from disposal of products and other	93	58	+78
Total – IFRS and Core basis	**746**	**784**	**+11**

Cost of sales | Costs on a core basis decreased by 6% in local currencies mainly as a result of lower royalty expenses. As a percentage of sales, cost of sales declined to 21.5% (2010: 22.1%). The 2% decrease in manufacturing cost of goods sold and period costs was mainly due to productivity improvements, partially offset by product mix effects and start-up activities for product launches. Royalty expenses were 14% lower driven by lower royalty expenses related to sales of Tamiflu, Avastin, Bonviva/Boniva and CellCept, partially offset back royalty expenses of 105 million Swiss francs related to the Rituxan arbitration (see Note 10 to the Interim Financial Statements). Expenses from collaboration agreements with Biogen Idec, Novartis and Astellas in the US and profit-sharing agreements decreased in local currencies, in part due to an estimated 40 million Swiss francs that would be recoverable in respect of the Rituxan arbitration mentioned above. Costs of 78 million Swiss francs were recorded for the Operational Excellence programme. In addition, due to the earthquake in Japan, 60 million Swiss francs of costs were reported for impairments, repairs and maintenance of plants and write-offs of raw materials and intermediates at Chugai.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(2,133)	(2,405)	–2
Royalty expenses	(792)	(1,031)	–14
Collaboration and profit-sharing agreements	(685)	(854)	–6
Restructuring expenses	1	2	–66
Impairment of property, plant and equipment	2	(1)	–
Cost of sales – Core basis	**(3,607)**	**(4,289)**	**–6**
Global restructuring – Operational Excellence	(78)	–	–
Amortisation of intangible assets	(69)	(80)	–3
Impairment of intangible assets	(32)	–	–
East Japan Earthquake	(60)	–	–
Total – IFRS basis	**(3,846)**	**(4,369)**	**–1**

Marketing and distribution | Core costs decreased in local currencies by 9% to 2.7 billion Swiss francs. As a percentage of sales, costs decreased by 1.2 percentage points to 15.8% (2010: 17.0%). The reduction of overall expenses was achieved through tight cost management and the savings from the Operational Excellence programme. Sales and marketing efforts focused on the oncology portfolio with the rollout of additional approved indications of Avastin and Herceptin and continued rollouts of Actemra/RoActemra in rheumatoid arthritis. Costs were also incurred for the continued support of Pegasys, Bonviva/Boniva in the US, and for emerging markets. The first half of 2010 also included a significant increase of bad debt provisions particularly in Southern Europe, while further such increases were not required in 2011. Non-core costs of 15 million Swiss francs were recorded as part of the Operational Excellence programme.

Pharmaceuticals Division – Marketing and distribution for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Marketing and distribution – Core basis	**(2,665)**	**(3,292)**	**–9**
Global restructuring – Operational Excellence	(15)	–	–
East Japan Earthquake	(1)	–	–
Total – IFRS basis	**(2,681)**	**(3,292)**	**–8**

Research and development | Core costs were further reduced by 2% in local currencies. There was a reduction in the underlying costs due to resource prioritisation and the savings from the Operational Excellence programme. Research and development costs as a percentage of sales were 20.5% compared to 20.2% in the first half of 2010. Increased investments in central nervous system (CNS) and virology were offset by lower life cycle investments in oncology, inflammation and metabolism. In addition the Pharmaceuticals Division spent 86 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. In total the division spent 3.5 billion Swiss francs on internal and purchased research and development from in-licensing and other alliance deals, representing 21.0% of sales. Operational Excellence costs of 61 million Swiss francs were recorded.

Pharmaceuticals Division – Research and development for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Research and development – Core basis	**(3,442)**	**(3,924)**	**–2**
Global restructuring – Operational Excellence	(61)	–	–
Amortisation of intangible assets	(8)	(10)	–10
Impairment of intangible assets	(32)	(102)	–65
Total – IFRS basis	**(3,543)**	**(4,036)**	**–2**

General and administration | Overall core costs increased by 8% in local currencies, mainly due to the new Branded Pharmaceutical Product Fee in the US, which had a cost impact of 80 million Swiss francs. Excluding this fee, local currency core costs decreased by 11%. General and administration expenses as a percentage of sales increased to 2.7% from 2.5%. In the first half of 2011 non-core costs in the general and administration area included costs of 204 million Swiss francs relating to Operational Excellence, which consists mainly of employee termination costs as well as a gain from the sale of the Palo Alto site of 45 million Swiss francs and impairment charges of 117 million Swiss francs in respect of the imminent divestment of the site at Boulder, Colorado. During the first half of 2010 expenses of 278 million Swiss francs were incurred relating to the Genentech integration.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Administration	(447)	(536)	–7
Restructuring expenses	(1)	–	–
Gains (losses) on disposal of property, plant and equipment	1	11	–91
Other general items	(15)	48	–
General and administration – Core basis	**(462)**	**(477)**	**+8**
Global restructuring – Operational Excellence	(204)	–	–
Global restructuring – Genentech transaction	–	(278)	–100
Alliances and business combinations	(2)	–	–
Legal and environmental settlements	–	13	–100
East Japan Earthquake	(3)	–	–
Total – IFRS basis	**(671)**	**(742)**	**+2**

Operating free cash flow

The Pharmaceuticals Division generated a strong operating free cash flow of 6.5 billion Swiss francs. This was an increase of 24% in local currencies compared to the first half of 2010 and of 6% when translated into Swiss francs. The positive development of underlying operating free cash flow is mainly a result of the strong operating performance. This was offset by significant cash outflows for the utilisation of provisions related to the Operational Excellence programme. In the first half of 2011, net working capital increased 0.9 billion Swiss francs. This was primarily due to payment of accrued liabilities related to bonus schemes and an increase in accounts receivable. The change in receivables was mainly driven by strong sales in June 2011 and sales growth in China, with smaller increases in many other countries. As a percentage of sales the division's operating free cash flow increased to 38.5% from 31.6%.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Operating profit	**6,820**	**7,731**	**+3**
– Depreciation, amortisation and impairment	851	822	+17
– Provisions	(220)	(54)	+377
– Equity compensation plans	143	87	+93
– Other	343	77	+427
Operating profit cash adjustments[1]	**1,117**	**932**	**+37**
(Increase) decrease in net working capital			
– Accounts receivable	(272)	(512)	–37
– Inventories	73	159	–45
– Accounts payable	(681)	(1,415)	–45
– Other	(14)	(43)	–66
Total (increase) decrease in net working capital	**(894)**	**(1,811)**	**–43**
Investments in property, plant and equipment	(481)	(676)	–22
Investments in intangible assets	(86)	(53)	+88
Operating free cash flow	**6,476**	**6,123**	**+24**
– as % of sales	38.5	31.6	

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 65.

Diagnostics operating results

The Diagnostics Division recorded sales of 4.9 billion Swiss francs in the first six months of 2011, growing 5% in local currencies (–8% in Swiss francs, +10% in US dollars), thereby strengthening its leading market position. Core operating profit increased by 5% in local currencies and, on translation, decreased by 9% in Swiss francs, to 1.1 billion Swiss francs. The core operating margin decreased by 0.4 percentage points, with exchange rate movements having a negative 0.2 percentage point effect on the margin development. The margin decline is driven by substantially lower royalty income and costs for major product launches, such as the cobas HPV test and investments in next-generation systems and products. Global restructuring expenses of 29 million Swiss francs were recorded for Operational Excellence, mainly relating to employee-related costs in Graz, Austria, and Burgdorf, Switzerland.

The Professional Diagnostics business area completed the acquisition of PVT (Germany and US), a market leader in automation and workflow solutions, for a purchase consideration of 117 million Swiss francs, to strengthen Roche's leading position in the laboratory business. On 19 July 2011 the Diagnostics Division announced an agreement to acquire mtm laboratories (Germany), which develops in vitro diagnostics for the detection and diagnosis of cancer with a focus on cervical cancer early detection, for a consideration of approximately 130 million euros in cash and up to approximately 60 million euros in contingent consideration arrangements.

Diagnostics Division results for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (CHF)	% change (local currencies)
Sales	4,856	5,250	–8	+5
Royalties and other operating income	50	94	–47	–41
Cost of sales	(2,052)	(2,284)	–10	+2
Marketing and distribution	(1,174)	(1,252)	–6	+7
Research and development	(431)	(433)	0	+11
General and administration	(186)	(204)	–9	+2
Core operating profit	**1,063**	**1,171**	**–9**	**+5**
– margin, % of sales	21.9	22.3	–0.4	–0.2
Operating profit	**841**	**947**	**–11**	**+3**
– margin, % of sales	17.3	18.0	–0.7	–0.4
Operating free cash flow	**617**	**557**	**+11**	**+42**
– margin, % of sales	12.7	10.6	+2.1	+3.7

Sales

The Diagnostics business grew at above-market rates, increasing by 5% in local currencies in the first half of 2011. This was led by Professional Diagnostics with 9% sales growth and Tissue Diagnostics with 16% sales growth.

Diagnostics Division – Sales by business area for the six months ended 30 June 2011

Business area	Sales (mCHF)	% of sales	% change (local currencies)
Professional Diagnostics	2,347	49	+9
Diabetes Care	1,329	27	+1
Molecular Diagnostics	544	11	+2
Applied Science	377	8	–4
Tissue Diagnostics	259	5	+16
Total	**4,856**	**100**	**+5**

Professional Diagnostics | Sales were up 9% led by above-market growth in immunoassays. Sales also grew above the market in the clinical chemistry and coagulation monitoring businesses. The launch of five new immunoassays, including Vitamin D total, and the roll-out of the cobas c702 clinical chemistry module strengthen the business to drive future growth.

Diabetes Care | Sales of blood glucose (bG) monitoring systems and insulin pumps grew by 1% in local currencies, due to the new generation of Accu-Chek bG monitoring systems and the Accu-Chek Combo, a combined insulin pump and bG meter. Sales in the US were negatively impacted by the pending launch of the latest Accu-Chek products with maltose-independent chemistry which is under regulatory review.

Molecular Diagnostics | Sales rose 2% in local currencies with the largest contribution coming from the HIV and HBV viral load tests. With the FDA's approval of the human papillomavirus (HPV) test in April 2011, the business entered one of the largest and fastest growing molecular testing segments. A chlamydia and gonorrhoea test currently under FDA review is expected to drive further sales growth in the United States.

Applied Science | The 4% decline in local currency sales was mainly due to the year-on-year effect of H1N1 influenza testing, with increasing competition in gene sequencing and flat research funding as contributing factors. The business has enhanced its offering with the new LightCycler Nano instrument and the new GS FLX+ sequencing system with extended read lengths. The Custom Biotech business, which offers over a thousand products for industrial use, continued its healthy growth.

