Roche

Annual Report 2004

We Innovate Healthcare

Cover:
Gudrun Schindler knows how important it is for people with diabetes to be able to monitor their blood glucose levels easily and reliably – she has type 1 diabetes herself. Besides being actively involved in a diabetes project in Gambia, Africa, she has been running a diabetes self-help group for the past 20 years. And for years now Gudrun has been using Accu-Chek systems from Roche.

Diabetes management is just one of the many areas in which Roche's strong focus on research has produced pioneering innovations and helped make the Group the global market leader.

(See also page 58)

Key figures

Key figures *in millions of CHF*

	Roche Group		% change		Continuing businesses[a]		% change	
	2004	2003	CHF	LC	2004	2003	CHF	LC
Sales	31,273	31,220	0	+3	29,522	27,190	+9	+12
Research and development	5,093	4,766	+7	+11	5,053	4,624	+9	+14
EBITDA[b]	9,566	8,609	+11	+15	9,231	8,038	+15	+19
Operating profit before exceptional items	7,254	6,268	+16	+20	6,950	5,793	+20	+24
Operating profit	8,979	5,592	+61	+65	6,179	5,520	+12	+16
Financial income	(359)	(667)	–46		(339)	(630)	–46	
Net income before exceptional items[c]	–	–	–		4,343	3,371	+29	
Net income	6,641	3,069	+116		4,339	3,074	+41	
EPS[d] before exceptional items in CHF	–	–	–		5.07	3.97	+28	
EPS[d] in CHF	7.81	3.61	+116		5.09	3.62	+41	
Research and development as % of sales	16.3	15.3			17.1	17.0		
EBITDA as % of sales	30.6	27.6			31.3	29.6		
Operating profit before exceptional items as % of sales	23.2	20.1			23.5	21.3		
Effective tax rate %	24.7	29.6			28.4	29.0		
Net income as % of sales	21.2	9.8			14.7	11.3		

	Roche Group 31 December 2004	Roche Group 31 December 2003
Net liquidity	11,674	5,908
Total assets	58,076	59,486
Equity and minority interests	33,293	29,164
Debt	8,960	15,287
Equity ratio[e]	57%	49%
Debt-equity ratio[f]	27%	52%

a) Continuing businesses includes the Pharmaceuticals and Diagnostics businesses, treasury and other corporate activities. Consumer Health (OTC) and Vitamins and Fine Chemicals are reported as discontinuing businesses.

b) EBITDA: Earnings before exceptional items and before interest and other financial income, tax, depreciation and amortisation, including impairment. This corresponds to operating profit before exceptional items and before depreciation and amortisation, including impairment.

c) Net income before exceptional items and EPS before exceptional items are calculated as shown on page 143.

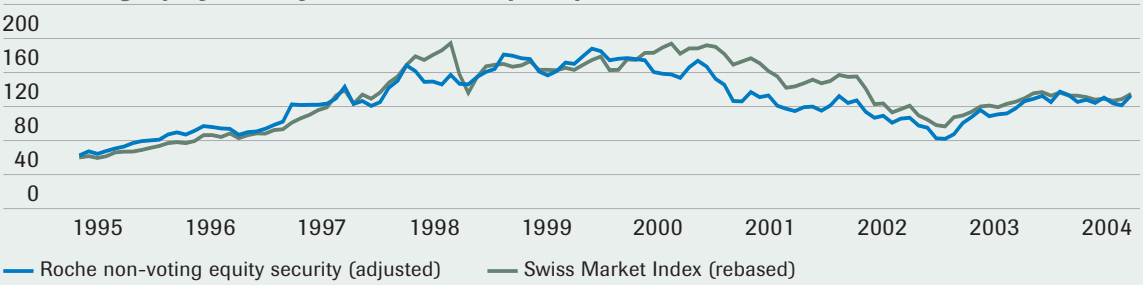
d) EPS: Earnings per share and non-voting equity security (diluted).

e) Equity ratio: Equity and minority interests as a percentage of total assets.

f) Debt-equity ratio: Debt as a percentage of equity (including minority interests).

LC = local currencies

Non-voting equity security *(Genussschein)* price performance *in CHF*



Sales grow significantly ahead of the market
Net income doubles

Group

- Sales from continuing businesses up 12% in local currencies
- Highest operating profit in Roche history
- Net income doubled to 6.6 billion Swiss francs
- Substantial improvements in equity-to-assets ratio and net liquidity
- Board to propose 18th consecutive dividend increase, 21% to 2.00 Swiss francs per share and non-voting equity security

Pharmaceuticals

- Division gains additional market share; operating profit margin up significantly
- Market leadership in oncology strengthened; innovative anticancer medicines Avastin and Tarceva receive first market approvals; filings submitted for Boniva/Bonviva in osteoporosis
- Sixty-four new molecular entities in the R&D pipeline

Diagnostics

- Sixth straight year of market share gains; significant improvement in operating profit margin
- Growth significantly above the market average in key segments
- First DNA chip-based test introduced to support more personalised therapy

Outlook

- Pharmaceuticals and Diagnostics Divisions both expect continued above-market growth

Please visit http://www.roche.com for additional information on Roche.

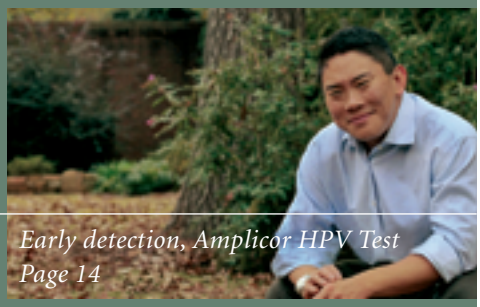
All operating profit margins before exceptional items.

Innovative solutions spanning the entire healthcare spectrum

Predisposition **Early detection** **Prevention** **Diagnosis** **Therapy** **Monitoring**

At Roche our mission is to improve people's health and quality of life. As a leading research-driven healthcare company, Roche develops, produces and markets innovative, high-quality products and services for unmet medical needs. Our capabilities in diagnostics and pharmaceuticals enable us to innovate across the entire healthcare spectrum, from identifying disease susceptibilities and disease screening in populations at risk to prevention, diagnosis, therapy and treatment monitoring.

Predisposition, AmpliChip CYP450 Test
Page 8



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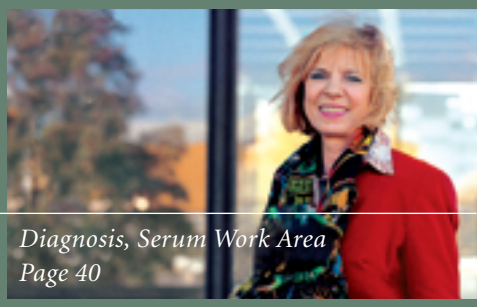

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The Sustainability Report 2004 is published as a companion volume to the Annual Report.

Franz B. Humer, Chairman and Chief Executive Officer

Dear Shareholders

2004 was an outstanding year for your company. We achieved – and in some cases even exceeded – our ambitious goals for the year. Our operating profit was the highest ever in Roche's history. We gained marketing approvals for two breakthrough anti-cancer medicines. And we intensified the focus on our core capabilities. Thanks to a very strong operating performance and the gain from the sale of our consumer health business, net income more than doubled, reaching 6.6 billion Swiss francs. At the Annual General Meeting of Shareholders the Board of Directors will propose a dividend increase of 21% to 2 Swiss francs per share and non-voting equity security. If approved, this will be the Group's eighteenth consecutive dividend increase.

Following the sale of the consumer health unit, today's Roche is clearly positioned as a research-driven company focused on innovation in healthcare. The Group's pharmaceuticals and diagnostics businesses supply products spanning the entire healthcare spectrum, from the early detection and prevention of disease to diagnosis and treatment. These two businesses are an excellent strategic fit, for both are playing a major role in shaping the future of medicine – by contributing to more personalised therapy, for example. Given the tremendous need for new and better medical solutions and the explosive progress of science and technology, the outlook for continued growth is good despite today's challenging marketplace.

Last year both Roche divisions once again posted sales growth significantly above the market average and improved their profitability. As a result, combined operating profit from continuing businesses (before exceptional items) rose to approximately 7 billion Swiss francs.

We reinforced our leadership in oncology and gained market share in other major therapeutic areas of interest, including virology and transplantation. As a result, Roche has moved up in the global rankings and is now the eighth largest pharmaceutical company. Our diagnostics business also performed strongly. For the sixth straight year it grew significantly faster than the market, further extending its market leadership.

Very importantly for the future, both divisions again scored major successes in bringing innovative new products to market and advancing the projects in their research and development (R&D) pipelines. Tarceva, which was approved last year in the United States, is the only medicine in its class that has been shown to improve survival in patients with advanced cancers of the lung or pancreas. Avastin, a medicine offering a completely new therapeutic approach to colorectal cancer, received its first market approval in the United States last February and by the end of the year had generated nearly 700 million Swiss francs in sales. Never before has a new biopharmaceutical been adopted so quickly by prescribers. The significance of these achievements goes far beyond their commercial impact, for they give fresh hope to patients with cancer, which is still the second leading cause of death in most industrialised countries.

In addition to gaining our first market approvals for these two anticancer medicines, we received approval for our lymphoma treatment MabThera/Rituxan and our hepatitis drug Pegasys in new indications, which means that a significantly larger number of patients will now be eligible for treatment with these important products. In the Diagnostics Division we launched the first Accu-Chek insulin pump, a state-of-the-art device that will benefit many people living with diabetes. And the launch of our AmpliChip CYP450 Test in Europe and the United States is an important step towards more personalised medicine. This DNA chip-based test marks the beginning of a new generation of diagnostic tools that can identify clinically relevant genetic variations and thus help improve treatment outcomes.

Thanks to the many young products in its portfolio, Roche has one of the lowest exposures to patent expiries in the pharmaceuticals industry – Rocephin is the only major Roche drug that will to go off patent in the United States in 2005. And because we were successful in moving every one of our major research and development projects forward in 2004, we expect to be adding even more innovative medicines to our portfolio in the years ahead. Our pharmaceuticals and diagnostics pipelines today rank among the best in the industry, thanks to our strong financial commitment to R&D – an area in which we invest over 5 billion Swiss francs annually.

Last year Roche received the prestigious Prix Galien – the 'Nobel Prize' for pharmaceutical innovation – for its pioneering new HIV/AIDS medicine Fuzeon.

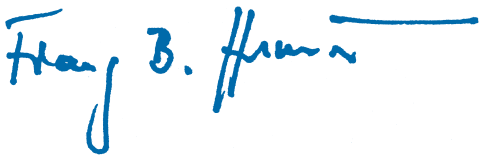
Roche, together with Genentech and Chugai, is a world leader in biotechnology. And this is an area where we intend to become even stronger, both in research and development and in production. Over the next several years, for example, we will invest some 2 billion Swiss francs in expanding the Group's biotech production capacity in Basel (Switzerland), Penzberg (Germany), Vacaville (USA) and Utsunomiya (Japan).

No company can afford the high level of expenditure our projects require or take the commercial risks they involve unless it is on a solid financial footing. Our financial position improved substantially again last year, thanks to a very strong gross cash flow of over 9 billion Swiss francs from our core businesses. Group debt and interest expenses declined significantly. Net liquidity doubled to almost 12 billion Swiss francs; and the ratio of equity to total assets reached 57%.

Of course, solid financials alone are not enough for sustainable business success. For the second year now, our year-end reporting includes a sustainability report which describes our progress in creating value for the environment, the economy and society. A respected US business magazine recently included us for the first time in its list of the 100 best companies to work for in the United States. This is an honour shared by only a very few European companies, and one that our employees can be proud of.

Over the last several years we have been steadily strengthening corporate governance at Roche. Bruno Gehrig has been serving on the Board as Independent Lead Director since last year's Annual General Meeting, and recent changes to the structure of the Corporate Executive Committee have given us a broader leadership base and established clear deputising arrangements.

Your company today enjoys a number of significant competitive advantages and is well equipped for continued success. I wish to thank you, our shareholders, for your confidence in our strategy and in Roche's management team. And I would also like to thank our employees for their valuable contribution to making 2004 a very good year for Roche.



Franz B. Humer

'Some medicines work differently for me than for my sister.'

Sarah Staehelin (8), who lives with her family in Binningen, Switzerland, metabolises certain medications more slowly than other children. This means that a 'normal' dose for another child her age could be toxic for her.

Predisposition | Early detection | Prevention | Diagnosis | Therapy | Monitoring

DNA chips – a technology with tremendous promise

The reason why some of us respond so differently to the same doses of the same medicines may lie in our genes. Experts estimate that genetic factors account for 20–40% of the differences in how individuals metabolise and respond to drugs.

AmpliChip CYP450 Test enables a comprehensive analysis of two genes that play a key role in the metabolism of many widely prescribed drugs, and is the first DNA chip-based test to be approved for clinical diagnostic use. The test can thus help predict on the basis of a patient's genetic makeup whether he or she will metabolise certain medicines slowly, normally or quickly. This information can assist doctors in prescribing appropriate medication at the appropriate dose for their patients.

