Letter from the Chairman

Dear Shareholders,

Your company achieved outstanding results again in 2007, despite tougher market conditions. For the seventh straight year the Roche Group's sales increased by double-digits, advancing 10% to 46 billion Swiss francs. This more than 4 billion Swiss franc increase in sales revenues was all achieved organically. Once again, the Pharmaceuticals Division was the main growth driver. Its sales grew almost twice as fast as the global pharmaceuticals market. The Diagnostics Division maintained its position as the global market leader in *in vitro* diagnostics, with divisional sales increasing slightly ahead of the market. Revenue growth again outpaced costs, resulting in another significant improvement in the Group's earnings performance. In view of Roche's excellent full-year results, the Board of Directors will propose that the dividend for 2007 be increased by 35% to 4.60 Swiss francs per share and non-voting equity security (up from 3.40 Swiss francs for 2006). Subject to your approval at the next Annual General Meeting of Shareholders, this will be Roche's 21st consecutive annual dividend increase.

While research and development expenses increased 16% to 8.4 billion Swiss francs, and thus grew faster than sales, overall costs increased less than sales as a result of a variety of programmes to increase productivity. This had a very positive impact on profitability. The Group's operating profit rose 22% to 14.5 billion Swiss francs, and the corresponding profit margin advanced by 3.5 percentage points to 31.4%. Our Group's strong operating performance, combined with a lower effective tax rate, boosted net income 25% to well over 11 billion Swiss francs. This record income includes no exceptional items. As a result, the Group's equity ratio and balance sheet were also strengthened further.

Roche's operating profit has more than tripled since 2001, while the operating profit margin has nearly doubled during the same period. This impressive growth is reflected in our Core Earnings per Share, which over the last 5 years has averaged 22% growth annually. In 2007 we achieved 20% Core EPS growth.

Looking to the future, one very positive development is that the portfolio of products driving our business success is much broader now than it was even a few years ago. The Pharmaceuticals Division currently has nine medicines that generate annual revenues of over 1 billion Swiss francs, with six of them producing more than 2 billion Swiss francs in annual sales. And the Diagnostics Division has three product lines that generate revenues of over 1 billion Swiss francs annually. Very importantly, except for CellCept, none of our major products is facing patent expiry over the next several years. In this time we will continue to strengthen our portfolio by launching new medicines – as we did in 2007 with Mircera and as we expect to do soon with Actemra – and by gaining additional new indications for our leading cancer medicines.

In 2007 we further enhanced our ability to innovate in our five main therapeutic areas of interest: oncology, virology, inflammatory diseases, metabolic diseases and diseases of the central nervous system. Each of these areas now encompasses all activities from drug discovery and clinical development to strategic marketing. By streamlining decision-making processes, we believe this fundamentally new approach will enable us to translate research activities into marketed products more efficiently and effectively. During the year we also reinforced our presence in China by opening a clinical development centre for pharmaceuticals in Shanghai. Our pharmaceutical operations in this key emerging market now span the entire value chain from research and clinical development to manufacturing, marketing and distribution.

Construction work on our new biotech manufacturing facilities in Basel (Switzerland) and Penzberg (Germany) went very quickly, with both buildings being completed on schedule in 2007. These facilities, representing a total investment of 800 million Swiss francs, will help us to meet the steadily growing demand for our cancer medicines Avastin and Herceptin, along with demand for future Roche medicines, over the medium to long term.

In 2007 we continued to invest heavily in new technologies. This included acquiring or entering into alliances with leading companies in pioneering new fields such as DNA sequencing, microarrays, therapeutic antibodies and RNAi therapeutics. Transactions like these open the way to developing new and better diagnostic tests and treatments for complex diseases.

In January 2008 we signed a merger agreement with the US-based diagnostics company Ventana Medical Systems, Inc. The acquisition will enable us to move into the fast-growing market for tissue-based diagnostics. Acquiring Ventana will contribute to our efforts to develop and commercialise personalised healthcare solutions in oncology.

Our strategy remains firmly focused on innovating healthcare. In the medium to long term, our global research network, strengths in biotechnology and leadership as a developer of diagnostic products will remain sources of competitive advantage in a rapidly changing healthcare market, just as they are today. At the same time, we remain committed to combining and balancing our pursuit of innovation with corporate social responsibility. In recognition of this, Roche was selected for inclusion in the Dow Jones STOXX and World Sustainability Indexes for the fourth consecutive year in 2007. And for progress related specifically to protecting the environment, we were honoured with an award for reducing our carbon dioxide emissions relative to sales by over 70% since 1996. Another indication of how integral sustainability and environmental protection are to the way we do business is the fact that over the last decade we have cut our energy use per Swiss franc of sales revenue in half. We believe that sustainable policies and practices not only minimise business risks but also create value and promote innovation.

As previously announced, the Roche Board of Directors has voted to split the positions of Chairman of the Board and Chief Executive Officer. At the Annual General Meeting on 4 March 2008 I will be stepping down as CEO after a decade in the post in order to concentrate on my duties as Chairman. In designating Severin Schwan as Roche's next CEO, the Board has selected an individual who at age 40 already has an impressive track record. Not only will Severin Schwan bring broad international experience to his new role, gained from a variety of divisional and corporate-level assignments, but he is also firmly committed to continuing our strategy of innovation. On 1 January 2008 Jürgen Schwiezer succeeded Severin Schwan as CEO of Roche Diagnostics. Jürgen Schwiezer has decades of experience in the diagnostics business and has been instrumental in establishing Roche as the leader in Europe's *in vitro* diagnostics market. In March Silvia Ayyoubi will join Roche's Corporate Executive Committee as the Group's most senior human resources executive; she will be the first woman ever to serve on the CEC. I am pleased to say that we were able to fill all three of these key positions with people from within our organisation. For my own part, you can be assured that as Chairman I will continue to work closely and energetically with the Board and the Corporate Executive Committee to help achieve Roche's ambitious goals as one of the world's leading healthcare groups.

I would like to take this opportunity to thank the roughly 79,000 Roche employees around the world for their contributions to the Group. Without their professionalism and dedication, Roche would not be the highly successful company it is today.

Significant challenges and opportunities lie ahead for the healthcare industry, and Roche will be able to tackle them with confidence from a position of strength. For 2008 we expect to achieve a high single-digit increase in Group sales, with continued above-market sales growth in both Roche divisions. This excludes government and corporate stockpiling orders for Tamiflu for pandemic use. Most of these orders have been filled over the last several years, so that we anticipate a considerable decrease in pandemic Tamiflu sales in 2008. This year we will again be substantially increasing our investment in research and development, particularly in phase III development projects, in order to capture the full potential of our strong pipeline. At the same time we are aiming for Core EPS for 2008 to remain at least at the same high level as in 2007.

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