Tissue Diagnostics | Sales rose 16% in local currencies, again substantially ahead of the market. Growth was driven by the expanding portfolio of tests for advanced staining (immunohistochemistry/IHC and *in situ* hybridisation/ISH), including fourteen new antibodies and a novel probe for HER2 ISH testing. The business expanded its market leadership with the launch of a digital scanner in Europe and system workflow upgrades for IHC/ISH automated testing including OptiView. This detection system improves sensitivity and visualisation in IHC assays, while enabling the detection of low expressed proteins, which will prove beneficial for future antibody assay development.

Sales by region | Sales continued to grow strongly in all regions. The sales in the E7 emerging markets (Brazil, Russia, India, China, South Korea, Mexico and Turkey) showed particularly strong growth performance of 14% in local currencies. In Diabetes Care, sales in the US, Turkey and North African countries were impacted by a challenging market environment, partly offset by increased sales in Asia–Pacific and Latin American countries. In the Asia–Pacific region, Applied Science sales decreased due to the non-recurrence of orders in the first half of 2010 related to swine flu tests.

Diagnostics Division – Sales by region for the six months ended 30 June 2011

Region	Sales (mCHF)	% of sales	% change (local currencies)
EMEA[1)]	2,469	51	+1
North America	1,196	24	+5
Asia–Pacific	615	13	+17
Latin America	323	7	+13
Japan	253	5	+8
Total	**4,856**	**100**	**+5**

1) Europe, Middle East and Africa.

Operating results

Royalties and other operating income | Income was 50 million Swiss francs, a decrease of 41% in local currencies driven by 52% lower royalty income. This is a result of patent expiration of the US TaqMan PCR patents in Molecular Diagnostics and higher royalty expense on royalty income due to payments to patent owners in Molecular Diagnostics (Idaho PCR patents) and in Professional Diagnostics (HCV Bioprocess patents).

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Royalty income	33	75	–52
Income from out-licensing agreements	12	14	–8
Income from disposal of products and other	5	5	+27
Total – IFRS and Core basis	**50**	**94**	**–41**

Cost of sales | Cost of sales increased by 2% in local currencies on a core basis due primarily to an increase in manufacturing cost of goods sold and period costs of 5% in local currencies. Previous cost reduction initiatives, such as the centralisation of logistics services, harmonisation of technical services practices and renegotiations of supplier contracts, continued to have a positive impact. This almost compensated for the higher depreciation and technical service costs for meter placements. The decrease in royalty expenses to 99 million Swiss francs was due to a decline in royalty expenses for licensed products from Chiron. Overall, the cost growth on a core basis was under proportional to sales growth resulting in a lower cost of sales ratio of 42.3%. Operational Excellence programme costs of 13 million Swiss francs were mainly due to employee-related costs in Graz and Burgdorf. Amortisation of product intangibles decreased by 2% in local currencies, as some intangible assets were fully amortised by the end of 2010.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Manufacturing cost of goods sold and period costs	(1,950)	(2,111)	+5
Royalty expenses	(99)	(173)	–36
Collaboration and profit-sharing agreements	(1)	–	–
Impairment of property, plant and equipment	(2)	–	–
Cost of sales – Core basis	**(2,052)**	**(2,284)**	**+2**
Global restructuring – Operational Excellence	(13)	–	–
Amortisation of intangibles assets	(187)	(217)	–2
Impairment of intangible assets	–	–	–
Total – IFRS basis	**(2,252)**	**(2,501)**	**+2**

Marketing and distribution | The increase of 7% in local currencies mainly reflects higher costs in Molecular Diagnostics, notably the launch costs for cobas HPV DNA test. Other activities in the first half of 2011 include increased marketing support for various workflow products in Tissue Diagnostics and near-patient solutions in Professional Diagnostics. On a core basis, marketing and distribution costs as a percentage of sales were 24.1% compared to 23.8% in 2010.

Diagnostics Division – Marketing and distribution for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Marketing and distribution – Core basis	**(1,174)**	**(1,252)**	**+7**
Global restructuring – Operational Excellence	(1)	–	–
Amortisation of intangible assets	(2)	(2)	+17
Total – IFRS basis	**(1,177)**	**(1,254)**	**+7**

Research and development | Core costs increased by 11% in local currencies, driven by the development of the NewGen instrument and new personalised healthcare oncology tests in Molecular Diagnostics. In addition there were development costs for the new patch pump in Diabetes Care. As a percentage of sales, research and development costs increased to 8.9% from 8.2% in 2010.

Diagnostics Division – Research and development for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Research and development – Core basis	**(431)**	**(433)**	**+11**
Global restructuring – Operational Excellence	(10)	–	–
Amortisation of intangible assets	(1)	(2)	–61
Impairment of intangible assets	–	–	–
Total – IFRS basis	**(442)**	**(435)**	**+13**

General and administration | Costs increased by 2% in local currencies on a core basis. The cost increase in administration of 3% in local currencies was partly compensated by the restructuring expenses of 6 million Swiss francs in the first half of 2010. As a percentage of sales, costs declined by 0.1 percentage points to 3.8%.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Administration	(163)	(176)	+3
Restructuring expenses	–	(6)	–100
Gains (losses) on disposal of property, plant and equipment	–	–	–
Other general items	(23)	(22)	+15
General and administration – Core basis	**(186)**	**(204)**	**+2**
Global restructuring – Operational Excellence	(5)	–	–
Alliances and business combinations	(1)	(3)	–88
Legal and environmental settlements	(2)	–	–
Total – IFRS basis	**(194)**	**(207)**	**+4**

Operating free cash flow

The operating free cash flow of the Diagnostics Division was 617 million Swiss francs, an increase of 42% in local currencies and of 11% upon translation into Swiss francs. The main drivers were a 3% local currency increase in operating profit combined with a smaller increase in net working capital compared to the first half of 2010. Another important aspect was lower spending on property, plant and equipment compared to the previous year. Inventories increased driven by the growth of the Professional Diagnostics business and high inventory levels in Tissue Diagnostics at the end of June 2011. Accounts receivable increased mainly due to longer settlement times in Southern Europe. As a percentage of sales, operating free cash flow increased to 12.7% from 10.6% in 2010.

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

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Operating profit	**841**	**947**	**+3**
– Depreciation, amortisation and impairment	572	610	+7
– Provisions	(2)	25	–
– Equity compensation plans	14	11	+50
– Other	27	(38)	–
Operating profit cash adjustments[1]	**611**	**608**	**+16**
(Increase) decrease in net working capital			
– Accounts receivable	(287)	(235)	+39
– Inventories	(85)	(126)	–77
– Accounts payable	(11)	(79)	–80
– Other	(2)	(2)	+45
Total (increase) decrease in net working capital	**(385)**	**(442)**	**–15**
Investments in property, plant and equipment	(444)	(540)	–7
Investments in intangible assets	(6)	(16)	–61
Operating free cash flow	**617**	**557**	**+42**
– as % of sales	12.7	10.6	

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 65.

Corporate operating costs

General and administration | Costs were stable on a core basis in local currencies at 197 million Swiss francs. Operating free cash flow was a net outflow of 237 million Swiss francs (2010: net outflow of 254 million Swiss francs) driven by a relatively lower increase in net working capital and lower capital expenditures.

Corporate – General and administration for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (local currencies)
Administration	(185)	(188)	0
Restructuring expenses	–	–	–
Other general items	(12)	(12)	+2
General and administration – Core basis	**(197)**	**(200)**	**0**
Global restructuring – Operational Excellence	(4)	–	–
Total – IFRS basis	**(201)**	**(200)**	**+2**

Foreign exchange impact on operating results

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

Growth (reported in local currencies and Swiss francs) for the six months ended 30 June

	% change (local currencies) 2011	% change (local currencies) 2010	% change (CHF) 2011	% change (CHF) 2010
Sales	0	+5	–12	+3
Core operating profit	+5	+11	–10	+9

Exchange rates against the Swiss franc

	30 June 2011	Average to 30 June 2011	31 December 2010	Average to 30 June 2010
1 USD	0.83	0.91	0.94	1.08
1 EUR	1.20	1.27	1.24	1.44
100 JPY	1.03	1.11	1.15	1.18

In the interim period of 2011 the average rates for US dollar, the euro, the yen and all other major currencies were lower against the Swiss franc. For sales these developments resulted in a negative impact of 12 percentage points, or 3.0 billion Swiss francs, when translated into Swiss francs. However the currency translation exposure for the operating profit is mitigated by the Group having a majority of its cost base located outside Switzerland. Core operating profit decreased in Swiss francs by 10% compared to an increase of 5% in local currencies. This 15 percentage point negative swing is equivalent to 1.4 billion Swiss francs. The sensitivity of Group sales and core operating profit to a 1% movement in foreign currencies against the Swiss franc during the first half of 2011 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2011

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Core operating profit (mCHF)
US dollar	75	26
Euro	54	29
Japanese yen	21	8
All other currencies	56	35

Non-operating results

Non-operating results – Core basis for the six months ended 30 June

	2011 (mCHF)	2010 (mCHF)	% change (CHF)
Operating profit	**8,251**	**9,159**	**–10**
Associates	–	–	–
Financial income	373	302	+24
Financing costs	(1,165)	(1,508)	–23
Profit before taxes	**7,459**	**7,953**	**–6**
Income taxes	(1,638)	(1,891)	–13
Net income	**5,821**	**6,062**	**–4**
Attributable to			
– Roche shareholders	5,697	5,965	–4
– Non-controlling interests	124	97	+28

Non-operating results – IFRS basis

	2011 (mCHF)	2010 (mCHF)	% change (CHF)
Operating profit	**7,460**	**8,478**	**–12**
Associates	–	–	–
Financial income	373	302	+24
Financing costs	(1,165)	(1,508)	–23
Profit before taxes	**6,668**	**7,272**	**–8**
Income taxes	(1,409)	(1,707)	–17
Net income	**5,259**	**5,565**	**–5**
Attributable to			
– Roche shareholders	5,151	5,468	–6
– Non-controlling interests	108	97	+11

Financial income

Financial income was 373 million Swiss francs, an increase of 24%. Interest income and income from debt securities were 40 million Swiss francs and remained at low levels due to the low prevailing interest rates. The net foreign exchange result was a gain of 26 million Swiss francs compared to a loss of 81 million Swiss francs in 2010. The improvement is due to the foreign exchange gains of 42 million Swiss francs in Venezuela following the enactment of a law allowing the Group to benefit from pre-devaluation treatment for certain transactions. This contrasts to the first half of 2010 where the Group incurred losses of 22 million Swiss francs caused by the currency devaluation in Venezuela in January 2010. Net income from equity securities was 54 million Swiss francs, down by 33%. Expected returns on pension plan assets were 253 million Swiss francs, down 12% compared to 2010 mostly due to translation effects from the stronger Swiss franc. A full analysis of financial income is given in Note 4 to the Interim Financial Statements.