While DNA chips have long since earned a place in disease research, AmpliChip CYP450 Test signals the start of a new era in clinical diagnostics, in which chip-based tests will help doctors 'tailor' therapies to patients' individual genetic profiles.

Predisposition

Just as our genes can influence the effectiveness of certain drugs, they can also contribute to the risk of developing disease. Advances in human genetics promise to give us new insights into the links between genes and disease. The more we understand about these links, the greater the chances that we will one day be able to use gene-based tests to better identify predispositions to disease very early on. This knowledge may help doctors and patients to take timely action to delay, and possibly even prevent, the onset of disease.

Roche Group

Group results

Sales revenues from the Group's continuing businesses rose to 29.5 billion Swiss francs in 2004, an increase of 12% in local currencies (9% in Swiss francs); these results exclude the consumer health (OTC) businesses and the vitamins and fine chemicals business, which was sold in 2003. Both Roche divisions, Pharmaceuticals and Diagnostics, grew significantly faster than the global market. Prescription drug sales advanced 13% in local currencies (10% in Swiss francs), with positive contributions to growth coming from the Roche prescription subdivision (+8% in local currencies) and from the strategic alliances with Genentech in the United States (+45% in US dollars) and Chugai in Japan (+3% in Japanese yen). In the Diagnostics Division sales rose 8% in local currencies (6% in Swiss francs), led by the division's diabetes care, molecular diagnostics and immunochemistry businesses, which posted growth significantly above the market average.

Operating profit from continuing businesses was up substantially for the year, advancing 24% in local currencies (20% in Swiss francs) to nearly 7 billion Swiss francs (before exceptional items). The operating profit margins in both divisions again increased sharply. In the Pharmaceuticals Division the operating profit margin rose 1.9 percentage points to 25.7%, while the margin in the Diagnostics Division gained 2.4 percentage points to reach 21.4%. Strong sales growth, productivity improvements and the gains realised on the disposal of non-core products and technologies as Roche continued to realign its product portfolio were major contributors to the Group's improved profitability. Together these factors more than offset increased costs for new product launches, investments in the Group's R&D pipeline and expenditures on in-licensing agreements for products and technologies. Even excluding gains from the disposal of products, the operating margin improved significantly.

Thanks to the strong operating performances of the Group's continuing businesses, EBITDA from these businesses was up 15% to 9.2 billion Swiss francs. The EBITDA margin in the Pharmaceuticals Division reached 32.6%, compared with 31.5% the year before, and in the Diagnostics Division the EBITDA margin advanced 2.7 percentage points to 31.2%. The Group's net liquidity nearly doubled, from 5.9 to 11.7 billion Swiss francs, thanks to the strong positive cash flows from the divisions, the sale of the consumer health (OTC) businesses and the conversion of the 'LYONs IV' notes. The ratio of equity to total assets rose significantly, from 49% to 57%.

The sale of the OTC businesses (Roche and Chugai) resulted in an exceptional pre-tax gain totalling 2.3 billion Swiss francs.

The Group also completed a major acquisition during the year, purchasing Igen in the United States in early 2004 for a total consideration of 1.8 billion Swiss francs.

Financial income showed a further year-on-year improvement, with the Group recording a net financial expense of 359 million Swiss francs for 2004 (compared with an expense of 667 million Swiss francs in 2003). Group debt was reduced by a further 6.3 billion Swiss francs, to 9 billion Swiss francs, resulting in a decrease in interest expense. The conditions are thus now in place for a balanced financial income in 2005. The conversion and redemption of debt instruments yielded an exceptional pre-tax gain of 908 million Swiss francs. Including this exceptional gain, financial income for 2004 was positive.

Net income increased 116% (or 3.6 billion Swiss francs) to 6.6 billion Swiss francs thanks to the further improvement in the Group's operating results and the gains from the sale of the OTC businesses and the conversion and redemption of debt instruments.

Outlook

In 2005 the results in the Pharmaceuticals Division will be influenced by the expiry of the US patent for Rocephin and by costs for product launches in key markets and significant development activities. As an overall outcome we anticipate local-currency sales growth above the world market and an operating profit margin (before exceptional items) broadly in line with that for 2004.

In 2005 Roche Diagnostics expects to outgrow the world market again in terms of local-currency sales. The division also expects further progress towards its goal of an operating profit margin (before exceptional items) of around 23% in 2006.

In addition, Roche expects a balanced financial income in 2005.

Strategy

The Group

Scientific advances, demographic trends and economic developments are reshaping healthcare and the healthcare industry. The explosion of scientific knowledge, led by disciplines such as genetics, genomics, proteomics and bioinformatics, is providing completely new insights into human biology and disease, opening the way for new approaches to diagnosis and treatment. This is good news, since we still lack effective treatments for most of the diseases that afflict mankind. To a very large extent, of course, decisions about what resources to set aside and what infrastructure to provide for healthcare are public policy issues.

Roche recognises these trends and their complex interplay. In 2004 we continued the process of restructuring the Roche Group to focus entirely on our innovation-driven, high-tech pharmaceuticals and diagnostics businesses. Because it can exploit the enormous combined knowledge base of both these businesses, Roche is positioned to play a leading role in advancing new paradigms in healthcare delivery. Our tailor-made products and services span the entire healthcare spectrum, from the emerging fields of predisposition screening and early detection to prevention, diagnosis, therapy and treatment monitoring. Our broad scientific expertise in all these areas helps patients and physicians to make earlier and better health and treatment decisions. And our comprehensive product portfolio is a clear strategic advantage as we move steadily towards a new era in which medical care will increasingly be tailored to individual patients.

Our Pharmaceuticals and Diagnostics Divisions and our majority shareholdings in Genentech (USA) and Chugai (Japan) are the backbone of our innovation network. Their capabilities are augmented by technology collaborations and a constellation of alliances to develop individual products and entire product portfolios. This decentralised strategy enables us to combine maximum scope with flexibility, while also allowing our partners the necessary entrepreneurial freedom.

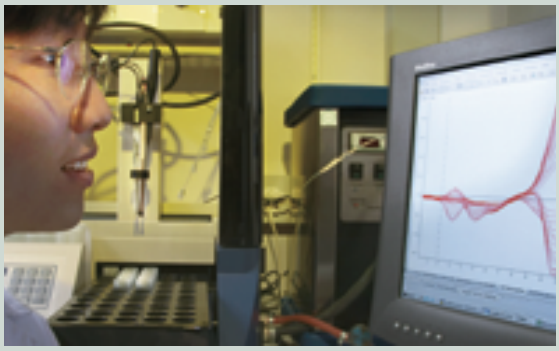
Pharmaceuticals

Roche Pharmaceuticals discovers, develops, manufactures and markets clinically differentiated medicines offering real added value over existing treatments. Efforts are focused on addressing unmet, or inadequately met, medical needs in selected therapeutic areas, and particularly on developing medicines that can help extend the length and improve the quality of people's lives. We aim to be a leader in each of our areas of interest.

Oncology is a good example of the strategic course we are pursuing. With five anticancer medicines that have been shown to improve patient survival, Roche is the leader in oncology, a therapeutic area which for decades saw very little progress despite intensive global efforts. Cancer research is one of our focus areas, and we have a wide range of promising projects in the R&D pipeline. Virology is another key research area where we are very strong and have made important contributions – for example in advancing the treatment of hepatitis and HIV/AIDS. Roche is also a leader in transplantation medicine and anemia. And our pipeline is delivering new products to treat osteoporosis, asthma, rheumatoid arthritis, Alzheimer's disease and diabetes.

Last year the division invested over 4 billion Swiss francs in research and development – a figure that clearly signals our commitment to remaining a science-driven company. The remarkable depth and quality of our R&D pipeline is widely recognised and provides clear and convincing evidence of our strong in-company capabilities and the productivity of our partnering relationships.

Biomarkers point the way to better healthcare



Scientists at Roche Pharmaceuticals and Roche Diagnostics are working together to develop biomarkers that can be used to diagnose diseases, identify the patients most likely to respond to a particular treatment and help develop new drugs.

Biomarkers are biological molecules that provide genetic and other information on metabolic or disease processes. They have tremendous potential in diagnostics and in the search for better medicines.

The Roche Biomarker Program is a key part of the Group's strategy of linking pharmaceutical and diagnostics expertise for better, more targeted healthcare. Its aim is to find biomarkers that reveal the presence of disease before clinical signs or symptoms appear; differentiate between disease subtypes or related conditions; help identify patient subgroups that differ in their responses to therapy; or provide leads to potential drug targets. Biomarker tests will improve our ability to diagnose disease, open up new possibilities for prevention and help in developing medicines that are safer, work better and are more cost-effective.

Roche already markets tests that tell doctors if antiviral treatment is having the desired effect or if a patient can tolerate certain medications and at what dosage. The Group's combined expertise in discovering and developing novel diagnostic tests and medicines puts it at the forefront of the emerging field of personalised medicine.

But innovation in research and development is not enough. To meet our ambitious objectives, we are also pursuing technology leadership in production and other areas. Biotechnology, for example, is an area that has steadily gained in importance at Roche in recent years. Already, five of Roche's ten top-selling medicines are manufactured using biotechnology, and combined revenues from biopharmaceuticals currently account for about 40% of the Group's total prescription drug sales. The ability to anticipate trends and exploit the potential of new technologies has long been one of Roche's strengths. Our majority interest in the California-based biotech pioneer Genentech – now one of the biggest and most successful companies in the industry – dates all the way back to 1990, for example. In addition, we own one of Europe's most important biotech research and manufacturing sites, in Penzberg (Germany).

Diagnostics

Diagnostic tools and tests can be expected to play an increasingly important role in ensuring that patients are correctly diagnosed as early as possible and receive the best available treatment – and thus in helping to optimise the use of limited healthcare resources.

The diagnostics industry thus has a vital contribution to make to keeping medical care affordable. On average, laboratory services account for only about 1% of total healthcare spending. Yet the information these services provide has tremendous potential for making healthcare delivery as a whole more efficient and effective, which will mean a significantly better cost-benefit ratio for the other 99% of expenditure. Roche Diagnostics is working today to turn these potential gains into reality and help relieve the pressure on health budgets.

Roche is the only company supplying products and services to all segments of the in-vitro diagnostics market, from research institutions, hospitals and commercial laboratories to patients. Our novel analytical systems, featuring powerful workflow automation capabilities, are at the cutting edge of innovation in laboratory technology. And our connectivity solutions and data management systems are further examples of state-of-the-art products

from Roche. By helping health professionals to cope with the flood of data from increasingly complex tests, they contribute to sounder therapeutic decision-making.

The increasing role of patients in managing their own health also has far-reaching implications for the diagnostics industry. As that role continues to grow, so will demand for handy, easy-to-use instruments that can not only match the precision and accuracy of a laboratory but also make treatment recommendations. This is what we mean by the trend towards 'actionable health information'.

Scientific research is providing ever deeper insights into the causes of disease. In addition to enabling faster and more accurate diagnoses, these insights are revealing ways of identifying risk factors and detecting the presence of disease much earlier than is possible today. This will expand opportunities to start preventive treatment or other measures at a stage when the onset of disease can still be avoided. At the same time our understanding of the reasons why medicines are not equally effective in all patients with the same disease is steadily increasing. In future DNA-based tests will help identify patients who are unlikely to respond to certain medicines, could have adverse reactions to them or could simply benefit from a dose adjustment. As a result, physicians will be able to chose safer, more effective options when writing prescriptions for their patients.

Developing medicines, tests and systems to meet today's and tomorrow's needs requires extensive know-how and sizeable investments, and Roche is prepared to make these investments.

As a highly focused healthcare company, Roche is well equipped to meet the challenges of a changing marketplace and in an excellent position to take advantage of new opportunities for growth. Our combined know-how in diagnostics and therapeutics enables us to create sustainable value for patients, physicians and healthcare systems.

Greater certainty in assessing cervical cancer risk

Cervical cancer is the second leading cause of death from cancer in women. It is almost always triggered by certain forms of the human papillomavirus (HPV). Seeing a gynecologist for regular screening tests helps to detect HPV early, but the tests available to date have clear limitations. A Pap test alone often delivers inconclusive or ambiguous results and fails in some 20% of cases to detect precancerous conditions. Compared to the Pap test, Amplicor HPV Test, a new molecular diagnostic assay developed by Roche and launched in Europe in 2004, provides a significantly more accurate indication of risk. One practical benefit is that from now on healthy women may be spared the anxiety of waiting for the results of additional tests. And more importantly, it means that an increased number of patients may start receiving appropriate care at an early stage. Early diagnosis of cervical cancer gives patients an almost 100% chance of recovery.

Early detection

The earlier a disease is detected, the better the chances of treating it effectively. Screening examinations increase the likelihood of spotting the first signs of disease and providing timely therapy. The benefits of targeted screening are particularly evident with respect to high-risk groups, since early diagnoses not only help patients but also contribute to controlling healthcare costs.

'When available in the US, this HPV test will be important in triaging abnormal Pap smears and screening.'

Warner K. Huh (35), a physician and respected cancer researcher who lives in Birmingham (Alabama), USA, values the potential importance of the new Amplicor test for human papillomavirus (HPV).

Predisposition | Early detection | Prevention | Diagnosis | Therapy | Monitoring

Pharmaceuticals Division in brief

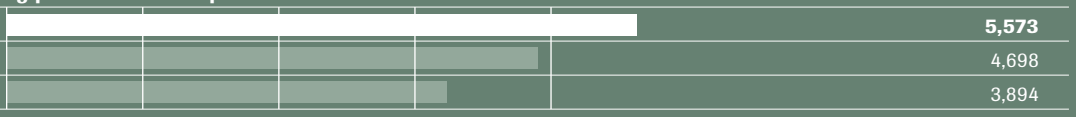
Pharma Executive Committee *since 1 January 2005*

William M. Burns	CEO Division Roche Pharmaceuticals
George Abercrombie	North America
Jennifer Allerton	Informatics
Eduard Holdener	Development
Peter Hug	Partnering
Jonathan K.C. Knowles	Research
Dominic Moorhead	Finance and Controlling
Paul Newton-Syms	Human Resources
Charles Sabbah	Strategic Marketing
Claude Schreiner	Western Europe
Jan van Koeveringe	Technical Operations

Sales *in millions of CHF*

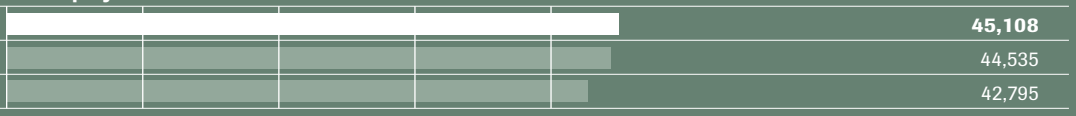
2004	**21,695**
2003	19,781
2002	17,294

Operating profit before exceptional items *in millions of CHF*



2004	**5,573**
2003	4,698
2002	3,894

Number of employees



2004	**45,108**
2003	44,535
2002	42,795

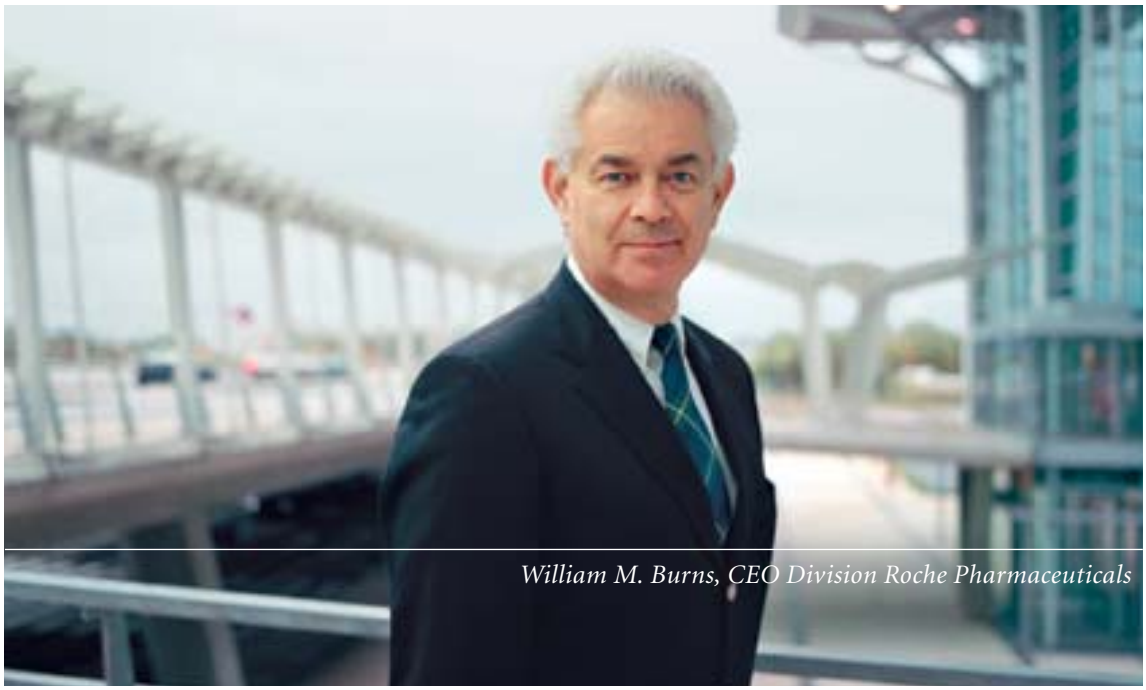
Key figures

	In millions of CHF	% change in CHF	% change in local currencies	As % of sales
Sales	21,695	10	13	100
– Roche prescription	13,970	5	8	64
– Genentech prescription	4,522	34	45	21
– Chugai prescription	3,203	1	3	15
EBITDA	7,079	14	18	32.6
Operating profit[1)]	5,573	19	23	25.7
Research and development	4,355	12	17	20.1

1) Before exceptional items.

Pharmaceuticals

'In 2004 Roche Pharmaceuticals extended the Group's market leadership in oncology, helped by outstanding clinical data on products such as MabThera/Rituxan, Avastin and Tarceva. The launch of Avastin in the United States, its first market, has been a resounding success. Tarceva, which received its first marketing approval in the United States late in the year, is the only drug in its class to demonstrate survival benefit in late-stage lung cancer and pancreatic cancer. With our strong portfolio of virology products – also backed by a growing body of solid data – we are bringing benefits to more and more patients with hepatitis, HIV/AIDS and influenza. These developments show that we are successfully translating cutting-edge R&D into clinically differentiated products. This is also good business: six of our prescription medicines now exceed one billion Swiss francs in revenues.'



William M. Burns, CEO Division Roche Pharmaceuticals

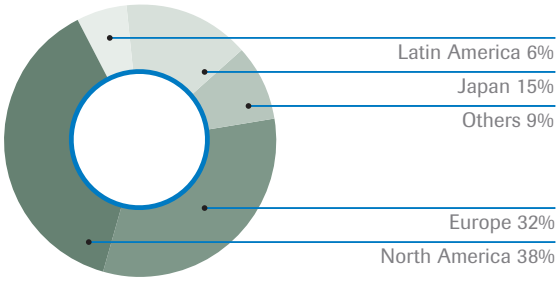
Results

Roche Pharmaceuticals – including Genentech and Chugai – continued to deliver strong performance in 2004, recording total sales of 21,695 million Swiss francs. This represents an increase over the previous year of 13% in local currencies, well ahead of the global market. Once again, growth was driven by the Group's oncology, virology and transplantation franchises. Operating profit (before exceptional items) increased further, advancing 23% in local currencies and 19% in Swiss francs to 5,573 million Swiss francs. Despite a sustained high level of investment in R&D and product launch activities, the division posted another significant increase in profitability, recording an operating profit margin (before exceptional items) of 25.7%, compared with 23.8% in 2003. The operating margin also increased when all product in- and out-licensing activities are excluded. EBITDA totalled 7,079 million Swiss francs or 32.6% of sales, compared with 31.5% the previous year. The sale of Roche's non-prescription medicines business to Bayer and of Chugai's OTC business to Lion Corporation was completed at the end of 2004.

Regions

All regions contributed to growth in 2004. Sales by Roche and Genentech in North America were up 20%[1)], well ahead of the market (8%), fuelled primarily by strong demand for Avastin, established oncology brands and the hepatitis combination Pegasys and Copegus. The oncology and hepatitis franchises were also the main contributors to above-market growth in Europe (12% vs a 7% market average). Sales by Chugai in Japan rose 3%, compared with local market growth of 2%. In Latin America the division recorded double-digit sales growth against a background of steady market recovery. Growth in the markets of the Asia–Pacific region was strong, while in the Middle East and Africa it held up well despite political and economic turbulence.

Sales by region



Therapeutic areas

Oncology

While cancer is still one of the main causes of death in industrialised countries, recent years have seen major treatment advances. A particularly promising approach is targeted cancer therapy, which specifically attacks the processes driving cancerous cells while leaving healthy cells unharmed. The Roche Group is at the forefront of this innovation.

In 2004 the Roche Group's oncology portfolio[2)] earned revenues of 7.7 billion Swiss francs and posted a gain of 32%. Oncology products now account for 35% of the Group's total prescription drug sales. As a result of this very strong performance we further expanded our market share and consolidated our global lead in this important therapeutic area. Roche is the only pharmaceuticals group offering five anticancer medicines that can help extend the lives of cancer patients, together with an unparalleled portfolio of supportive care products that can improve the quality of life of people with cancer.

1) All growth rates are based on local currencies.
2) Oncology portfolio: MabThera/Rituxan, Herceptin, Avastin, Xeloda, Tarceva, Bondronat, Kytril, Furtulon, Neupogen, Neo-Recormon (29%), Roferon-A (85%), Neutrogin, Picibanil.

Non-Hodgkin's lymphoma (NHL), a group of malignancies of the lymphatic system, affects approximately 1.5 million people worldwide and claims an estimated 300,000 lives each year. MabThera/Rituxan, the world's first therapeutic monoclonal antibody for indolent and aggressive forms of NHL, delivered strong growth in 2004, particularly in Europe and Japan. Sales of the product benefited from its approval last August in Europe for first-line use in indolent NHL; new data show a survival benefit for this group of patients. In addition, two large clinical trials have shown that maintenance treatment with MabThera/Rituxan over two years is highly effective in patients with indolent NHL.

Breast cancer is the most common cancer among women worldwide. Herceptin, a monoclonal antibody for the targeted treatment of breast cancer, is tailored to a subgroup of patients with a particularly aggressive type of tumour (HER2-positive) that accounts for approximately 20–30% of all breast cancers. In 2004 Herceptin generated sales of almost 1.5 billion Swiss francs, with solid gains in all major markets. Adoption of the drug as first-line therapy received a major boost in June, when the combination of Herceptin plus Taxotere was approved for this indication in the European Union. Clinical studies have shown that Herceptin in combination with Taxotere or Taxol significantly prolongs survival of patients with advanced breast cancer. Ongoing clinical development is aimed at establishing the drug in combination with hormonal treatment and as adjuvant therapy for early breast cancer.

Total sales of Xeloda, for colorectal and breast cancer, rose 7% in 2004, with growth outside the United States an impressive 31%. Although sales growth in the United States was impacted in the first half of the year by a number of important changes in the marketplace, prescription figures continued to show increasing adoption of the product. Global sales are expected to accelerate in 2005, helped by new clinical data. In August Roche filed applications with the EU and US authorities for approval of Xeloda in a new indication, adjuvant treatment of colon cancer patients following surgery. Because it is taken orally, Xeloda is a far more convenient option for these patients than the injectable regimens currently available.

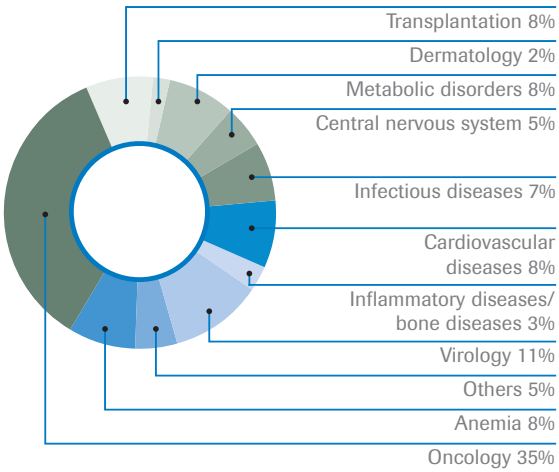
Biotech production: therapeutic proteins made to order

Biotechnology and biopharmaceuticals have led to therapeutic breakthroughs in a number of diseases, notably cancer. Roche is at the forefront of advances in biotechnology and aims to be a world leader in biopharmaceutical R&D, production and marketing.

The Roche Group, including Genentech and Chugai, already owns almost a third of the world's biopharmaceutical manufacturing capacity and is currently building new facilities in Basel (Switzerland), Penzberg (Germany), Vacaville (USA) and Utsunomiya (Japan) at a cost of some 2 billion Swiss francs. The new plants will help build Roche's leadership in biotechnology and ensure that sufficient manufacturing capacity is available to meet expected demand for the Group's new medicines.

Biotech manufacturing techniques harness the natural biological processes of living cells to make useful products – products like the innovative anticancer medicines Avastin and Herceptin, for example. These biopharmaceuticals, which belong to a group of therapeutic proteins known as monoclonal antibodies, are produced with the help of cells that have been genetically modified using recombinant DNA techniques. The cells are cultured (grown) in special fermenters called bioreactors, and as they grow and multiply they secrete the desired protein (antibody) into the culture medium. The product is 'harvested' by separating the antibody from the biomass (cells, culture medium and waste products), concentrated and purified. It is then ready for formulation into the final pharmaceutical product.