Financing costs

Financing costs were 1,165 million Swiss francs, a decrease of 343 million Swiss francs or 23% compared to 2010. The main driver was a decrease in interest expenses of 229 million Swiss francs, a decrease of 9% in local currencies or 23% in Swiss francs. This reflects both the continued repayment of the debt incurred to finance the Genentech transaction and a translation effect from the stronger Swiss franc. Financing costs also include 87 million Swiss francs for the loss on the repurchase of 962 million euros of notes that were due 4 March 2013. The comparative period in 2010 contained 144 million Swiss francs for the loss on early redemption of debt. The interest cost of pension plans was 288 million Swiss francs, a decrease of 14% compared to 2010, mostly due to translation effects from the stronger Swiss franc. A full analysis of financing costs is given in Note 4 to the Interim Financial Statements.

Income taxes

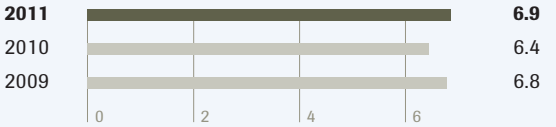
The Group's effective core tax rate decreased by 1.8 percentage points to 22.0% in the first half of 2011 (2010: 23.8%). The main reasons for the decrease of the effective tax rate were US research and development tax credit rules which were only enacted in the second half of 2010, a decrease of the statutory tax rate in Basel, Switzerland, and the relatively lower percentage profit contribution from higher tax jurisdictions. A tax benefit of 229 million Swiss francs was recorded for the non-core items described above compared to a tax benefit of 184 million Swiss francs in 2010. The increase was primarily due to the higher tax benefit from the Operational Excellence programme when compared to the 2010 tax benefit for the Genentech integration costs, as well as the tax effects of the costs resulting from the 2011 East Japan Earthquake.

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

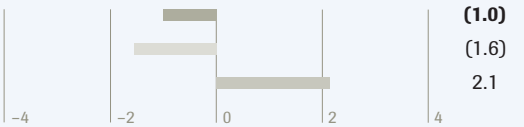
	2011			2010		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate – Core basis	**7,459**	**(1,638)**	**22.0**	**7,953**	**(1,891)**	**23.8**
Global restructuring	(391)	116	29.7	(278)	93	33.5
Intangible assets	(331)	113	34.1	(413)	135	32.7
Other	(69)	–	–	10	(44)	440.0
Group's effective tax rate – IFRS basis	**6,668**	**(1,409)**	**21.1**	**7,272**	**(1,707)**	**23.5**

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)
2011				
Operating profit	6,820	841	(201)	7,460
Operating profit cash adjustments	1,117	611	2	1,730
(Increase) decrease in net working capital	(894)	(385)	(38)	(1,317)
Investments in property, plant and equipment	(481)	(444)	–	(925)
Investments in intangible assets	(86)	(6)	–	(92)
Operating free cash flow	**6,476**	**617**	**(237)**	**6,856**
Treasury activities				(1,048)
Taxes paid				(1,086)
Dividends paid				(5,689)
Free cash flow				**(967)**
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)**

Operating free cash flow increased by 27% in local currencies. This was mainly due to the solid operating results and the non-recurrence of the large net working capital increases in 2010 caused by payments of certain large year-end 2009 accruals, notably for Tamiflu royalties and employee retention and severance schemes. This positive effect was partly offset by cash outflows for the utilisation of provisions related to the Operational Excellence programme.

The cash outflow from treasury activities improved slightly to 1.0 billion Swiss francs mostly due to lower interest payments. Total taxes paid in the first half of 2011 was 1.1 billion Swiss francs, a decrease of 0.5 billion Swiss francs compared to the interim period of 2010. This was due to lower tax payments at Chugai and in the US. Total dividends paid in 2011 were 5.7 billion Swiss francs, an increase of 0.5 billion Swiss francs compared to 2010, reflecting the 10% increase of the Roche Group dividend.

Free cash flow showed an outflow of 1.0 billion Swiss francs, a lower outflow by 0.6 billion Swiss francs compared to the first half of 2010. The improvement was primarily due to a higher operating free cash flow and lower tax payments, partly offset by the higher dividend payment. In local currencies, free cash flow improved by 83%.

Net debt | in millions of CHF

31 December 2010	
Cash and cash equivalents	1,841
Marketable securities	9,060
Long-term debt	(27,857)
Short-term debt	(2,201)
Net debt at beginning of period	**(19,157)**
Free cash flow for six months ended 30 June 2011	(967)
Transactions in own equity instruments	(455)
Business combinations, net of divestments of subsidiaries	(67)
Hedging and collateral arrangements	1,288
Currency translation, fair value and other movements	1,399
Net change in net debt	**1,198**
30 June 2011	
Cash and cash equivalents	2,050
Marketable securities	6,215
Long-term debt	(22,650)
Short-term debt	(3,574)
Net debt at end of period	**(17,959)**

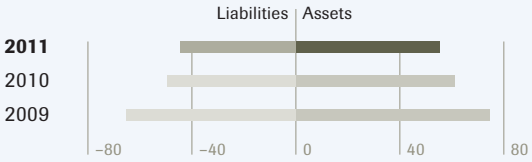
The net debt position of the Group is 18.0 billion Swiss francs, a decrease of 1.2 billion Swiss francs from 19.2 billion Swiss francs at 31 December 2010. The improvement was mainly due to a translation gain of 3.1 billion Swiss francs on consolidation of the total debt in the Group's US affiliates due to the US dollar being 11% weaker compared to the Swiss franc. This was partly offset by the negative free cash flow of 1.0 billion Swiss francs described above and an outflow of 0.5 billion Swiss francs from purchases of own equity instruments to cover the exposure from equity compensation plans issued to employees. During the interim period the Group received 1.3 billion Swiss francs from hedging and collateral agreements, which were set up following the financing of the Genentech transaction (see below). Total currency translation and fair value effects were 1.4 billion Swiss francs. These consist primarily of the 3.1 billion Swiss francs translation gain on consolidation referred to above and local foreign exchange losses of 1.4 billion Swiss francs arising from the non-US dollar debt in the Group's US affiliates. These losses offset the hedging and collateral cash inflow within total net debt (see Note 11 to the Interim Financial Statements for details).

As previously described in the 2010 and 2009 annual financial statements, when issuing the debt to finance the Genentech transaction, 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 2010 Annual Financial Statements). Collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. As the fair value of the derivative instruments moved up due to the weakening of the US dollar during the first six months of 2011, cash collateral of 0.8 billion Swiss francs was delivered to Roche. This increased the 31 December 2010 cash collateral balance in favour of Roche of 0.1 billion Swiss francs to 0.9 billion Swiss francs at 30 June 2011. 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 180 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 0.4 billion Swiss francs and relates mainly to hedges on the non-US dollar-denominated bonds and notes.

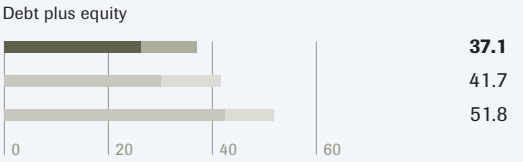
The redemption on due date of the 931 million US dollar floating rate notes, the early redemption of 1.0 billion US dollars of fixed rate notes and the repurchase through a tender offer of 1.0 billion euros of fixed rate notes contributed to the decline of 2.6 billion Swiss francs in liquid funds. However, this had no impact on the net debt position.

Balance sheet

Balance sheet | in billions of CHF



Capitalisation | in billions of CHF



2010 and 2009 per 31 December.

Condensed balance sheet

	30 June 2011 (mCHF)	31 December 2010 (mCHF)	% change
Property, plant and equipment	15,185	16,729	–9
Goodwill and intangible assets	11,714	12,855	–9
Other non-current assets	3,593	3,824	–6
Cash and marketable securities	8,265	10,901	–24
Other current assets	16,541	16,711	–1
Total assets	**55,298**	**61,020**	**–9**
Debt (current and non-current)	(26,224)	(30,058)	–13
Other non-current liabilities	(6,423)	(6,523)	–2
Other current liabilities	(11,805)	(12,777)	–8
Total liabilities	**(44,452)**	**(49,358)**	**–10**
Total net assets	**10,846**	**11,662**	**–7**
Capital and reserves attributable to Roche shareholders	8,830	9,469	–7
Equity attributable to non-controlling interests	2,016	2,193	–8
Total equity	**10,846**	**11,662**	**–7**
Debt	26,224	30,058	–13
Equity	10,846	11,662	–7
Capitalisation	**37,070**	**41,720**	**–11**

A full consolidated balance sheet is given on page 39 of the Interim Financial Statements.

Currency translation effects on balance sheet amounts | The strengthening of the Swiss franc against many currencies during the first half of 2011, notably against the US dollar and the euro led to a significant decrease in the Swiss franc values on the consolidated balance sheet. The US dollar and euro fell by 11% and 3% respectively against the Swiss franc in the first six months of 2011.

Non-current assets | Property, plant and equipment decreased by 9%, or 1.5 billion Swiss francs, with currency translation effects accounting for 1.1 billion Swiss francs of this decrease. In addition the disposal of the site at Palo Alto and the impairment of the Boulder site together accounted for a decrease of 0.3 billion Swiss francs. Goodwill and intangible assets also decreased by 9%, or 1.1 billion Swiss francs. Here currency translation effects had the major impact, of 1.0 billion Swiss francs, as the majority of goodwill and intangible assets are denominated in US dollars and many of the remainder are denominated in euros.

Current assets | The weakening of the US dollar and the euro reduced the total balances on consolidation expressed in Swiss francs. Accounts receivable increased by 0.6 billion Swiss francs as described in the operating free cash flow analysis in the divisional operating results. This was partly offset by the non-cash settlement of receivables with Greek government bonds reducing the balance by 0.3 billion Swiss francs. Inventories were stable and the carrying value of hedging derivative assets increased by 0.7 billion Swiss francs. Cash and marketable securities declined by 24% 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 13% or 3.8 billion Swiss francs to 26.2 billion Swiss francs. Redemption and repurchase of debt accounted for 3.1 billion Swiss francs of the decrease, partly offset by a temporary increase of 0.8 billion Swiss francs in commercial paper. Currency effects reduced debt in the consolidated balance sheet by 1.7 billion Swiss francs. A detailed reconciliation of the debt movements is provided in Note 11 to the Interim Financial Statements.