Sales by therapeutic area



In February Genentech received approval for Avastin in the United States for use in combination with chemotherapy in patients with previously untreated metastatic cancer of the colon or rectum. After an extremely successful launch, demand for the product in its first market has been strong, resulting in sales of almost 700 million Swiss francs in less than 12 months. In January 2005 Avastin also received marketing approval in the EU. In December 2004 Avastin was approved in Switzerland, which also opens the way to registration of the medicine in over 90 countries worldwide that are guided by Swiss regulatory decisions in their own review processes. Clinical trials have repeatedly demonstrated that Avastin, when added to chemotherapy, significantly prolongs survival in patients with metastatic colorectal cancer, regardless of the chemotherapy used. Data released in November showed that the product also significantly improves median survival in patients with relapsed metastatic colon cancer. (See also *Research and development,* p. 26.)

Tarceva, a breakthrough anticancer drug developed by Genentech, OSI Pharmaceuticals and Roche, was approved by the US Food and Drug Administration (FDA) in November as monotherapy for advanced non-small cell lung cancer (NSCLC). Approval, which followed a priority review, was based on the results of a phase III trial showing that the drug

Avastin shuts down blood supply to tumours

Tumours, like other body tissues, need a constant supply of oxygen and nutrients. They get this by creating their own network of blood vessels through a process called angiogenesis. Avastin is the first medicine that specifically inhibits tumour angiogenesis.

By targeting a protein called vascular endothelial growth factor (VEGF), a key mediator of tumour angiogenesis, Avastin interferes with the blood supply that is essential for the growth of cancers and their spread (metastasis) to other parts of the body.

Although the importance of angiogenesis for cancer growth had long been recognised, it wasn't until 1989 that scientists at Genentech established VEGF's critical role in promoting the formation of new blood vessels in tumours. Four years later they demonstrated that a specific anti-VEGF antibody could suppress tumour growth, opening the way to development of Avastin, the world's first approved anti-angiogenic cancer treatment.

Currently approved in the US, EU, Switzerland and Israel in combination with chemotherapy for patients with metastatic cancer of the colon or rectum, Avastin has broad potential for use in a number of solid tumours. This groundbreaking new biopharmaceutical is further testimony to the success of Roche and Genentech's long-standing alliance.

Major product approvals and launches in 2004[1)]

Product	Generic name	Indication	Country
Avastin	bevacizumab	first-line treatment, in combination with chemotherapy, of metastatic colorectal cancer	USA, Switzerland, EU
Boniva/Bonviva	ibandronate	treatment and prevention of osteoporosis, 2.5 mg daily tablet	EU, Switzerland
Herceptin	trastuzumab	metastatic breast cancer, in combination with Taxotere	EU, Switzerland
Invirase	saquinavir	HIV disease, 500 mg formulation	USA
MabThera/Rituxan	rituximab	first-line treatment of indolent non-Hodgkin's lymphoma	EU, Switzerland
NeoRecormon	epoetin beta	anemia indications, 30,000 IU prefilled syringe	EU, Switzerland
Pegasys	peginterferon alfa-2a	hepatitis C, prefilled syringe	USA
		hepatitis B	Switzerland
		hepatitis C, normal ALT	EU
Tarceva	erlotinib	second- or third-line treatment of advanced non-small cell lung cancer	USA
Xenical	orlistat	prevention of type 2 diabetes (XENDOS data)	EU, USA

1) Includes supplemental indications; updated to end of January 2005.

extends overall survival in patients with pretreated lung cancer. An application for marketing authorisation is being evaluated by the EU authorities. Data from another phase III study showed that Tarceva increases the survival of patients with metastatic pancreatic cancer when added to chemotherapy. Tarceva is currently being investigated in a variety of malignant diseases (see *Research and development,* p. 26).

Kytril, used to control nausea and vomiting in patients receiving chemo- or radiation therapy or who have undergone surgery, continued to perform well in a highly competitive marketplace.

Sales of Bondronat grew strongly in 2004, helped by continued rollout of the drug in Europe and other markets following its approval for the prevention of skeletal events in patients with breast cancer and bone metastases.

Anemia

Anemia occurs when the number of red blood cells falls below normal, starving organs and tissues of oxygen. It is seen in over 80% of patients with impaired renal function due to chronic kidney disease and in up to 60% of patients with cancer. The potential long-term effects of anemia include cardiovascular disease in renal patients and reduced survival in patients with cancer. Anemia can be fatal if left untreated. The global market for anti-anemia products is currently estimated to be worth 13.3 billion Swiss francs.

Against a background of continued price pressure in the anemia market as a whole, Roche's NeoRecormon and Chugai's Epogin posted combined sales of 2.1 billion Swiss francs. They remain the leading products for the treatment of renal anemia in their respective markets. Sales of NeoRecormon in cancer-related anemia grew by 14%, driven by the successful launch and penetration of a new once-weekly 30,000 IU pre-filled syringe that offers patients high efficacy plus convenient dosing.

Transplantation

Over 50,000 people worldwide receive life-saving organ transplants each year. Thanks to advances in surgical procedures and immunosuppressive therapy to prevent organ rejection, transplant recipients can now survive for many years with their new organs. With long-term immunosuppressant treatment now routine, doctors are reducing the use of relatively toxic immunosuppressant drugs in favour of medications with minimal toxicity, such as CellCept.

Roche is now the global market leader in transplantation medicines. In 2004 the Group's transplantation portfolio posted sales of 1.8 billion Swiss

Top-selling products in 2004

Product	Generic name	Indication	Sales in millions of CHF	% change in local currencies
MabThera/Rituxan[1)]	rituximab	non-Hodgkin's lymphoma	3,378	28
NeoRecormon, Epogin[2)]	epoetin beta	anemia	2,082	1
Pegasys[3)] + Copegus	peginterferon alfa-2a + ribavirin	hepatitis B and C	1,562	72
Herceptin[1)]	trastuzumab	metastatic breast cancer	1,435	26
CellCept	mycophenolate mofetil	transplantation	1,403	10
Rocephin[3)]	ceftriaxone	bacterial infections	1,302	0
Avastin[1)]	bevacizumab	metastatic colorectal cancer	690	–
Xenical	orlistat	weight loss, weight control	593	–2
Xeloda[3)]	capecitabine	colorectal or breast cancer	534	7
Kytril[3)]	granisetron	nausea and vomiting induced by chemotherapy or radiation therapy or following surgery	457	8
Nutropin[4)], Protropin[4)]	somatropin, somatrem	growth hormone deficiency	448	9
Dilatrend	carvedilol	chronic heart failure, hypertension, coronary artery disease	361	–8
Pulmozyme[4)]	dornase alfa/DNase	cystic fibrosis	338	8
Tamiflu[3)]	oseltamivir	treatment and prevention of influenza A and B	330	–22
Cymevene, Valcyte	ganciclovir, valganciclovir	cytomegalovirus infection	329	22
Neutrogin[2)]	lenograstim	neutropenia associated with chemotherapy	322	2
Roaccutane/Accutane	isotretinoin	severe acne	316	–37
Activase[4)], TNKase[4)]	alteplase, tenecteplase	myocardial infarction	275	6
Madopar	levodopa + benserazide	Parkinson's disease	245	2

1) Jointly marketed by Roche, Genentech and Chugai.
2) Marketed by Chugai.
3) Jointly marketed by Roche and Chugai.
4) Jointly marketed by Roche and Genentech.

francs, an increase of 11%, with Roche's flagship transplantation drug CellCept showing solid growth. Despite the entry of new competitors, the product's share of the total immunosuppressant market remains a strong 29%. While CellCept remains the leading branded immunosuppressant in the United States, with total prescriptions up by 24%, US sales were negatively impacted in the second half of the year by changes in wholesaler buying patterns, the effects of which are expected to disappear during the first half of 2005. Sales of Zenapax, used in conjunction with CellCept to prevent acute kidney transplant rejection, increased 2% to 41 million Swiss francs.

Combined sales of Valcyte and Cymevene showed solid growth of 22% in 2004 as Valcyte became the global market leader for the prevention of cytomegalovirus infection (CMV). Valcyte has now been launched in most major markets in its new indication, the prevention of CMV disease in solid organ transplant patients. It also remains the leading drug for the treatment of CMV retinitis in HIV patients.

Virology

The liver is one of the body's most important organs, performing over 500 vital functions. The hepatitis B and C viruses (HBV, HCV) both cause acute and chronic liver disease, potentially leading to liver failure, cirrhosis and cancer. Worldwide, 350 million people are thought to be chronically infected with HBV, a highly infectious pathogen that is responsible for an estimated 1 million deaths annually. More than 170 million people around the

world are infected with HCV, and 3 to 4 million new cases occur each year. Hepatitis C is the main reason for liver transplantation.

In 2004 Roche enhanced its leadership position in hepatitis C, with sales of its combination therapy Pegasys plus Copegus advancing to over 1.5 billion Swiss francs. At year end Pegasys accounted for over 60% of both the US and global pegylated interferon markets. During the year new data demonstrated the significant benefits of Pegasys plus Copegus in two hepatitis C patient subgroups: patients co-infected with HIV, and patients with persistently normal liver enzymes (normal ALT), a subgroup that would traditionally not be considered for treatment. Roche received marketing authorisation in Europe for the normal ALT indication in November. Regulatory filings for approval of the combination in HIV–HCV co-infection were submitted in mid-2004 in the European Union and in the United States. We received a positive opinion from the EU authorities in December, and the US filing has been granted priority review. Roche has completed its development programme for Pegasys in chronic hepatitis B, with extensive clinical trial data supporting its use as a first-line treatment of the disease. Marketing applications have now been filed in Europe, the United States and elsewhere. In January 2005 the EU authorities recommended approval. Following approvals in Asia, where hepatitis B is particularly prevalent, and in December in Switzerland, Pegasys has become the first pegylated interferon to have this indication anywhere in the world.

HIV is a worldwide pandemic. The World Health Organization estimates that over 39 million people, including more than 2 million children, were living with HIV/AIDS at the end of 2004. For almost 20 years Roche's innovative drugs and diagnostic tests have placed it at the forefront of efforts to combat HIV infection and AIDS, and we will continue working to improve the standard of HIV care worldwide. For information on Roche's HIV/AIDS initiatives, see our Sustainability Report or visit www.roche.com.

Sales of Fuzeon, for the treament of HIV, improved steadily in 2004, reaching 168 million Swiss francs at year end. Roche and Trimeris are working to

Breakthrough HIV medicine tackles drug resistance

Developed jointly by Roche and Trimeris, Fuzeon is the first major innovation in HIV treatment since 1996. Its novel mechanism of action makes it effective even against strains of the virus that are resistant to other drugs.

Drug resistance is a major challenge to the effective treatment of HIV. One study reports that up to 50% of patients on antiretroviral treatment in North America are infected with a strain of the virus that is resistant to one or more anti-HIV drugs. New medicines to combat drug-resistant HIV are thus urgently needed.

Fuzeon is helping to address this need. It is the first of a new class of drugs that inhibit HIV replication and its devastating effects on the immune system by blocking the virus before it can enter human immune cells. Treatment with subcutaneous Fuzeon significantly reduces viral load and increases the number of healthy immune cells, enhancing patient well-being and quality of life. This advance in HIV treatment won the prestigious International Prix Galien for pharmaceutical innovation in 2004.

Roche has launched comprehensive nurse-to-patient and patient-to-patient support initiatives to help coach patients through the first three critical months of therapy, by which time the dramatic benefits of Fuzeon can be seen and self-injection becomes routine.

accelerate the uptake of Fuzeon through major physician and patient education initiatives. Strong 96-week treatment data were presented during the year, confirming the virological and immunological benefits and good tolerability of long-term treatment with Fuzeon. These findings and the inclusion of 48-week treatment data in the product's US and EU labels support the case for expanded use of the drug. In 2004 Fuzeon was awarded the prestigious International Prix Galien.

Primary care

Global sales of Xenical were down slightly in a market that is still in overall decline. While US sales fell significantly, the product experienced steady growth elsewhere. In September the European Commission approved removal of the 2.5 kg pre-treatment weight-loss requirement from the product's EU label, based on extensive long-term data supporting the drug's efficacy and safety. Based on the results of the landmark XENDOS study, the US and EU authorities approved label changes stating that Xenical can delay the onset of (US) or reduce the risk of developing (EU) type 2 diabetes in obese patients.

Following patent expiries in several major European markets in April 2004, generic erosion led to a decline in sales of Dilatrend, a leading beta blocking agent for hypertension, chronic heart failure and coronary artery disease.

Due to a relatively mild influenza season, sales of Tamiflu declined despite initial orders of pandemic readiness supplies. Preclinical tests have shown Tamiflu to be effective against the highly pathogenic human and avian H5N1 influenza virus, considered the most likely source of a pandemic strain. Experts have called on governments to establish stockpiles of Tamiflu in readiness for a possible pandemic. Roche is working with a number of governments to determine requirements. It has already increased Tamiflu production capacity to meet additional demand and plans to increase it again in 2005.