Other non-current and current liabilities | The overall balance decreased by 1.1 billion Swiss francs to 18.2 billion Swiss francs. Accounts payable decreased by 0.7 billion Swiss francs as described in the operating free cash flow analysis in the divisional operating results. There was a decrease of 0.5 billion Swiss francs in accrued interest payable, which was offset by an increase of 0.8 billion Swiss francs due to a higher collateral payable for the hedged positions discussed above in cash flows and net debt commentary. Again the weakening of the US dollar and the euro reduced the total Swiss franc balances on consolidation.

Total net assets/equity | The most significant movements in equity were the net income of 5.3 billion Swiss francs and the dividend payments of 5.7 billion Swiss francs. Overall capitalisation, being total debt plus equity, declined by 11%. Debt was lower due to repayments and equity was stable as the net income for the first six months offset the annual dividend.

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, 40% had already been repaid by 30 June 2011. This includes an early redemption of 1 billion US dollars of notes that were originally due 1 March 2014 on 24 March 2011 and 1.0 billion euros of notes originally due 4 March 2013 that were repurchased on 28 June 2011 following a tender offer.

The maturity schedule of the Group's bonds and notes outstanding at 30 June 2011 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 2011 by contractual maturity

	US dollar principal (mUSD)	Euro principal (mEUR)	UK Sterling principal (mGBP)	Swiss franc principal (mCHF)	Total[1] (mUSD)	Total[1] (mCHF)
2011	–	–	–	–	–	–
2012	–	–	–	2,500[2]	2,997	2,500
2013	–	4,288[2]	–	–	6,190	5,164
2014	1,750	–	–	–	1,750	1,460
2015	1,000	–	1,250[2]	–	3,008	2,510
2016	–	2,750[2]	–	–	3,970	3,312
2017–2020	4,500	–	–	1,500	6,298	5,254
2021 and beyond	3,000	1,750[2]	250	–	5,928	4,946
Total	**10,250**	**8,788**	**1,500**	**4,000**	**30,141**	**25,146**

1) Total translated at 30 June 2011 exchange rates.
2) The proceeds from these bonds and notes were swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from the ongoing business. In the full year 2010 the free cash flow was 4.7 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends. In the first half of 2011 free cash flow was an outflow of 1.0 billion Swiss francs, which includes 5.7 billion Swiss francs used for the payment of the annual dividend.

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 1.1 billion US dollars were outstanding as of 30 June 2011. 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

As at 30 June 2011 the Group has a net debt position of 18 billion Swiss francs (31 December 2010: 19 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 2011, Roche reduced its money market portfolio by 2.6 billion Swiss francs as the instruments matured or were sold.

Cash and marketable securities

	(mCHF)	30 June 2011 (% of total)	(mCHF)	31 December 2010 (% of total)
Cash and cash equivalents	2,050	25	1,841	17
Money market instruments	4,533	55	7,174	66
Bonds, debentures and other investments	1,385	17	1,614	15
Shares	297	3	272	2
Total cash and marketable securities	**8,265**	**100**	**10,901**	**100**

Credit risk | Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's 8.0 billion Swiss francs fixed income marketable securities remained strong with 98% being invested in the A-AAA range. As noted previously the Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 9.1 billion Swiss francs. Since the beginning of 2010 there have been increasing financial difficulties in certain Southern European countries, particularly Greece and Portugal. The Group is a leading supplier to the Greek and Portuguese healthcare sectors and has trade receivables with the public customers in these countries. The Group uses different measures to improve collections in these countries, including intense communication with customers, negotiations of payments plans, charging of interest for late payments, and legal action. The Group is also applying cash on delivery with some public hospitals in Greece.

In the second half of 2010 the Group accepted an offer made by the Greek government to settle 0.4 billion euros of trade receivables with zero coupon government bonds, redeemable between 2011 and 2013. Almost all bonds have been delivered by 30 June 2011. The Group has sold the vast majority of these bonds during the first six months of 2011. The remaining bonds have a carrying value of 36 million Swiss francs. The accounts receivables in scope of the bond settlement had already been provided for at 31 December 2010 to reflect the bond settlement terms when those had become available. The settlement terms implied a discount of 114 million euros, an average discount of 26%, included in the 2009 and 2010 results. During 2011 the total financial result on the trade receivables and zero coupon bonds in scope of the settlement was an income of 3 million Swiss francs. This includes interest income, gains and losses on sale of bonds, and an impairment of the remaining position to market value at 30 June 2011.

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 4.2 billion Swiss francs (31 December 2010: 4.5 billion Swiss francs, the decline being purely due to currency translation) of which 3.8 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 30 June 2011 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 2011 (mCHF)	31 December 2010 (mCHF)
VaR – Interest rate component	364	466
VaR – Foreign exchange component	31	44
VaR – Other price component	32	34
Diversification	(63)	(77)
VaR – Total	**364**	**467**

At 30 June 2011 the total VaR of the financial assets and liabilities was 364 million Swiss francs (31 December 2010: 467 million Swiss francs). The interest rate VaR decreased reflecting a stronger Swiss franc against the US dollar and the ageing of debt, the repayment of debt during the first half of 2011. 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 decreased due to lower exposures in emerging markets. The VaR for other price risk components, which arise mainly from movements in the prices of equity securities, basically remained stable. At 30 June 2011 the Group held equity securities with a market value of 0.5 billion Swiss francs (31 December 2010: 0.5 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 2010 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 2011 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

Several new and revised standards have been issued during 2011, which should be implemented by 2013. These are listed in Note 1 to the Interim Financial Statements. The Group is currently assessing the potential impacts of the various new and revised standards which the Group has not yet applied.

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 60.

Roche Group consolidated income statement for the six months ended 30 June 2011 | in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**16,815**	**4,856**	**–**	**21,671**
Royalties and other operating income [2]	746	50	–	796
Cost of sales	(3,846)	(2,252)	–	(6,098)
Marketing and distribution	(2,681)	(1,177)	–	(3,858)
Research and development [2]	(3,543)	(442)	–	(3,985)
General and administration	(671)	(194)	(201)	(1,066)
Operating profit [2]	**6,820**	**841**	**(201)**	**7,460**
Associates				–
Financial income [4]				373
Financing costs [4]				(1,165)
Profit before taxes				**6,668**
Income taxes [5]				(1,409)
Net income				**5,259**
Attributable to				
– Roche shareholders				5,151
– Non-controlling interests				108
Earnings per share and non-voting equity security				
Basic (CHF)				6.06
Diluted (CHF)				6.04

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	(742)	(207)	(200)	(1,149)
Operating profit [2]	**7,731**	**947**	**(200)**	**8,478**
Associates				–
Financial income [4]				302
Financing costs [4]				(1,508)
Profit before taxes				**7,272**
Income taxes [5]				(1,707)
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

As disclosed in Note 1, the income statement for interim period of 2010 has been restated following the accounting policy changes which were adopted in 2010. A reconciliation to the previously published income statement is provided in Note 1.

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

	Six months ended 30 June	
	2011	2010
Net income recognised in income statement	**5,259**	**5,565**
Other comprehensive income		
Available-for-sale investments	33	(22)
Cash flow hedges	(113)	(146)
Currency translation of foreign operations	132	(1,394)
Defined benefit post-employment plans	(162)	(362)
Other comprehensive income, net of tax	**(110)**	**(1,924)**
Total comprehensive income	**5,149**	**3,641**
Attributable to		
– Roche shareholders	5,258	3,377
– Non-controlling interests	(109)	264
Total	**5,149**	**3,641**

Roche Group consolidated balance sheet | in millions of CHF

	30 June 2011	31 December 2010
Non-current assets		
Property, plant and equipment	15,185	16,729
Goodwill [8]	7,117	7,722
Intangible assets [9]	4,597	5,133
Associates	13	13
Financial long-term assets	417	428
Other long-term assets	428	456
Deferred income tax assets	2,173	2,368
Post-employment benefit assets	562	559
Total non-current assets	**30,492**	**33,408**
Current assets		
Inventories	4,652	4,972
Accounts receivable	8,861	9,403
Current income tax assets	153	168
Other current assets	2,875	2,168
Marketable securities	6,215	9,060
Cash and cash equivalents	2,050	1,841
Total current assets	**24,806**	**27,612**
Total assets	**55,298**	**61,020**
Non-current liabilities		
Long-term debt [11]	(22,650)	(27,857)
Deferred income tax liabilities	(745)	(885)
Post-employment benefit liabilities	(4,391)	(4,367)
Provisions [10]	(982)	(934)
Other non-current liabilities	(305)	(337)
Total non-current liabilities	**(29,073)**	**(34,380)**
Current liabilities		
Short-term debt [11]	(3,574)	(2,201)
Current income tax liabilities	(2,314)	(2,037)
Provisions [10]	(1,697)	(2,146)
Accounts payable	(1,662)	(2,068)
Accrued and other current liabilities	(6,132)	(6,526)
Total current liabilities	**(15,379)**	**(14,978)**
Total liabilities	**(44,452)**	**(49,358)**
Total net assets	**10,846**	**11,662**
Equity		
Capital and reserves attributable to Roche shareholders	8,830	9,469
Equity attributable to non-controlling interests	2,016	2,193
Total equity	**10,846**	**11,662**

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

	Six months ended 30 June 2011	2010
Cash flows from operating activities		
Cash generated from operations [13]	9,598	10,564
(Increase) decrease in net working capital	(1,317)	(2,298)
Payments made for defined benefit post-employment plans	(165)	(155)
Utilisation of provisions	(563)	(370)
Disposal of products	51	20
Other operating cash flows	4	–
Cash flows from operating activities, before income taxes paid	**7,608**	**7,761**
Income taxes paid	(1,086)	(1,564)
Total cash flows from operating activities	**6,522**	**6,197**
Cash flows from investing activities		
Purchase of property, plant and equipment	(925)	(1,235)
Purchase of intangible assets	(92)	(69)
Disposal of property, plant and equipment	284	53
Disposal of intangible assets	–	–
Business combinations [6]	(71)	(178)
Divestments of subsidiaries	4	–
Interest and dividends received	17	38
Sales of marketable securities	18,934	26,740
Purchases of marketable securities	(15,992)	(17,164)
Other investing cash flows	50	78
Total cash flows from investing activities	**2,209**	**8,263**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [11]	–	–
Redemption and repurchase of bonds and notes [11]	(3,058)	(5,438)
Increase (decrease) in commercial paper [11]	846	193
Increase (decrease) in other debt	16	(23)
Hedging and collateral arrangements [11]	1,288	(2,711)
Equity contribution by non-controlling interests	–	14
Interest paid	(1,253)	(1,529)
Dividends paid	(5,689)	(5,214)
Equity-settled equity compensation plans, net of transactions in own equity instruments	(460)	(210)
Other financing cash flows	–	–
Total cash flows from financing activities	**(8,310)**	**(14,918)**
Net effect of currency translation on cash and cash equivalents	(212)	(5)
Increase (decrease) in cash and cash equivalents	**209**	**(463)**
Cash and cash equivalents at beginning of period	1,841	2,442
Cash and cash equivalents at end of period	**2,050**	**1,979**

As disclosed in Note 1, the statement of cash flows for the interim period of 2010 has been restated following the accounting policy changes which were adopted in 2010. The only change is that 'Disposal of products', totalling 20 million Swiss francs in the interim period of 2010, are now reported as operating rather than investing cash flows.

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
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 recognised in income statement	–	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**
Six months ended 30 June 2011								
At 1 January 2011	**160**	**14,550**	**174**	**(103)**	**(5,312)**	**9,469**	**2,193**	**11,662**
Net income recognised in income statement	–	5,151	–	–	–	5,151	108	5,259
Available-for-sale investments	–	–	35	–	–	35	(2)	33
Cash flow hedges	–	–	–	(113)	–	(113)	–	(113)
Currency translation of foreign operations	–	–	(20)	30	337	347	(215)	132
Defined benefit post-employment plans	–	(162)	–	–	–	(162)	–	(162)
Total comprehensive income	**–**	**4,989**	**15**	**(83)**	**337**	**5,258**	**(109)**	**5,149**
Dividends	–	(5,614)	–	–	–	(5,614)	(68)	(5,682)
Equity compensation plans, net of transactions in own equity instruments	–	(283)	–	–	–	(283)	–	(283)
Changes in non-controlling interests	–	–	–	–	–	–	–	–
Equity contribution by non-controlling interests	–	–	–	–	–	–	–	–
Other movements	–	–	–	–	–	–	–	–
At 30 June 2011	**160**	**13,642**	**189**	**(186)**	**(4,975)**	**8,830**	**2,016**	**10,846**

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 60.

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 2011 (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 2010 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on 20 July 2011.

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 is also presented.

Changes in accounting policies

Presentation of income statement | As described in the Annual Financial Statements, during 2010 the Group made certain presentational changes to the income statement. These changes are listed below:

- The term 'exceptional items' is no longer used in the financial statements.
- The income statement headings 'Major legal cases' and 'Changes in Group organisation' are no longer shown separately on the face of the income statement. Such income and expenses are included as part of 'General and administration'.
- The sub-total for 'Operating profit before exceptional items' is deleted as it is redundant.
- The income statement heading 'Exceptional financing costs' is no longer shown separately on the face of the income statement. Such income and expenses are included as part of 'Financial income' or 'Financing costs', as appropriate.
- The income statement heading 'Income taxes on exceptional items' is no longer shown separately on the face of the income statement. Such income and expenses are included as part of 'Income taxes'.

The income statement for the six-month period ended 30 June 2010 has been restated following the above changes as set out in the table below.

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

	As originally published	Reclassifications	Restated
Sales	**24,636**	**–**	**24,636**
Royalties and other operating income	878	–	878
Cost of sales	(6,870)	–	(6,870)
Marketing and distribution	(4,546)	–	(4,546)
Research and development	(4,471)	–	(4,471)
General and administration	(871)	(278)	(1,149)
Changes in Group organisation	(278)	278	–
Operating profit	**8,478**	**–**	**8,478**
Associates	–	–	–
Financial income	302	–	302
Financing costs	(1,508)	–	(1,508)
Profit before taxes	**7,272**	**–**	**7,272**
Income taxes	(1,800)	93	(1,707)
Income taxes on exceptional items	93	(93)	–
Net income	**5,565**	**–**	**5,565**

Improvements to IFRS: IAS 7 'Statement of Cash Flows' | As described in the Annual Financial Statements during 2010 the Group made a minor presentational change to the statement of cash flows. The only change is that 'Disposal of products', totalling 20 million Swiss francs in the interim period of 2010, are now reported as operating rather than investing cash flows. The statement of cash flows for the six months ended 30 June 2010 has been restated accordingly.

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

New and revised standards | During 2011 the following new standards were issued, which should be implemented at the latest by 2013:

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

In addition further revisions were issued to IFRS 9 'Financial Instruments'. The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be effective from 1 January 2012 and beyond, and which the Group has not yet applied.

2. Operating segment information

Divisional information | in millions of CHF

Six months ended 30 June	Pharmaceuticals 2011	Pharmaceuticals 2010	Diagnostics 2011	Diagnostics 2010	Corporate 2011	Corporate 2010	Group 2011	Group 2010
Revenues from external customers								
Sales	16,815	19,386	4,856	5,250	–	–	21,671	24,636
Royalties and other operating income	746	784	50	94	–	–	796	878
Total	**17,561**	**20,170**	**4,906**	**5,344**	**–**	**–**	**22,467**	**25,514**
Revenues from other operating segments								
Sales	–	2	5	7	–	–	5	9
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(5)	(9)
Total	**–**	**2**	**5**	**7**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	6,820	7,731	841	947	(201)	(200)	7,460	8,478
Capital expenditure								
Business combinations	–	–	123	257	–	–	123	257
Additions to property, plant and equipment	455	569	412	540	–	49	867	1,158
Additions to intangible assets	92	52	6	19	–	–	98	71
Total capital expenditure	**547**	**621**	**541**	**816**	**–**	**49**	**1,088**	**1,486**
Research and development								
Research and development costs	3,543	4,036	442	435	–	–	3,985	4,471
Other segment information								
Depreciation of property, plant and equipment	545	581	380	389	3	4	928	974
Amortisation of intangible assets	77	90	190	221	–	–	267	311
Impairment of property, plant and equipment	48	49	2	–	–	–	50	49
Impairment of goodwill	–	–	–	–	–	–	–	–
Impairment of intangible assets	64	102	–	–	–	–	64	102
Impairment of net assets-held-for-sale	117	–	–	–	–	–	117	–
Equity compensation plan expenses	151	129	18	17	6	6	175	152

Pharmaceuticals sub-divisional information | in millions of CHF

Six months ended 30 June	Roche Pharmaceuticals 2011	Roche Pharmaceuticals 2010	Chugai 2011	Chugai 2010	Pharmaceuticals Division 2011	Pharmaceuticals Division 2010
Revenues from external customers						
Sales	14,984	17,325	1,831	2,061	16,815	19,386
Royalties and other operating income	704	780	42	4	746	784
Total	**15,688**	**18,105**	**1,873**	**2,065**	**17,561**	**20,170**
Revenues from other operating segments						
Sales	435	700	101	88	536	788
Royalties and other operating income	11	8	24	22	35	30
Elimination of income within division					(571)	(816)
Total	**446**	**708**	**125**	**110**	**–**	**2**
Segment results						
Operating profit	6,616	7,614	306	326	6,922	7,940
Elimination of inter-divisional profit					(102)	(209)
Operating profit	**6,616**	**7,614**	**306**	**326**	**6,820**	**7,731**
Capital expenditure						
Business combinations	–	–	–	–	–	–
Additions to property, plant and equipment	368	492	87	77	455	569
Additions to intangible assets	85	52	7	–	92	52
Total capital expenditure	**453**	**544**	**94**	**77**	**547**	**621**
Research and development						
Research and development costs	3,178	3,663	375	389	3,553	4,052
Elimination of costs within division					(10)	(16)
Total	**3,178**	**3,663**	**375**	**389**	**3,543**	**4,036**
Other segment information						
Depreciation of property, plant and equipment	474	505	71	76	545	581
Amortisation of intangible assets	43	53	34	37	77	90
Impairment of property, plant and equipment	33	49	15	–	48	49
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	64	102	–	–	64	102
Impairment of net assets-held-for-sale	117	–	–	–	117	–
Equity compensation plan expenses	150	128	1	1	151	129

3. 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 2011 the Group's interest in Chugai was 61.6% (31 December 2010: 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 53 million Swiss francs (2010: 57 million Swiss francs) and have been recorded to equity. Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

East Japan Earthquake

On 11 March 2011 a severe earthquake and tsunami struck the Pacific coast of Tohoku, Japan. The consequences on Chugai's operations in Japan were limited. The impacts of this disaster have been carefully reviewed regarding operations, manufacturing processes and supply chain. Damage at Chugai's Utsunomiya manufacturing plant resulted in operations there being temporarily halted. Formulation, packaging and shipment functions have already resumed by the end of June, and it is expected that almost all other functions, including Active Pharmaceutical Ingredient (API) production for Actemra, will resume by August 2011. The costs recorded in the interim period for the damage caused by the earthquake, mainly relating to the Utsunomiya plant, totalled 64 million Swiss francs. These consisted of impairments and restoration costs for buildings and partially damaged facilities, write-offs of some intermediates and finished products and other costs during shutdown. These costs were recorded as shown below.

Global issues: East Japan Earthquake costs | in millions of CHF

	Six months ended 30 June 2011
Cost of sales	(60)
Marketing and distribution	(1)
Research and development	–
General and administration	(3)
Total	**(64)**

4. Financial income and financing costs

Financial income | in millions of CHF

	Six months ended 30 June 2011	2010
Gains on sale of equity securities	67	90
(Losses) on sale of equity securities	(4)	(3)
Dividend income	1	1
Gains (losses) on equity security derivatives, net	1	3
Write-downs and impairments of equity securities	(11)	(10)
Net income from equity securities	**54**	**81**
Interest income	43	31
Gains on sale of debt securities	21	1
(Losses) on sale of debt securities	(15)	(1)
Gains (losses) on debt security derivatives, net	–	–
Write-downs and impairments of long-term loans	(9)	–
Net interest income and income from debt securities	**40**	**31**
Expected return on plan assets of defined benefit plans	253	286
Foreign exchange gains (losses), net	(230)	288
Gains (losses) on foreign currency derivatives, net	256	(369)
Net foreign exchange gains (losses)	**26**	**(81)**
Net other financial income (expense)	–	(15)
Total financial income	**373**	**302**

Financing costs | in millions of CHF

	Six months ended 30 June 2011	2010
Interest expense	(765)	(994)
Amortisation of debt discount [11]	(18)	(26)
Gains (losses) on debt derivatives, net	–	(1)
Gains (losses) on redemption and repurchase of bonds and notes, net [11]	(89)	(144)
Time cost of provisions	(5)	(7)
Interest cost of defined benefit plans	(288)	(336)
Total financing costs	**(1,165)**	**(1,508)**

Net financial income | in millions of CHF

	Six months ended 30 June 2011	2010
Financial income	373	302
Financing costs	(1,165)	(1,508)
Net financial income	**(792)**	**(1,206)**
Financial result from Treasury management	(757)	(1,156)
Financial result from Pension management	(35)	(50)
Net financial income	**(792)**	**(1,206)**

5. Income taxes

Income tax expenses | in millions of CHF

	Six months ended 30 June 2011	2010
Current income taxes	(1,518)	(1,509)
Adjustments recognised for current tax of prior periods	17	13
Deferred income taxes	92	(211)
Total income tax (expense)/benefit	**(1,409)**	**(1,707)**

As disclosed in Note 1, the income statement heading 'Income taxes on exceptional items' is no longer shown separately on the face of the income statement. Such income and expenses are included as part of 'Income taxes'. Appropriate reclassifications have been made to the 2010 disclosures.