Boniva/Bonviva is being developed as the first once-monthly oral treatment for postmenopausal osteoporosis. One-year data from a two-year multi-

Boniva makes osteoporosis treatment easier to take

Pharmaceutical innovation isn't just about finding new drugs. It can also mean making effective drugs easier for patients to use. When the disease involved is common, chronic, and undertreated, this type of innovation can have wide-reaching benefits.

Osteoporosis causes a gradual loss of bone density, making bones brittle and prone to break. It affects millions of people worldwide, especially women after the menopause, with broken vertrebrae and hips among its potential consequences. Besides the toll it inflicts on patients, osteoporosis has a major impact on healthcare systems. People who break a hip, for example, usually spend 20–30 days in hospital.

Although there is no cure for osteoporosis, treatment with current bisphosphonates can halt or reverse bone loss and reduce the risk of fractures. However, using these medicines is complicated: patients must take a daily or weekly tablet in the morning, on an empty stomach, then remain upright and not eat for half an hour. Currently, around 50% of osteoporosis patients stop therapy in the first six months and thus derive little or no benefit.

Boniva/Bonviva, Roche's new bisphosphonate and the first once-monthly tablet for osteoporosis, should make it much easier for patients to stay on treatment, thus minimising the risk of fractures. And, because some patients are unable to tolerate oral bisphosphonates, Roche is developing Bonviva injections so that even more people can benefit from this innovative drug.

R&D pipeline: all major development projects successfully brought forward

Therapeutic area	Project ID	Project/product (generic name)	Pharmacological class	Indication	Phase 0	Phase I	Phase II	Phase III	Filed
Hematology and nephrology	R744	CERA	continuous erythropoietin receptor activator	renal anemia					
	R744	CERA	continuous erythropoietin receptor activator	cancer-related anemia					
Genitourinary diseases	R1484		GPCR modulator	stress urinary incontinence					
	R873		GPCR agonist	sexual dysfunction					
Inflammatory, autoimmune and bone diseases	R105[1)]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	autoimmune diseases (lupus nephritis)					
	R105[1)]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	moderate to severe rheumatoid arthritis					
	R105[1)]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	refractory rheumatoid arthritis (TNF non-responders)					
	R1295		integrin antagonist	autoimmune diseases (rheumatoid arthritis, multiple sclerosis)					
	R1503		kinase inhibitor	rheumatoid arthritis					
	R1541		integrin antagonist	inflammatory bowel disease					
	R1569[2)]	MRA (tocilizumab)	humanised anti-IL-6 receptor Mab	systemic onset juvenile idiopathic arthritis					
	R1569[2)]	MRA (tocilizumab)	humanised anti-IL-6 receptor Mab	rheumatoid arthritis					
	R1594[3)]		humanised anti-CD20 monoclonal antibody	rheumatoid arthritis					
	R484[4)]	Boniva/Bonviva (ibandronate)	bisphosphonate	treatment and prevention of osteoporosis					
Cardiovascular and metabolic diseases	R1438		enzyme inhibitor	type 2 diabetes					
	R1439		nuclear receptor modulator	type 2 diabetes					
	R1440		enzyme modulator	type 2 diabetes					
	R1498		nuclear receptor modulator	type 2 diabetes					
	R1499		enzyme inhibitor	type 2 diabetes					
	R1593[5)]		nuclear receptor modulator	dyslipidemia					
	R212	Xenical (orlistat)	lipase inhibitor	obesity – development in Japan					
	R212	Xenical (orlistat)	lipase inhibitor	obesity – label amendments					
	R483	Insulin sensitiser	insulin sensitiser	type 2 diabetes					
	R1664			dyslipidemia					
	R1658[6)]		CETP inhibitor	dyslipidemia					
Neurological and psychiatric diseases	R1485		GPCR modulator	Alzheimer's disease					
	R1500		enzyme inhibitor	Alzheimer's disease					
	R1533[7)]		PDE4 inhibitor	Alzheimer's disease					
	R1576		GPCR modulator	depression					
	R1577		enzyme inhibitor	Alzheimer's disease					
	R1627[8)]		PDE4 inhibitor	Alzheimer's disease					
	R673	NK1	GPCR modulator	depression and anxiety					
	R1450			Alzheimer's disease					
	R1678			schizophrenia					
	R1661			anxiety					
Oncology	R105[1)]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	chronic lymphocytic leukemia (1st line/relapsed)					
	R105[1)]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	maintenance indolent NHL					
	R1273[9)]	Omnitarg (pertuzumab)	anti-HER2 monoclonal antibody	solid tumours (breast cancer, lung cancer, ovarian cancer, prostate cancer)					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	NSCLC (2nd/3rd line)					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	NSCLC (1st line) – combination with chemotherapy					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	adjuvant NSCLC					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	pancreatic cancer					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	glioblastoma multiforme					
	R1415[10)]	Tarceva (erlotinib)	EGFR inhibitor	NSCLC (2nd line) – combination with Avastin					
	R1454		enzyme inhibitor	solid tumours					
	R1492[11)]		enzyme inhibitor (epothilone D)	solid tumours					
	R1536[12)]		enzyme inhibitor	solid tumours					
	R1550[13)]		monoclonal antibody	metastatic breast cancer					
	R1559[14)]		enzyme inhibitor	solid tumours					
	R1594[3)]		humanised anti-CD20 monoclonal antibody	hematologic malignancies					
	R1645[15)]		enzyme inhibitor (epothilone D)	solid tumours					
	R340	Xeloda (capecitabine)	fluoropyrimidine	metastatic colon cancer (1st and 2nd line) – combination treatment					
	R340	Xeloda (capecitabine)	fluoropyrimidine	adjuvant colon cancer – combination treatment					
	R340	Xeloda (capecitabine)	fluoropyrimidine	adjuvant colon cancer – monotherapy					
	R340	Xeloda (capecitabine)	fluoropyrimidine	adjuvant breast cancer					
	R435[9)]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	metastatic colorectal cancer (1st line)					
	R435[9)]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	adjuvant colon cancer					
	R435[9)]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	pancreatic cancer					

	R435[9]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	renal cell carcinoma
	R435[9]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	NSCLC
	R435[9]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	metastatic breast cancer
	R435[9]	Avastin (bevacizumab)	anti-VEGF monoclonal antibody	ovarian cancer (1st line/refractory)
	R547		enzyme inhibitor	solid tumours
	R597[9]	Herceptin (trastuzumab)	anti-HER2 monoclonal antibody	adjuvant breast cancer
	R597[9]	Herceptin (trastuzumab)	anti-HER2 monoclonal antibody	metastatic breast cancer – combination with hormone therapy
	R597[9]	Herceptin (trastuzumab)	anti-HER2 monoclonal antibody	advanced gastric cancer
	R925	Bondronat (ibandronate)	bisphosphonate	metastatic bone pain in all tumour types
	R1507			solid tumours
	R769			oncology
	R1530			oncology
Respiratory diseases	R35[6]	(daclizumab)	anti-CD25 monoclonal antibody	asthma
	R411		dual integrin antagonist	asthma
	R667		nuclear receptor agonist	emphysema
Viral and other infectious diseases	R1558[17]		antibiotic	bacterial infection
	R1626		polymerase inhibitor	hepatitis C
	R420	Pegasys	peginterferon alfa-2a	chronic hepatitis B
	R56	Invirase (saquinavir)	protease inhibitor	HIV, 500 mg tablet
Participation through Genentech	Lucentis[18]	Lucentis (ranibizumab) (formerly AMD Fab)	Fab fragment to anti-VEGF	age-related macular degeneration
	Xolair[19]	Xolair (omalizumab)	anti-IgE antibody	pediatric asthma
				peanut allergy
Participation through Chugai	BO-653		anti-oxidant	coronary heart disease
	CHS13340		recombinant parathyroid hormone	osteoporosis
	ED-71		vitamin D derivative	osteoporosis
	CAL		anti-PTHrP Mab	bone metastases
	CHC12103		polyglutamateTXL	solid tumours (ovarian cancer, NSCLC)
	Femara	Femara (letrozole)	aromatase inhibitor	breast cancer
	Antevas	Antevas	radical scavenger	subarachnoid hemorrhage
	GM-611		motilin agonist	gastroparesis, irritable bowel syndrome
	VAL		liver regenerator	post hepatectomy
Opt-in opportunities Genentech	BR3-FC[20]		fusion protein	rheumatoid arthritis
	R105[20]	MabThera/Rituxan (rituximab)	anti-CD20 monoclonal antibody	multiple sclerosis/ANCA associated vasculitis, SLE
	G-024856[21]		topical hedgehog antagonist	basal cell carcinoma
	PRO1762[22]		APO2L/TRAIL	cancer
	VEGF (PRO128115)	VEGF	recombinant VEGF	diabetic foot ulcers
Opt-in opportunities	BAL8557[23]		antifungal	fungal infection
	R1583[24]		GLP-1	type 2 diabetes
	R1564[25]		vascular targeting agent	solid tumours
	R1668[26]		E2F modulator	solid tumours
	R1524[27]		calcineurin inhibitor	acute renal transplant rejection
	R1495[28]		non-nucleoside reverse transcriptase inhibitor	HIV

External partners (project ID)

1) Genentech/Biogen Idec
2) Chugai
3) Genentech (PRO70769)
4) GlaxoSmithKline
5) Nippon Shinyaku (NS-220)
6) Japan Tobacco (JTT-705)
7) Memory Pharmaceuticals (MEM1414)
8) Memory Pharmaceuticals (MEM1917)
9) Genentech
10) Genentech/OSI Pharmaceuticals
11) Kosan Biosciences (KOS862)
12) Ipsen
13) Antisoma
14) Ipsen (BN80927)
15) Kosan Biosciences (KOS1584)
16) Protein Design Labs
17) Sankyo (CS-023)
18) Novartis Ophthalmics
19) Novartis and Tanox
20) Biogen Idec
21) Curis
22) Amgen and Immunex
23) Basilea Pharmaceutica
24) Ipsen (BIM51077)
25) Antisoma (DMXAA)
26) ArQule (ARQ501)
27) Isotechnika
28) Medivir

There are currently 64 NMEs in the Pharmaceuticals Division's R&D pipeline. Of these, 13 are in early-stage development (phase 0), 30 have entered phase I clinical testing, 13 are in phase II, and 8 in phase III or filed.
In 2004 13 projects entered phase 0, 12 moved to phase I, 1 to phase II and 2 to phase III.

Phase 0: Transition from preclinical to clinical development
Phase I: Initial studies in healthy volunteers and possibly in patients
Phase II: Efficacy, tolerability and dose-finding studies in patients
Phase III: Large-scale studies in patients for statistical confirmation of safety and efficacy

Blue type signifies first indication, black type additional indications.
Current as of 31 December 2004.

■ Therapeutic protein
■ Small molecule

national study show that once-monthly oral Boniva is an effective, well-tolerated and convenient alternative to current daily and weekly oral bisphosphonate regimens and has the potential to improve long-term treatment adherence. In addition, new data from a multinational study of injectable Boniva have shown it to be the first injectable bisphosphonate that is effective when administered once every two or three months, offering all osteoporosis patients greater choice and especially helping those unable to tolerate oral therapy. The once-monthly oral formulation has already been filed in the United States, the European Union and Switzerland. We are now preparing for launch together with our partner, GlaxoSmithKline. A marketing application for Boniva two-monthly or three-monthly intravenous injection was submitted to the US FDA at the end of 2004.

Other major products

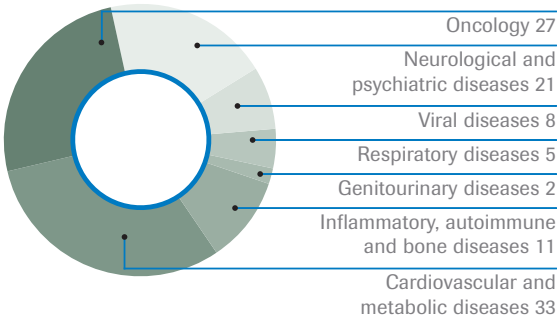
Rocephin remained the world's leading injectable antibiotic in 2004, posting total sales of over 1 billion Swiss francs. Rocephin had a strong year in the United States, with sales growing 8%. European sales of the product declined less than expected due to the delayed introduction of generics in Italy.

Sales of Roaccutane/Accutane, for severe acne, fell more than one-third in 2004. The decline was largely due to the market entry of competing generics in the United States and Europe. During 2004 Roche worked closely with the EU health authorities on the introduction of an enhanced, harmonised pregnancy prevention programme for women taking Roaccutane/Accutane (isotretinoin) in all member states. In the United States Roche has been working with the FDA and generic manufacturers to create a register of all patients treated with products containing isotretinoin. The register is expected to be launched in July 2005 and will replace the current Accutane programme.

Research and development

Roche Pharmaceuticals invested 4.4 billion Swiss francs in R&D in 2004. At 20.1% of sales, this again puts us above the industry average and shows our strong commitment to innovation.