The Group's effective tax rate decreased by 2.4 percentage points to 21.1% in the first six months of 2011 (2010: 23.5%). The main reasons for the decrease of the effective tax rate were US research and development tax credit rules which were only enacted in the second half of 2010, a decrease of the statutory tax rate in Basel, Switzerland, and the relatively lower percentage profit contribution from higher tax jurisdictions.

The income tax benefits recorded in respect of equity compensation plans, which varies according to the price of the underlying equity, were 29 million Swiss francs (2010: 9 million Swiss francs). Had the income tax benefits been recorded solely on the basis of the IFRS 2 expense multiplied by the applicable tax rate, then benefits of approximately 58 million Swiss francs (2010: 50 million Swiss francs) would have been recorded.

6. Business combinations

Acquisitions – 2011

PVT | Effective 29 April 2011 the Group acquired a 100% controlling interest in the privately owned companies PVT Probenverteiltechnik GmbH, based in Waiblingen, Germany, and PVT Lab Systems, LLC, based in Atlanta, Georgia, in the United States (jointly 'PVT'). PVT is a global market leader in providing customised automation and workflow solutions for in-vitro diagnostic testing in large commercial and hospital laboratories. PVT is now reported as part of the Diagnostics operating segment. The acquisition complements and strengthens the Group's portfolio in the clinical diagnostics market. The total purchase consideration was 117 million Swiss francs of which 85 million Swiss francs was in cash, of which 8 million Swiss francs will be paid in the second half of 2011, and 32 million Swiss francs arises from a contingent consideration arrangement. The contingent payment from this arrangement is based on the achievement of performance-related milestones that may arise until the end of 2012 and the range of outcomes, undiscounted, is between 5 and 27 million euros. 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 2011 the amount recognised for this arrangement was unchanged based on the most recent management estimates.

The purchase consideration has been allocated as shown in the table below.

PVT acquisition – 2011: 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
Intangible assets			
– Product intangibles: in use	–	82	82
– Marketing intangibles	–	4	4
Inventories	11	–	11
Deferred income taxes	–	(26)	(26)
Cash	6	–	6
Other net assets (liabilities)	3	1	4
Net identifiable assets (liabilities)	**22**	**61**	**83**
Non-controlling interests			–
Goodwill			34
Purchase consideration			**117**

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

The fair value of other net assets (liabilities) includes receivables with a fair value of 9 million Swiss francs.

Acquisitions – 2011: 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					
PVT	2	–	(3)	(2)	(1)
Estimated impact on results if acquisition assumed effective 1 January 2011					
PVT	10	–	(7)	(5)	(4)

Acquisitions – 2011: net cash outflow | in millions of CHF

	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(77)	6	(71)

Future acquisitions | On 19 July 2011 the Group announced that it had entered into an agreement to acquire a 100% controlling interest in mtm laboratories AG ('mtm laboratories') for a purchase consideration of approximately 130 million euros in cash and up to approximately 60 million euros from contingent consideration arrangements. Based in Heidelberg, Germany, mtm laboratories is a privately held company that develops in vitro diagnostics for the detection and diagnosis of cancer with a focus on cervical cancer early detection. The transaction, which is subject to customary closing conditions, is expected to close in the third quarter of 2011. Upon completion mtm laboratories will be reported as part of the Diagnostics operating segment.

Acquisitions – 2010

Medingo | Effective 28 May 2010 the Group acquired a 100% controlling interest in Medingo Ltd. ('Medingo'), for a total purchase consideration of 210 million Swiss francs, of which 178 million Swiss francs was paid in cash and 32 million Swiss francs arose from a contingent consideration arrangement. This transaction is fully described in Note 7 to the Annual Financial Statements.

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

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

The accounting for the Marcadia acquisition, which was provisional at the end of 2010, was finalised during the first half of 2011. There were no adjustments made in 2011 to the provisional acquisition accounting reported in Note 7 to the Annual Financial Statements.

7. Global restructuring plans

Operational Excellence

On 17 November 2010 the Group announced details concerning the Operational Excellence global restructuring plan. The plan is aimed at adapting cost structures to an increasingly challenging market environment and achieving significant efficiency and productivity gains. The planned measures will enable sustained investment in research and product development and thus strengthen the Group's long-term innovation capability. Full details of the plan are described in Note 8 to the Annual Financial Statements.

Effective 13 June 2011 the Group completed the sale of the Palo Alto site to a third party. The consideration was 204 million Swiss francs in cash, of which 9 million Swiss francs will be paid in the second half of 2011 or early 2012. As a result a gain of 45 million Swiss francs was recorded in the first half of 2011 within general and administration expenses. The closure or transfer of the research and development activities to other Roche sites from Palo Alto was completed by the end of 2010.

As at 30 June 2011 the Group was in the final stages of negotiations with a potential buyer for the manufacturing site at Boulder, Colorado, and a sale was considered by management as being highly probable at that time. As of the date of approval of these financial statements, the transaction is expected to be completed during the third quarter of 2011. In the Group's consolidated balance sheet at 30 June 2011, the net assets being sold at Boulder are considered a disposal group and they have been written down to their fair value less costs to sell. As a result an impairment charge of 117 million Swiss francs was recorded in the results for the first half of 2011 within general and administration expenses, of which 99 million Swiss francs relates to property, plant and equipment, and a majority of the residual to inventories. The consideration under discussion would consist of certain contingent consideration arrangements based on the future performance of the site. Taking into account the impairment and the contingent consideration arrangements in the transaction, the disposal group has been fully written down.

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

Operational Excellence: restructuring costs | in millions of CHF

	Six months ended 30 June 2011	2010
Employee-related costs		
– Termination costs	41	–
– Pensions and other post-employment benefits	2	–
– Equity compensation plans: accelerated vesting expenses	–	–
– Other employee-related costs	11	–
Total employee-related costs	**54**	**–**
Site closure costs		
– Impairment of property, plant and equipment	35	–
– Accelerated depreciation of property, plant and equipment	32	–
– (Gains) losses on disposal of property, plant and equipment	(43)	–
– Environmental remediation costs	–	–
– Other site closure costs	31	–
Total site closure costs	**55**	**–**
Divestment of products and businesses		
– Impairment of net assets-held-for-sale	117	–
– (Gains) losses on divestment of businesses	–	–
Total costs on divestment of products and businesses	**117**	**–**
Impairment of intangible assets	–	–
Other reorganisation expenses	165	–
Total	**391**	**–**

Classification of Operational Excellence restructuring costs | in millions of CHF

Six months ended 30 June 2011	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales			
– Roche Pharmaceuticals	23	55	78
– Diagnostics	2	11	13
Marketing and distribution			
– Roche Pharmaceuticals	–	15	15
– Diagnostics	–	1	1
Research and development			
– Roche Pharmaceuticals	33	28	61
– Diagnostics	–	10	10
General and administration			
– Roche Pharmaceuticals	126	78	204
– Diagnostics	–	5	5
– Corporate	–	4	4
Total	**184**	**207**	**391**
Total by operating segment			
– Roche Pharmaceuticals	182	176	358
– Chugai	–	–	–
– Diagnostics	2	27	29
– Corporate	–	4	4
Total	**184**	**207**	**391**

Genentech transaction: restructuring and integration

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. 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 Roche's pharmaceuticals business, as described in Note 8 to the Annual Financial Statements. These restructuring activities were completed by the end of 2010.

Genentech transaction: restructuring and integration costs | in millions of CHF

	Six months ended 30 June 2011	2010
Employee-related costs		
– Termination costs	–	37
– Other retention plans and other employee benefits	–	6
– Other employee-related costs	–	52
Total employee-related costs	**–**	**95**
Site closure costs		
– Impairment of property, plant and equipment	–	20
– Accelerated depreciation of property, plant and equipment	–	40
– Other site closure costs	–	35
Total site closure costs	**–**	**95**
Other reorganisation expenses	–	88
Total, reported in General and administration expenses	**–**	**278**

8. Goodwill

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

Six months ended 30 June 2011	
At 1 January 2011	7,722
Business combinations [6]	34
Impairment charge	–
Currency translation effects	(639)
At 30 June 2011	**7,117**
Allocation by operating segment	
– Roche Pharmaceuticals	1,875
– Chugai	114
– Diagnostics	5,128
Total Group	**7,117**

There are no accumulated impairment losses in goodwill.

9. 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 2011					
At 1 January 2011	2,974	2,091	14	54	5,133
Business combinations [6]	82	–	4	–	86
Additions	30	68	–	–	98
Disposals	–	–	–	–	–
Transfers	3	(3)	–	–	–
Amortisation charge	(258)	–	(2)	(7)	(267)
Impairment charge	(32)	(32)	–	–	(64)
Currency translation effects	(235)	(153)	(1)	–	(389)
At 30 June 2011	**2,564**	**1,971**	**15**	**47**	**4,597**
Allocation by operating segment					
– Pharmaceuticals	444	1,485	–	30	1,959
– Chugai	244	–	–	–	244
– Diagnostics	1,876	486	15	17	2,394
Total Group	**2,564**	**1,971**	**15**	**47**	**4,597**

Classification of amortisation and impairment expenses | in millions of CHF

	Six months ended 30 June 2011		Six months ended 30 June 2010	
	Amortisation	Impairment	Amortisation	Impairment
Cost of sales				
– Pharmaceuticals	69	32	80	–
– Diagnostics	187	–	217	–
Marketing and distribution				
– Diagnostics	2	–	2	–
Research and development				
– Pharmaceuticals	8	32	10	102
– Diagnostics	1	–	2	–
General and administration				
– Pharmaceuticals	–	–	–	–
Total	**267**	**64**	**311**	**102**

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.

2011 | In the Pharmaceuticals operating segment an impairment charge of 64 million Swiss francs was recorded. An impairment charge of 32 million Swiss francs was recorded, which relates to a decision to stop development of a project acquired in a business combination that had been out-licensed to an alliance partner. The asset concerned, which had been partly amortised, was written down to its recoverable value of 29 million Swiss francs. A further charge of 32 million Swiss francs was recorded, resulting from portfolio prioritisation decisions on projects acquired separately or as part of a business combination. The assets concerned, which were not yet being amortised, were fully written down by these charges.

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.

10. Provisions and contingent liabilities

Provisions | in millions of CHF

	30 June 2011	31 December 2010
Legal provisions	671	781
Environmental provisions	247	261
Restructuring provisions	613	970
Employee provisions	244	253
Other provisions	904	815
Total provisions	**2,679**	**3,080**
Of which		
– Current portion	1,697	2,146
– Non-current portion	982	934
Total provisions	**2,679**	**3,080**

Payments in the interim period from previously recorded provisions totalled 563 million Swiss francs (2010: 370 million Swiss francs).

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.

Litigation | As described in Note 25 to the Annual Financial Statements, on 27 October 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis US LLC and Sanofi-Aventis US Inc. in the Northern District of California seeking a declaratory judgement that certain Genentech products, including Rituxan, do not infringe Sanofi's US Patents 5,849,522 and 6,218,140 and a declaratory judgement that the '522 and '140 patents are invalid. Also on 27 October 2008 Sanofi filed suit against Genentech and Biogen Idec in the Eastern District of Texas, Lufkin Division, claiming that Rituxan and at least eight other Genentech products infringe the '522 and '140 patents. Sanofi brought claims for preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. Genentech challenged the venue of the Texas case and, after an opinion by the Federal Circuit Court of Appeals, the Texas and California cases were consolidated in the Northern District of California. The District Court issued a claim construction order on 23 June 2010. Sanofi filed a motion for reconsideration that was denied. Genentech and Biogen Idec filed motions for summary judgment that Sanofi opposed. The Court heard these motions on 12 November 2010 and on 7 March 2011 ruled that as a matter of law Genentech and Biogen Idec do not infringe any of the asserted patent claims. On 18 May 2011 Sanofi filed a notice of appeal of the Court's non-infringement ruling and its claim construction order. The appeal is pending.

In addition on 24 October 2008 Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated agreement between one of Hoechst's predecessors and Genentech that pertained to the above patents and related patents outside the United States. Hoechst is seeking payments on royalties on sales of Genentech products, damages for breach of contract, and other relief. The ICC arbitration hearing was held on 30 August 2010 through 3 September 2010. In June 2011, the arbitrator issued an intermediate decision indicating that Rituxan is covered by the terminated agreement and ordering that Genentech produce certain Rituxan sales information from December 1998 to October 2008. The Group expects that the arbitrator will use this information to ascertain the amount of damages to be awarded to Hoechst. The Group has recorded an expense of 65 million Swiss francs in the interim results, net of the assumed reimbursement of a portion of the Group's obligation by its co-promotion partner in the US, Biogen Idec. This has been recorded within 'Cost of sales' as a back royalty expense and as a corresponding increase in accrued liabilities on the balance sheet. The amounts accrued represent management's best estimate of the compensatory damages, including interest, which may be awarded to Hoechst based on the financial terms of the terminated agreement. The final amount of the decision may vary from the amounts provided at 30 June 2011 if the nature and/or extent of the damages awarded to Hoechst differ from the Group's estimate or if Genentech successfully challenges the arbitrator's decision. On 11 July 2011 Genentech filed a Declaration of Appeal with the Court of Appeal of Paris to initiate legal proceedings challenging the arbitrator's decision.

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.

11. Debt

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

Six months ended 30 June 2011	
At 1 January 2011	30,058
Proceeds from issue of bonds and notes	–
Redemption and repurchase of bonds and notes	(3,058)
Increase (decrease) in commercial paper	846
Increase (decrease) in other debt	16
(Gains) losses on redemption and repurchase of bonds and notes, net	59
Amortisation of debt discount [4]	18
Foreign currency transaction (gains) losses, net	1,353
Currency translation effects and other	(3,068)
At 30 June 2011	**26,224**
Consisting of	
– Bonds and notes	24,929
– Commercial paper	926
– Amounts due to banks and other financial institutions	148
– Finance lease obligations	206
– Other borrowings	15
Total debt	**26,224**
Reported as	
– Long-term debt	22,650
– Short-term debt	3,574
Total debt	**26,224**

Foreign currency transaction losses of 1.4 billion Swiss francs are mainly related to the weaker US dollar compared to euro, Swiss franc and pound Sterling and occurred in Roche Holdings, Inc., the US holding company which is the issuer of most of the outstanding bonds and notes. These losses were recorded in the income statement, where they have been offset by gains on the hedging derivatives.

The reduction in debt of 3.1 billion Swiss francs from foreign currency translation is mainly due to an 11% decline of the US dollar compared to Swiss franc since 31 December 2010. This foreign currency translation gain occurred upon translating the debt issued by the Group's US affiliates into Swiss francs upon consolidation. The gain is recorded in equity within 'currency translation of foreign operations'.

Issuance of bonds and notes – 2011 and 2010

The Group did not issue any bonds or notes during the interim periods of 2011 and 2010.

Redemption and repurchase of bonds and notes – 2011

Redemption of US dollar-denominated notes | On the due date of 25 February 2011 the Group redeemed notes with a principal of 931 million 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 2.10%. The cash outflow was 862 million Swiss francs and there was no gain or loss recorded on the redemption.

Partial early redemption of US dollar-denominated notes | On 28 December 2010 the Group resolved to exercise its option to call for redemption a portion of the US dollar-denominated 5.00% fixed rate notes due 1 March 2014. The Group redeemed 1.0 billion US dollars of the total principal amount of 2.75 billion US dollars of these notes on 24 March 2011 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 999 million Swiss francs, plus accrued interest. As at 31 December 2010 the Group had already revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flow. The increase in carrying value of 108 million Swiss francs was recorded within financing costs in 2010. An additional loss of 2 million Swiss francs was incurred in 2011 upon final settlement of the notes. The effective interest rate of these notes was 5.31%.

Partial repurchase of euro-denominated notes | On 28 June 2011 the Group completed a tender offer for a nominal amount of 962 million euros of the 4.625% fixed rate notes due 4 March 2013 with a total principal amount of 5.25 billion euros. The cash outflow was 1,197 million Swiss francs, plus accrued interest. The loss on repurchase of the notes was 57 million Swiss francs. In addition the Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created an additional loss of 30 million Swiss francs, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. The total loss on repurchase of 87 million Swiss francs was recorded within financing costs (see Note 4). The effective interest rate of the notes repurchased was 5.53%.

Redemption and repurchase 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 euro-denominated 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.

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 redeemed these notes on 9 September 2010. In the interim period of 2010 the Group revised the carrying value of these notes to take into account the expected changes to the amounts and timings of the estimated cash flows and an increase in carrying value of 144 million Swiss francs was recorded within financing costs (see Note 4) as a loss on redemption. An additional 3 million Swiss francs was recorded within financing costs in the second half of 2010 based on the final calculations at the date of redemption.

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

	Six months ended 30 June	
	2011	2010
US dollar-denominated notes	1,861	3,244
European Medium Term Note programme euro-denominated notes	1,197	2,194
Total	**3,058**	**5,438**

Collateral agreements

As disclosed in Note 27 to the Annual Financial Statements, the Group has entered into various currency swaps for certain non-US dollar debt instruments that were issued in 2009. Collateral agreements were entered into with the counterparties to the currency swaps to mitigate counterparty risk. As the fair value of the derivative instruments moved up during the first half of 2011, due mainly to a weaker US dollar compared to the euro, a total of 0.8 billion Swiss francs cash collateral was delivered to the Group during the interim period (2010: 2.0 billion Swiss francs delivered by the Group). This collateral received was recorded as an increase in cash and a corresponding increase in accrued liabilities. The carrying value of accrued liabilities in respect of these agreements at 30 June 2011 was 0.9 billion Swiss francs (31 December 2010: accrued liabilities of 0.1 billion Swiss francs). The realised gain on derivatives was 0.4 billion Swiss francs (2010: realised loss of 0.7 billion Swiss francs) and relates mainly to hedges on the non-US dollar-denominated bonds and notes.

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 2011 unsecured commercial paper notes with a principal of 1,110 million US dollars and an average interest rate of 0.13% were outstanding.

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

Six months ended 30 June 2011	
At 1 January 2011	166
Cash proceeds (payments), net	846
Currency translation effects	(86)
At 30 June 2011	**926**

12. Equity

The Group completed the purchase of the non-controlling interests in Genentech effective 26 March 2009. 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 850 million (2010: 856 million).

Controlling shareholders

As of 31 December 2010, based on information supplied to the Group, a shareholder group with pooled voting rights owned 80,020,000 shares, which represented 50.0125% of the issued shares. This group consisted of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Ms Maja Oeri, Mr Jörg Duschmalé and Mr Lukas Duschmalé.

On 24 March 2011 the shareholder group announced that it would continue the shareholder pooling agreement existing since 1948 with a modified shareholder composition. A charitable foundation established by pool members has been admitted to the pool. The pool now consists of Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Mr Jörg Duschmalé, Mr Lukas Duschmalé and the charitable foundation Wolf. The shareholder group with pooled voting rights now holds 72,018,000 shares, corresponding to 45.01% of the shares issued. Ms Maja Oeri, formerly a member of the pool, holds now 8,091,900 shares representing 5.057% of the voting rights independently of the pool.

Dividends

On 1 March 2011 the shareholders approved the distribution of a dividend of 6.60 Swiss francs per share and non-voting equity security (2010: 6.00 Swiss francs) in respect of the 2010 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 5,614 million Swiss francs (2010: 5,144 million Swiss francs) and has been recorded against retained earnings in 2011.

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 derivative instruments 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 2011 (millions)	31 December 2010 (millions)
Non-voting equity securities	14.4	11.2
Derivative instruments	9.9	9.9
Total	**24.3**	**21.1**

The Group holds none of its own shares.

13. Statement of cash flows

Cash generated from operations | in millions of CHF

	Six months ended 30 June 2011	2010
Net income	5,259	5,565
Add back non-operating (income) expense		
– Associates	–	–
– Financial income [4]	(373)	(302)
– Financing costs [4]	1,165	1,508
– Income taxes [5]	1,409	1,707
Operating profit	**7,460**	**8,478**
Depreciation of property, plant and equipment [2]	928	974
Amortisation of intangible assets [2]	267	311
Impairment of intangible assets [2]	64	102
Impairment of property, plant and equipment [2]	50	49
Impairment of net assets-held-for-sale [7]	117	–
Operating expenses for defined benefit post-employment plans	172	132
Operating expenses for equity-settled equity compensation plans	168	158
Net (income) expense for provisions	339	340
Bad debt expense	64	147
Inventory write-downs	93	(15)
Other adjustments	(124)	(112)
Cash generated from operations	**9,598**	**10,564**

14. Subsidiaries and associates

Divestment of subsidiaries

Effective 31 May 2011 the Group sold its wholly owned subsidiary Roche Vitamins, Inc. (RVI) to a third party for 4 million Swiss francs in cash. As a result of the sale RVI is no longer part of the Roche Group. A gain of 4 million Swiss francs was recognised from this disposal and is included in general and administration expenses in the Corporate operating segment.