107 research projects in major therapeutic areas
(31 Dec. 2004)



We aim to develop well-profiled medicines that add significant value for patients, physicians and payers in each of our therapeutic areas of interest. Pharma Research is applying a strategy that is steadily increasing both the quantity and quality of the compounds moved into development by screening out those with undesirable characteristics at the discovery stage. Preclinical and clinical risk-defining studies that traditionally are conducted in later phases have now been moved into phase I. While this may result in longer phase I cycle times, we believe it will increase the quality of the compounds entering the later, more costly development phases. In addition, we have aligned drug safety evaluations from discovery right through to marketing in a seamless process.

The Pharmaceuticals Division R&D pipeline currently includes 64 new molecular entities (NMEs), of which 13 are in phase 0, 30 in phase I, 13 in phase II and eight in phase III or filed.

In 2004 Roche Research and Development filed twelve investigational new drug applications with the FDA, a significant increase over previous years.

See page fold-out for pipeline details. For regularly updated information on Roche's R&D pipeline, please visit http://www.roche.com/home/investors/inv_pipeline.htm

Roche R&D expects to advance at least five projects into phase II clinical testing in 2005. In our main growth area, oncology, Roche R&D increased the number of projects to 60, twelve more than at the end of 2003. We currently have 107 research projects across seven therapeutic areas and 79 development projects in eight therapeutic areas. Of the Roche-managed R&D projects, eleven were terminated in 2004: four in phase 0, four in phase I and two in phase II; only one product (pemtumomab) was terminated in phase III.

Innovation network

In 2004 Roche Pharmaceuticals continued to expand its access to innovative research, technologies and compounds through its hub-and-spoke strategy of combining strong in-house R&D with external partnerships and alliances.

In November Roche further strengthened its global research network by opening a new pharmaceutical R&D centre in Shanghai, China. The new facility will focus on medicinal chemistry research for lead generation and optimisation, complementing activities at the Group's other R&D centres.

Roche and Genentech made important progress in the coordination of research activities. An agreement has been signed that sets the framework for joint projects. Following a review of discovery portfolios in oncology and immunology, our researchers are now evaluating the potential of three joint projects.

In 2004 Roche signed over 20 new research and technology agreements and nine product agreements, including important ones in oncology (ArQule, Syrrx), virology (Pharmasset, Structural Genomix) and vascular diseases (Japan Tobacco). During the year several alliances with existing partners, including Affymetrix, Anadys, BioXell, Elan, Evotec, Memory and Norak, were expanded or amended to enhance their value. In addition, Roche sold all rights to Tasmar to Valeant Pharmaceuticals and the rights to Soriatane in the United States to Connetics.

Major development activities

Oncology

Roche and Genentech are pursuing a comprehensive clinical programme investigating the use of Avastin with a number of chemotherapeutic agents in advanced colorectal cancer and as adjuvant therapy following surgery. As Avastin's mechanism of action may be relevant in a number of malignant tumours, we are also investigating the drug's potential clinical benefit in other cancers, including non-small cell lung cancer, pancreatic cancer, renal cell carcinoma and breast cancer. Approximately 15,000 patients are expected to be enrolled in clinical trials worldwide over the next several years.

As Tarceva is designed to interfere with a molecular signal that stimulates tumour cell growth in numerous types of cancer, it is currently being investigated in a variety of malignant diseases by a global alliance of Roche, Genentech, OSI Pharmaceuticals and Chugai. Tarceva is also being evaluated in combination with Avastin.

Major programmes exploring the role of Herceptin in adjuvant breast cancer and of Xeloda in the adjuvant setting in colon and breast cancer are continuing, as are more exploratory trials of the potential benefits of several early-stage molecules with distinct mechanisms of action in a number of cancers.

In 2004 Roche scientists identified a class of small molecules that activate a key tumour suppressor pathway that protects cells from becoming malignant. This new research could offer a completely new strategy for cancer therapy.

Hematology and nephrology (anemia)

Development of CERA, the first continuous erythropoietin receptor activator, for the treatment of renal and cancer-related anemia is progressing on track. CERA represents a major advance in anemia management. Recruitment into global phase III renal anemia studies is advancing well, and phase III studies in cancer-related anemia are due to start in mid-2005. Roche plans to file marketing applications in the United States and elsewhere in 2006.

Rheumatoid arthritis

Rheumatoid arthritis (RA) is an autoimmune disorder characterised by joint inflammation which, even when treated, can result in progressive joint destruction and, ultimately, loss of function. Its cause is unknown. RA can also shorten life expectancy by affecting major organ systems. Less than 50% of RA patients are able to work or perform everyday tasks ten years after developing the disorder. Nearly six million people suffer from RA worldwide.

Roche, Genentech and Biogen Idec are developing MabThera/Rituxan for the treatment of RA. It is the first B-cell depleting agent to be studied in this disease. Development is progressing on track and global filings for an initial indication – in patients with an inadequate response to currently prescribed biologics – are planned for the second half of 2005. Positive data from a phase II study (DANCER) were announced in November. In this study patients with moderate to severe RA who received two infusions of MabThera over a two-week period in combination with a stable dose of methotrexate experienced improved symptoms compared with patients who received placebo and methotrexate.

Development of MRA (an anti-interleukin 6 receptor antibody) for RA is also progressing on track. Phase III studies of this novel biopharmaceutical in RA commenced in Europe and the United States at the end of 2004.

Diabetes

Work is continuing on development of the insulin sensitiser R483 in the treatment of type 2 diabetes. Following new guidance by the FDA on data requirements for the class of drugs to which R483 belongs, Roche has decided to wait for the results of ongoing long-term toxicity studies before starting phase III clinical trials. The toxicity studies will be completed in the first half of 2005.

R1438, R1439 and R1440 for the treatment of type 2 diabetes are now in clinical development, with decisions on entry into phase II expected in 2005. These novel compounds represent the next generation of oral anti-diabetic medicines.

Asthma

R411 is a novel non-steroidal oral treatment that targets the inflammatory process underlying asthma. Results of two phase II studies showed R411 to have a good safety and tolerability profile. Based on initial efficacy data, Roche is continuing development of the molecule, with phase IIb studies scheduled to begin in 2005.

Roche and Protein Design Labs have agreed to codevelop daclizumab for use in asthma and related respiratory conditions, based on positive phase II study data in patients with moderate to severe asthma. Daclizumab is currently approved as an immunosuppressant in transplant patients under the brand name Zenapax.

Vascular diseases

In 2004 Roche licensed in an innovative CETP inhibitor, currently in phase II development, from Japan Tobacco. In addition, we have a potent and highly selective PPARa agonist, licensed from Nippon Shinyaku, in phase I development. Both molecules have been shown to raise levels of 'good' cholesterol, or HDL-C, which may help to prevent coronary events. These targeted approaches are seen as a new frontier in cholesterol control.

In November Roche and deCODE genetics announced the formation of a three-year collaboration to develop and commercialise phosphodiesterase 4 (PDE4) inhibitors for the prevention and treatment of vascular disease, including stroke. This new alliance expands the scope of collaboration between the two companies beyond genetically driven target discovery activities to the next phase of drug research.

Please visit www.roche.com/home/divisions.htm for more information on Roche Pharmaceuticals.

'The doctor told me that my HCV would be difficult to treat. Thanks to Pegasys I'm virus-free now.'

Monique Wald (38) lives with her daughter near Frankfurt am Main, Germany. She probably became infected with HCV (genotype 1) in the early 1980s, but it was not until 2001 that she was diagnosed with chronic hepatitis C.

Predisposition | Early detection | Prevention | Diagnosis | Therapy | Monitoring

Pegasys – a highly effective medicine for all hepatitis C virus genotypes

Hepatitis C is a major cause of acute liver inflammation and cancer. Left untreated, it can cause chronic, progressive liver damage, leading to cirrhosis (a build-up of scar tissue in the liver) and ultimately liver failure and death. Until the hepatitis C virus (HCV) was properly identified in 1989, the cause of hepatitis C was unknown, and the condition was referred to as 'non-A, non-B hepatitis'. Over the years, the virus has mutated into genetically distinct strains, identified as genotypes 1 to 6, which differ in their response to treatment.

Pegasys provides significant benefits to patients with hepatitis C, no matter what viral genotype they are infected with. Its molecular structure (pegylation) allows therapeutic drug levels to be sustained for a full week with just one dose. Pegasys is also distributed readily to the liver, the primary site of infection. It is the only pegylated interferon available as a ready-to-administer solution.

Clinical trials have shown excellent treatment outcomes for patients receiving Pegasys combined with Copegus. More than half of the patients infected with genotype 1 (the form of HCV that is most difficult to treat) achieved a sustained virological response, meaning that the virus could no longer be detected in their blood.

Prevention

Prevention involves identifying and, where possible, eliminating risk factors for a particular disease or reducing them to a minimum. Preventive treatment with medicines or other interventions can delay the onset of overt illness, stop a disease from progressing or limit serious organ or tissue damage and other complications.

Diagnostics Division in brief

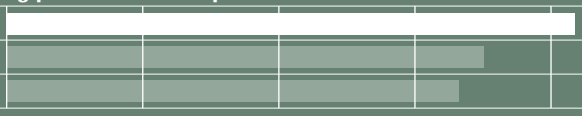
Diagnostics Executive Team *since 1 January 2005*

Heino von Prondzynski	CEO Division Roche Diagnostics
Silvia Ayyoubi	Human Resources
Heiner Dreismann	Molecular Diagnostics
Staffan Ek	Diabetes Care
Christian Hebich	Finance and Services
Tiffany Olson	Market Development
Volker Pfahlert	Applied Science
Burkhard Piper	Centralized Diagnostics
Jürgen Schwiezer	EMEA region (Europe, Middle East, Africa)
Robert Yates	Business Development

Sales *in millions of CHF*

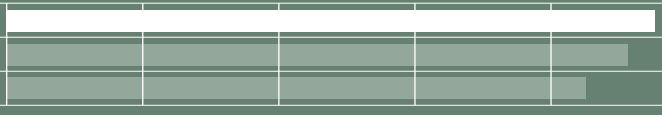
2004	**7,827**
2003	7,409
2002	7,194

Operating profit before exceptional items *in millions of CHF*



2004	**1,675**
2003	1,405
2002	1,331

Number of employees



2004	**19,109**
2003	18,302
2002	17,068

Key figures

	In millions of CHF	% change in CHF	% change in local currencies	As % of sales
Sales	7,827	6	8	100
– Diabetes Care	2,895	7	10	37
– Near Patient Testing	554	1	3	7
– Centralized Diagnostics	2,743	4	5	35
– Molecular Diagnostics	1,104	8	11	14
– Applied Science	531	5	7	7
EBITDA	2,444	16	17	31.2
Operating profit[1)]	1,675	19	21	21.4
Research and development	698	–4	–2	8.9

1) Before exceptional items.

Diagnostics

‘2004 was a successful year for two reasons. For the sixth straight year we grew significantly faster than the market and increased our market share. And at the same time we further improved our operating profit margin. Novel technologies are opening the door to a new era in diagnostics. Today’s cutting-edge research in genetics, genomics and proteomics will make tomorrow’s diagnostic tests even more accurate, rapid and efficient. DNA chips, for example, will help identify disease predispositions at a very early stage – paving the way for preventive action. In the medium term this will contribute to significant savings in healthcare costs.’

Heino von Prondzynski, CEO Division Roche Diagnostics

Results

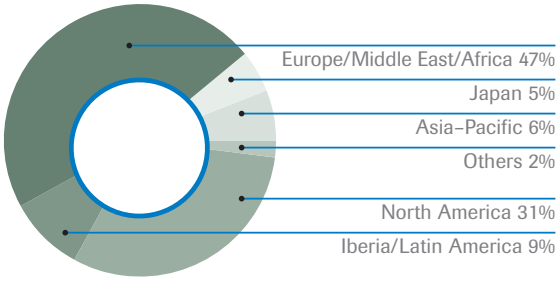
Roche Diagnostics remained on the growth track, with sales advancing 8% in local currencies and 6% in Swiss francs. Sales grew significantly faster than the market in all five of the division's business areas, led by particularly strong gains in the diabetes care, molecular diagnostics and immunochemistry segments. As a result, the division reinforced its position as the global market leader.

Profitability improved further. The division's operating profit margin (before exceptional items) reached 21.4%, and the EBITDA margin climbed 2.7 percentage points to 31.2%. These figures set a new industry benchmark. Operating profit (before exceptional items) increased 19% to 1,675 million Swiss francs, while the division's EBITDA rose 16% to 2,444 million Swiss francs.

Regions

Roche Diagnostics outpaced the market in all regions. Once again sales advanced at double-digit rates in Iberia/Latin America (14%) and the Asia–Pacific region (13%), with especially strong gains being reported in China, India, Korea and Taiwan. The division continued to expand its market leadership in both these regions. Sales increased 11% in Japan, helped by the success of the division's diabetes care, blood screening and immunochemistry businesses. After adjusting for the sale of several product lines in 2003, North American sales rose 8% on a comparable basis, an increase well above the market growth rate. Diabetes management products, molecular diagnostics and immunochemistry were the biggest growth segments in Europe. Sales in this market region (which includes the Middle East and Africa) advanced 7% for the year, and thus also grew significantly faster than the market.