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 2011 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 36 to 59. 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 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 20 July 2011

Supplementary Information

Supplementary core results and EPS Information

The Group's basic and diluted earnings per share information is given in Note 29 to the Consolidated Financial Statements for the year ended 31 December 2010 on pages 117 to 118. The Group expanded the presentation of its core results in 2010. Previously only core EPS was shown, but now the full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. This allows a transparent assessment of both the actual results and the underlying performance of the business.

The core results concept, which is used in the internal management of the business, is based on the IFRS results, with the following adjustments:

- Global restructuring costs (see Note 7) are excluded.
- Amortisation and impairment of intangible assets (see Note 9) are excluded.
- Acquisition accounting and other one-time impacts from Alliance arrangements and Business Combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) would be excluded.
- Legal and environmental expenses (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control are excluded. In 2011 this includes the directly attributable costs of the earthquake that occurred in Japan on 11 March 2011 (see Note 3). There were no such items in 2010.
- Material one-time treasury items such as major debt restructurings or settlement of pension plans (both currently none) would be excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 5).

The core results concept was further described on 22 October 2010 at an Investor Update teleconference, which is available for download at: http://www.roche.com/investors/ir_agenda/csr_151010.htm

The Group's IFRS results, including the divisional breakdown, are reconciled to the core results in the tables below. The calculation of core EPS is also given in the tables below. Additional commentary to the adjustment items is given in the Financial Review.

Core results reconciliation – six months ended 30 June 2011 | in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & Business combinations	Legal & environmental	Global issues	Normalisation of ECP tax benefit	Core
Sales	21,671	–	–	–	–	–	–	–	21,671
Royalties and other operating income	796	–	–	–	–	–	–	–	796
Cost of sales	(6,098)	91	256	32	–	–	60	–	(5,659)
Marketing and distribution	(3,858)	16	2	–	–	–	1	–	(3,839)
Research and development	(3,985)	71	9	32	–	–	–	–	(3,873)
General and administration	(1,066)	213	–	–	3	2	3	–	(845)
Operating profit	**7,460**	**391**	**267**	**64**	**3**	**2**	**64**	**–**	**8,251**
Associates	–	–	–	–	–	–	–	–	–
Financial income	373	–	–	–	–	–	–	–	373
Financing costs	(1,165)	–	–	–	–	–	–	–	(1,165)
Profit before taxes	**6,668**	**391**	**267**	**64**	**3**	**2**	**64**	**–**	**7,459**
Income taxes	(1,409)	(116)	(89)	(24)	(1)	(1)	(27)	29	(1,638)
Net income	**5,259**	**275**	**178**	**40**	**2**	**1**	**37**	**29**	**5,821**
Attributable to									
– Roche shareholders	5,151	274	178	40	2	1	22	29	5,697
– Non-controlling interests	108	1	–	–	–	–	15	–	124

Core results reconciliation – six months ended 30 June 2010 | in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & Business combinations	Legal & environmental	Normalisation of ECP tax benefit	Core
Sales	24,636	–	–	–	–	–	–	24,636
Royalties and other operating income	878	–	–	–	–	–	–	878
Cost of sales	(6,870)	–	297	–	–	–	–	(6,573)
Marketing and distribution	(4,546)	–	2	–	–	–	–	(4,544)
Research and development	(4,471)	–	12	102	–	–	–	(4,357)
General and administration	(1,149)	278	–	–	3	(13)	–	(881)
Operating profit	**8,478**	**278**	**311**	**102**	**3**	**(13)**	**–**	**9,159**
Associates	–	–	–	–	–	–	–	–
Financial income	302	–	–	–	–	–	–	302
Financing costs	(1,508)	–	–	–	–	–	–	(1,508)
Profit before taxes	**7,272**	**278**	**311**	**102**	**3**	**(13)**	**–**	**7,953**
Income taxes	(1,707)	(93)	(107)	(28)	(1)	4	41	(1,891)
Net income	**5,565**	**185**	**204**	**74**	**2**	**(9)**	**41**	**6,062**
Attributable to								
– Roche shareholders	5,468	185	204	74	2	(9)	41	5,965
– Non-controlling interests	97	–	–	–	–	–	–	97

Divisional core results reconciliation – six months ended 30 June 2011 | in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & Business combinations	Legal & environmental	Global issues	Core
Pharmaceuticals								
Sales	16,815	–	–	–	–	–	–	16,815
Royalties and other operating income	746	–	–	–	–	–	–	746
Cost of sales	(3,846)	78	69	32	–	–	60	(3,607)
Marketing and distribution	(2,681)	15	–	–	–	–	1	(2,665)
Research and development	(3,543)	61	8	32	–	–	–	(3,442)
General and administration	(671)	204	–	–	2	–	3	(462)
Operating profit	**6,820**	**358**	**77**	**64**	**2**	**–**	**64**	**7,385**
Diagnostics								
Sales	4,856	–	–	–	–	–	–	4,856
Royalties and other operating income	50	–	–	–	–	–	–	50
Cost of sales	(2,252)	13	187	–	–	–	–	(2,052)
Marketing and distribution	(1,177)	1	2	–	–	–	–	(1,174)
Research and development	(442)	10	1	–	–	–	–	(431)
General and administration	(194)	5	–	–	1	2	–	(186)
Operating profit	**841**	**29**	**190**	**–**	**1**	**2**	**–**	**1,063**
Corporate								
General and administration	(201)	4	–	–	–	–	–	(197)
Operating profit	**(201)**	**4**	**–**	**–**	**–**	**–**	**–**	**(197)**

Divisional core results reconciliation – six months ended 30 June 2010 | in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & Business combinations	Legal & environmental	Core
Pharmaceuticals							
Sales	19,386	–	–	–	–	–	19,386
Royalties and other operating income	784	–	–	–	–	–	784
Cost of sales	(4,369)	–	80	–	–	–	(4,289)
Marketing and distribution	(3,292)	–	–	–	–	–	(3,292)
Research and development	(4,036)	–	10	102	–	–	(3,924)
General and administration	(742)	278	–	–	–	(13)	(477)
Operating profit	**7,731**	**278**	**90**	**102**	**–**	**(13)**	**8,188**
Diagnostics							
Sales	5,250	–	–	–	–	–	5,250
Royalties and other operating income	94	–	–	–	–	–	94
Cost of sales	(2,501)	–	217	–	–	–	(2,284)
Marketing and distribution	(1,254)	–	2	–	–	–	(1,252)
Research and development	(435)	–	2	–	–	–	(433)
General and administration	(207)	–	–	–	3	–	(204)
Operating profit	**947**	**–**	**221**	**–**	**3**	**–**	**1,171**
Corporate							
General and administration	(200)	–	–	–	–	–	(200)
Operating profit	**(200)**	**–**	**–**	**–**	**–**	**–**	**(200)**

Core EPS

	Six months ended 30 June 2011	2010
Core net income (CHF millions)		
Core net income attributable to Roche shareholders	5,697	5,965
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised	–	–
Net income used to calculate diluted earnings per share	**5,697**	**5,965**
Per share information (millions of shares and non-voting equity securities)		
Weighted average number of shares and non-voting equity securities in issue	850	856
Adjustment for assumed exercise of 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	**853**	**858**
Core earnings per share (diluted) (CHF)	**6.68**	**6.95**

Supplementary operating free cash flow information

Divisional operating free cash flow information | in millions of CHF

Six months ended 30 June	Pharmaceuticals 2011	Pharmaceuticals 2010	Diagnostics 2011	Diagnostics 2010	Corporate 2011	Corporate 2010	Group 2011	Group 2010
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	545	581	380	389	3	4	928	974
Amortisation of intangible assets	77	90	190	221	–	–	267	311
Impairment of property, plant and equipment	48	49	2	–	–	–	50	49
Impairment of intangible assets	64	102	–	–	–	–	64	102
Impairment of net assets-held-for-sale	117	–	–	–	–	–	117	–
Total	**851**	**822**	**572**	**610**	**3**	**4**	**1,426**	**1,436**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	147	133	15	19	6	6	168	158
– Net (income) expense for provisions	293	243	46	96	–	1	339	340
– Net gain from disposals	(92)	(31)	1	4	(4)	–	(95)	(27)
– Non-cash working capital and other items	122	73	4	(70)	–	(2)	126	1
Deduct								
– Net cash flow from equity-settled equity compensation plans	(4)	(46)	(1)	(8)	(1)	(7)	(6)	(61)
– Utilisation of provisions	(513)	(297)	(48)	(71)	(2)	(2)	(563)	(370)
– Proceeds from disposals	313	35	22	28	–	10	335	73
Total	**266**	**110**	**39**	**(2)**	**(1)**	**6**	**304**	**114**
Operating profit cash adjustments	**1,117**	**932**	**611**	**608**	**2**	**10**	**1,730**	**1,550**
EBITDA								
Core operating profit	7,385	8,188	1,063	1,171	(197)	(200)	8,251	9,159
Depreciation and impairment of property, plant and equipment Core basis	512	570	380	389	3	4	895	963
EBITDA	**7,897**	**8,758**	**1,443**	**1,560**	**(194)**	**(196)**	**9,146**	**10,122**
– margin, % of sales	47.0	45.2	29.7	29.7	–	–	42.2	41.1

Roche Securities

Number of shares and non-voting equity securities

	30 June 2011	31 December 2010
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**
Number of own non-voting equity securities *(Genussscheine)* held	(14,379,714)	(11,214,765)
Total in issue	**848,182,986**	**851,347,935**

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

		Six months ended 30 June 2011	2010
Diluted earnings per share and non-voting equity security		6.04	6.37
Core earnings per share and non-voting equity security		6.68	6.95
Stock price of share	Opening	142.80	181.00
	High	161.00	191.70
	Low	129.80	157.20
	Period end	148.50	157.20
Stock price of non-voting equity security	Opening	137.00	175.80
	High	150.50	186.00
	Low	125.30	149.10
	Period end	140.70	149.10

Market capitalisation | in millions of CHF

	30 June 2011	31 December 2010	30 June 2010
Period end	120,587	117,563	128,804

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.

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