Sales by region



Business areas

Diabetes Care

Roche Diabetes Care remained the leading provider of solutions for better diabetes management, with sales growing 10% in local currencies. Once again the Accu-Chek Advantage and Accu-Chek Compact blood glucose meters were among the top-selling products.

The global diabetes market is characterised by rising cost pressures, new treatment options and customer demands for more and more sophisticated and powerful diabetes management systems. To meet these challenges, Roche Diabetes Care has expanded the Accu-Chek product family. The state-of-the-art Accu-Chek D-TRONplus insulin pump – the first pump to carry the Accu-Chek name – was launched in 2004. Also new is Accu-Chek Pocket Compass 2.0, a diabetes management software package for personal digital assistants that completes the 'circle of care' by allowing users to record and track data from both a blood glucose meter and an insulin pump. This is the first Roche product to link blood glucose measurement, analysis of patient data and insulin delivery.

2004 also saw the launch of Accu-Chek Multiclix, the world's first lancing device to use an integrated lancet drum. Multiclix offers enhanced hygiene and safety because lancets automatically retract into the six-lancet drum immediately after use.

Top-selling product lines in 2004

Product line	Market segment	Business area	Sales in millions of CHF	% change in local currencies
Accu-Chek	Diabetes management	Diabetes Care	2,650	9
Cobas Integra[1)], Roche Hitachi[1)]	Clinical chemistry	Centralized Diagnostics	1,032	2
Elecsys	Immunochemistry	Centralized Diagnostics	882	21
Amplicor tests, Cobas Amplicor	Clinical molecular diagnostics	Molecular Diagnostics	687	8
Cobas AmpliScreen	Nucleic acid-based blood screening	Molecular Diagnostics	277	32
CoaguChek	Coagulation monitoring	Near Patient Testing	166	16

1) Excluding HIAs (homogeneous immunoassays).

The division is now manufacturing blood glucose meters in China as well as at its production sites in Europe and North America. The new production facility, which has been operational since mid-2004, has strengthened Roche Diagnostics' presence in the high-growth Chinese market and given the division a broader base from which to compete successfully in the Far East as a whole. In China alone, there are currently more than 20 million people living with diabetes, and this figure is projected to increase fivefold within the next two to three decades.

In mid-2003 the FDA issued a letter citing certain deficiencies in manufacturing processes and documentation at Disetronic, the insulin pump manufacturer acquired by Roche earlier that same year. The procedures and processes in question have since been modified to conform to the Roche Group's worldwide quality standards. Roche is working closely with FDA officials in preparation for the pending FDA re-audit of the Burgdorf production site in Switzerland. Following successful completion of the re-audit, Roche will move quickly to start sales of its new-generation insulin pumps in the United States.

Near Patient Testing

Roche Near Patient Testing is the leading supplier of products and services for rapid diagnosis in point-of-care settings, from ambulances and intensive care units to doctors' offices and patients' homes. Sales in this business area grew 3% in local currencies in 2004.

Sales of coagulation monitoring products – a segment in which Roche has by far the largest market share – grew by more than 16%, with demand fuelled mainly by the continuing trend to systematic anticoagulation management. More and more European health insurers have begun reimbursing the costs of patient self-monitoring now that the benefits have been documented in several international clinical trials. Self-monitoring has been shown, for example, to significantly reduce the risk of thrombosis in patients with artificial heart valves.

Roche Diagnostics is also the leader in the hospital point-of-care segment (rapid testing products for use in hospitals and at accident scenes). The decision to tighten our focus on core areas is having a positive impact, as reflected in good sales of cardiac assays and the large increase in new placements of blood gas and electrolyte analysers. Placements of OMNI S multifunctional blood gas analysers, for example, showed a fourfold increase over 2003.

The global rollout of Urisys 1100 was successfully completed in 2004. This compact system for standardised urinalysis is designed for use in doctors' offices and small laboratories.

Centralized Diagnostics

Roche Centralized Diagnostics, a leading supplier of integrated total solutions for clinical laboratories, reported above-market sales growth of 5% in local currencies.

Mounting pressure to contain medical costs and make healthcare delivery more efficient, combined with shortages of skilled laboratory staff, is fuelling demand for cost-effective and fully automated integrated laboratory systems.

Modular Analytics SWA for serum work areas – another segment in which Roche is the leader – meets the needs of today's laboratory market. Combining clinical chemistry and immunochemistry testing on a single platform, this system is one of Centralized Diagnostics' key growth drivers.

Performance in this business area was largely driven by a strong rise in immunochemistry sales, with the acquisition of Igen providing an important additional stimulus to growth. Completed in February 2004, this strategic transaction secures Roche's rights to the electrochemiluminescence (ECL) technology underlying the Elecsys line of immunochemistry products. From 2001 to 2003 this product line consistently achieved sales growth above 20%. In 2004 new placements of Elecsys systems reached a record high, and sales rose another 21%. In the medium term Roche Diagnostics aims to become the leader in immunochemistry, a growth market currently valued at 8.6 billion Swiss francs.

A new ten-year agreement with our long-standing Japanese partner Hitachi High-Technologies has brought us another step closer to achieving this goal. Roche and Hitachi will continue to develop automated laboratory solutions that set new standards in innovation, just as they have done for the past 25 years.

The division also continues to invest in technologies to automate the many steps that precede and follow actual testing in the laboratory. For example, Roche Diagnostics has extended its cooperation agreement for pre-analytical systems with PVT Probenverteiltechnik (Germany), a move that reinforces the division's lead as a supplier of total laboratory solutions.

In the cardiovascular testing segment, Centralized Diagnostics has increased the availability of NT-proBNP – a key marker for heart failure – through out-licensing agreements, and last year also expanded its own product portfolio further by in-licensing the marker hsCRP (high sensitivity C-reactive protein). Used to assess cardiovascular risk, hsCRP is the third important cardiac marker in the division's portfolio, which already includes biomarkers and tests for heart attack and heart failure.

Molecular Diagnostics

Roche Molecular Diagnostics remains the undisputed market leader in this high-growth segment. Sales of diagnostic products were up 12% in local currencies, while sales of enzymes to industrial customers, which account for a smaller percentage of revenues, showed a gain of 8%. Blood screening and women's health products were the main growth drivers.

Sales in the blood screening segment advanced by an impressive 32%. Our viral tests are used to screen more units of blood worldwide than any other nucleic acid-based testing system. Because they look for viruses directly, rather than for antibodies formed in response to an infection, tests based on nucleic acid technology (NAT) help ensure the availability of safer blood and blood products sooner.

2004 saw the signing of three major agreements in this area. One of the agreements extends our exclusive contract with the Japanese Red Cross for an additional four years, while another provides for the Korean Red Cross to use Roche tests to screen 70% of its blood donations. The third agreement, with the German Red Cross, marks Roche's entry into the German blood screening market with its real-time PCR instruments. These instruments are based on second-generation PCR (polymerase chain reaction) technology. PCR technology can copy DNA fragments in a sample millions of times over, enabling the detection of even minute amounts of bacteria or viruses.

In addition, an application for clearance of Cobas AmpliScreen HBV Test for screening donor blood for the hepatitis B virus was submitted to the FDA.

Filings have also been submitted to the FDA for expanded indications of the Cobas AmpliScreen

Gender matters

Awareness that there are significant health differences between men and women is nothing new. But it wasn't until recently that researchers began systematically investigating these differences. The findings are sometimes startling.

For example, recent studies have shown that the risk of arteriosclerosis increases dramatically in women following the hormone changes that occur during the menopause and that – contrary to widespread belief – heart disease now claims the lives of more women than men. Besides being susceptible to gender-specific diseases like breast cancer – still the leading cause of death in women aged 45 to 50 – women are more frequently the victims of sexually transmitted diseases than men. Infertility is a common complication of *Chlamydia* infection, and cervical cancer is usually preceded by an infection with the human papillomavirus (HPV).

So there are good reasons for devoting even more research to women's health, though this area is by no means new for Roche Diagnostics. We have the world's broadest portfolio of women's health tests, including tests for osteoporosis, fertility and some infectious diseases. As our new HPV test illustrates, Roche is relying heavily on modern molecular technologies which we hope will set new standards in the early detection and treatment of breast cancer, ovarian cancer and other diseases.

HIV and HCV products for NAT testing of cadaveric fluid for HIV and hepatitis C virus. Clearance of the products for these indications will help increase the safety of organ and tissue donations.

In 2004 the division added another important test to its women's health portfolio with the successful European rollout of Amplicor HPV Test, which is capable of identifying all 13 of the most clinically relevant human papillomavirus (HPV) genotypes. HPV infection is recognised as the leading cause of cervical cancer. France is the first European country to approve reimbursement for the test. We expect HPV tests to have a significant positive impact on the diagnosis and treatment of cervical cancer. (See also *Research and development,* p. 37.)

Tests for chlamydial infections and gonorrhea, which are among the most common sexually transmitted diseases, posted double-digit sales growth.

In 2004 Roche Molecular Diagnostics maintained its leading position in the fiercely competitive virology market. The business area's quantitative test for hepatitis B and qualitative test for hepatitis C were two of the major growth drivers. In addition, a hepatitis C genotyping test was made available for research use in the United States.

Sales in the genomics segment showed double-digit growth. This strong gain was due in part to AmpliChip CYP450 Test – the world's first microarray-based test for clinical diagnostic use – which was launched during the year in Europe. Since January 2005 it has also been cleared for marketing in the United States. This novel test provides valuable information for assessing the body's ability to metabolise medications, which can vary greatly between individuals. It is one of a new generation of diagnostic tests that identify clinically relevant genetic differences, thus helping physicians to select the appropriate drugs and dosages for their patients.

Applied Science

Roche Applied Science is a supplier of reagents and high-tech systems for scientific and industrial research, with major focus areas in genomics and proteomics. Following a weak 2003, this business

DNA chips: tiny high-tech wonders with a big future

DNA chips are already an established tool in research. Now these tiny devices are conquering new worlds as they help doctors deliver more personalised healthcare based on insights into small but important genomic differences.

DNA* chips – also known as gene chips or microarrays – are thumbnail-sized chips embedded with thousands of precisely arranged DNA fragments, each one like a molecular magnet that will attract one specific DNA sequence in a sample. Every target sequence present in a sample will react (hybridise) with the complementary fragment on the chip, producing a fluorescent dot that can be visualised using special laser equipment. The resulting pattern can help identify genomic differences that can affect individual response to treatment. Using results from our AmpliChip CYP450 Test, for example, doctors can better assess how quickly patients will metabolise certain drugs before selecting the drug and dose.

DNA chips are able to analyse huge numbers of genes simultaneously. For that reason they already play an indispensable role in research. And they have a bright future in many areas of clinical diagnostic testing as well – e.g. in distinguishing different cancers and viral infections by their 'genetic signatures' so that treatment can be tailored more precisely to a patient's disease.

*Deoxyribonucleic acid (DNA) is the material that carries genetic information.

achieved excellent growth in 2004 as sales rose 7% in local currencies. Growth was led by sales of LightCycler reagents and by Applied Science's industrial business, with a major contribution coming from new placements of LightCycler instruments. Placements of this DNA amplification system continue to increase steadily, particularly in high-growth markets in the Asia–Pacific region.

Research and development

In 2004 Roche Diagnostics invested 698 million Swiss francs in research and development, significantly more than any competitor. The division is laying the foundation for future success by concentrating its research efforts primarily on its three fastest-growing segments – molecular diagnostics, diabetes and immunochemistry.

Diabetes Care

The main focus is on developing Accu-Chek systems offering optimum user-friendliness and designed to make living with diabetes easier. For a start, this means providing patients with systems that can analyse data from a glucose monitor and an insulin pump and turn the data into actionable information for patients and their doctors. And it also means developing state-of-the-art insulin pumps like Accu-Chek Spirit – scheduled for launch in 2005 – which will enable patients to match their insulin doses much more closely to their individual needs.

In addition, projects are under way to develop integrated systems that will combine glucose measurement, data management and insulin delivery, and the division is working on miniaturised device components, minimally invasive technologies and continuous blood glucose monitoring systems.

The aim is to design pumps that come as close as possible to mimicking the natural pattern of insulin release in healthy individuals – and ultimately to develop an artificial pancreas.

Major product launches in 2004

Business area	Product
Diabetes Care	Accu-Chek D-TRONplus, first insulin pump under the Accu-Chek brand
	Accu-Chek Go blood glucose monitoring system with capillary fill and safety features
	Accu-Chek Multiclix multiple lancing system with integrated lancet drum
	Accu-Chek Pocket Compass 2.0 diabetes management software
	Accu-Chek Safe T-Pro Plus disposable lancing device with adjustable depth setting
	Accu-Chek Spirit, flexible menu-driven insulin pump (CE)
Near Patient Testing	DataCare point-of-care data management software, update of V2.2
	OMNI S 1–4, bloodgas/electrolyte combi-analyser family expansion
Centralized Diagnostics	Elecsys AFP, updated reagent for assessment of germ cell tumours
	Elecsys C-Peptide assay, for measuring C-peptide in human serum, plasma and urine
	Elecsys Ferritin II, updated reagent for assessment of iron metabolism
	Elecsys HIV Combi, a combined HIV antigen and antibody assay
	Elecsys P1NP bone formation marker, for treatment monitoring in osteoporosis
	Elecsys PTH , updated reagent for assessment of parathyroid function
	Elecsys S100, for treatment monitoring in skin cancer
	STA CephaScreen coagulation test
	Urisys 1800, urinalysis system
Molecular Diagnostics	AmpliChip CYP450 Test, microarray for drug metabolism (CE IVD)
	Amplicor HPV Test, test kit (microwell plate format), for qualitative determination of human papillomavirus (CE IVD)
	LinearArray HCV Test, test for hepatitis C virus genotyping (research use)

IVD = for clinical use.
CE = European CE mark certification (Conformité européenne).

Near Patient Testing

The trend towards decentralised testing (diagnostic testing outside the laboratory) will continue. One medium-term goal for Roche Near Patient Testing is to supply portable devices capable of performing every important coagulation test. This business area will be adding new products to its portfolio of cardiac marker tests, including an NT-proBNP assay for the Cardiac Reader system. This assay will be a valuable tool for ruling out heart failure at the point of care.

Centralized Diagnostics

Roche Centralized Diagnostics is working to develop even more cost-effective total laboratory solutions, with a focus on workflow automation and instrument connectivity. The cobas 6000 modular serum work area platform – the first of a new generation of analysers – is currently being developed specifically for medium-throughput laboratories.

Centralized Diagnostics is also investing in the development of new immunoassays. Research work on proteins has already produced very encouraging preliminary data on new breast cancer markers, and markers for other diseases, including colorectal cancer, rheumatoid arthritis and cardiovascular conditions, are also being investigated.

Molecular Diagnostics

In the first quarter of 2005 Roche expects to receive European CE mark certification for its LinearArray

Key product launches scheduled in 2005

Business area	Product
Diabetes Care	Accu-Chek Aviva, high-end successor of Advantage/Sensor blood glucose monitoring system
	Accu-Chek Compact plus, blood glucose monitoring system with one-step handling by integrated strip and lancing devices
	Accu-Chek Pocket Compass 2.1, diabetes management software
	Accu-Chek Spirit, flexible menu-driven insulin pump (USA)
Near Patient Testing	Cardiac proBNP, test strip for use on the Cardiac Reader for diagnosis and monitoring of chronic heart failure
	Cobas IT 1000, hospital point-of-care data management software
Centralized Diagnostics	Cholinesterase assay for assessment of liver function, now available as liquid reagent
	MPA (mycophenolic acid), new product to monitor Roche immunosuppressive drug
	Elecsys Prolactin II, optimisation of macroprolactin detection
	Elecsys Vitamin D, new product for extension of bone marker portfolio on ECL platform
	X7, dedicated HbA1c (glycated hemoglobin) analyser on the basis of Cobas Integra 800
Molecular Diagnostics	AmpliChip CYP450 Test, microarray for drug metabolism (US IVD)
	AmpliChip Leukemia Test for detection of the different subtypes (research use)
	Cobas AmpliPrep + Cobas TaqMan, integrated systems for sample preparation and DNA/RNA analysis (HIV, HCV, HBV)
	Cobas AmpliScreen HBV Test for detection of HCV and HIV-1 RNA and HBV DNA in human plasma (US IVD)
	Cobas TaqMan (48) CT Test, for detection of *Chlamydia* (CE IVD)
	LightCycler Factor V Test, for detection of mutations for clotting Factor V Leiden (CE IVD)
	LinearArray HCV Test, for hepatitis C virus genotyping (CE IVD)
	LinearArray HPV Test, for human papillomavirus (CE IVD)
	Sepsis test for detection of bacterial and fungal DNA from whole blood (CE IVD)
Applied Science	HTC System, high-end real-time PCR system with throughput of 96 and 384 wells
	LightCycler 2.0 CE/SW 4.05, IVD version of the LightCycler 2.0 DNA amplification system
	Quant PCR Master TaqMan, generic PCR master mix for use on all common 96-well real-time PCR instruments

IVD = for clinical use.
CE = European CE mark certification (Conformité européenne).

HPV Test, which can identify 37 HPV genotypes. The test will be available for research use in the United States in 2005.

Roche Molecular Diagnostics is also currently planning to launch a rapid and sensitive *Chlamydia* assay for its Cobas TaqMan instrument for real-time PCR. This assay, which is already available for the Amplicor instrument, will be a major addition to the TaqMan menu, since *Chlamydia* assays are among the nucleic acid-based tests most frequently performed in molecular diagnostic laboratories.

To meet the ever-growing demand for blood and blood products, laboratories frequently screen pooled samples from multiple donors. While this saves time and money, it also increases the risk that a virus may go undetected. Two Roche instruments designed to address this safety issue are currently under development. Scheduled for launch outside the United States in 2006, Blood Screening System 200 and Blood Screening System 400 are dedicated, fully automated instruments that will make it possible to screen individual samples quickly, reliably and cost-effectively. Both systems

have already met with great enthusiasm at international blood service conferences.

Moreover, Roche Molecular Diagnostics is developing clinical diagnostic tests that use AmpliChip and PCR technology and are based on the latest advances in genomics. Here Roche is working with Affymetrix (USA) and deCODE genetics (Iceland) to discover additional genetic variations and markers that could be useful in the development of novel tests, particularly for complex diseases like leukemia. A collaboration agreement with Epigenomics (Germany) is already yielding results. In 2004 Epigenomics identified a number of markers that could one day facilitate the early detection of breast and colorectal cancers. The next step will be to develop tests for these biomarkers.

Applied Science

This business area develops innovative reagents and systems for research in the life sciences, particularly genomics and proteomics. The product portfolio for genomics will be expanded in 2005 with the launch of the HTC (High Throughput Cycler) System. This real-time PCR analyser will feature higher sample throughput capabilities and a broad menu of tests. Innovative tests for identifying genetic variants are scheduled for launch in 2006.

Please visit www.roche.com/home/divisions.htm for more information on Roche Diagnostics

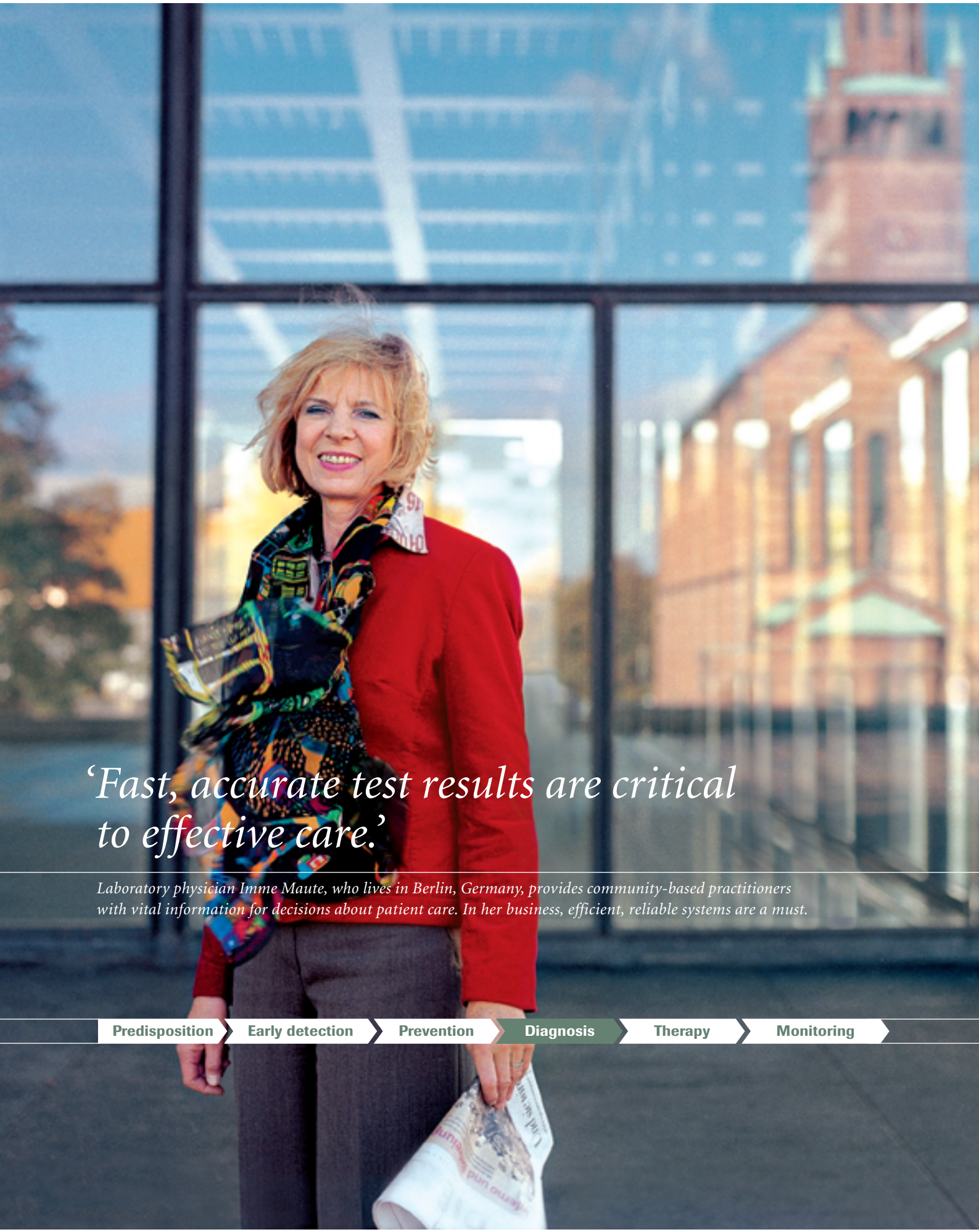
Tailor-made solutions for different kinds of laboratories

Time is of the essence. And nowhere is this truer than in clinical laboratories, where huge numbers of blood, serum and urine samples have to be processed every day. Large laboratories may perform up to 10,000 tests an hour. Understandably, more and more laboratories are turning to automated, integrated solutions to save precious time.That laboratories also want maximum cost efficiency and insist on absolute system reliability goes without saying.

Our modular high-throughput analyser, Modular Analytics SWA (Serum Work Area), delivers on all counts. By combining clinical chemistry and immunoassay capabilities on a single platform, the system allows users to consolidate scores of tests, from blood chemistries like cholesterol, electrolytes, proteins and hormones to biomarkers, e.g. for cancer, osteoporosis and cardiovascular and infectious diseases. As a result, up to 90% of samples can be processed in a single pass. Once samples have been loaded, they are automatically transferred from one test position in the system to the next. This not only improves workflow efficiency but also helps reduce labour costs. And because the system is modular (as the name says), it can be configured to meet laboratories' individual needs.

Diagnosis

To cope with today's broad range of tests and high sample workloads, laboratories require systems that combine high sensitivity and precision with speed and user-friendliness. This is critical to providing physicians with the fast, accurate diagnostic information they need to treat their patients. Early, targeted diagnostic testing – together with tests for monitoring disease progression and treatment response – is one of the keys to achieving successful treatment outcomes.



'Fast, accurate test results are critical to effective care.'

Laboratory physician Imme Maute, who lives in Berlin, Germany, provides community-based practitioners with vital information for decisions about patient care. In her business, efficient, reliable systems are a must.

Predisposition | Early detection | Prevention | **Diagnosis** | Therapy | Monitoring

Board of Directors and Executive Committee

Board of Directors

At the Annual General Meeting on 6 April 2004 Bruno Gehrig and Lodewijk J.R. de Vink were elected as new members of the Board of Directors. On the same date the Board appointed Mr Gehrig as a Vice-Chairman and Independent Lead Director and named him to chair the Board's Remuneration Committee. Mr de Vink was appointed to the Finance and Investment Committee.

The current Board terms of John Bell, André Hoffmann and Franz B. Humer will end at the next Annual General Meeting, on 28 February 2005. All three gentlemen have agreed to stand for re-election to the Board. If they are re-elected, Chairman of the Board Franz B. Humer will continue to be the only director also serving in an executive capacity at Roche, and the majority of seats on the Board will be held by independent directors.

Executive Committee

Richard T. Laube, Head of Roche Consumer Health, which has been sold to Bayer, stepped down from the Executive Committee at the end of 2004; the sale closed on 31 December 2004. He had successfully led the Group's OTC business since 1999 and was appointed to the Executive Committee in 2001. The Board of Directors would like to take this opportunity to thank Mr Laube for his significant contribution to the company and wishes him every success in his future endeavours.

At the end of 2004 the Board of Directors voted to introduce a number of structural and personnel changes to expand and strengthen the Executive Committee. The changes, which became effective on 1 January 2005, include the appointment of William M. Burns, who heads the Group's Pharmaceuticals Division, as CEO Division Roche Pharmaceuticals, and the appointment of Heino von Prondzynski, Head of the Diagnostics Division, as CEO Division Roche Diagnostics. Chief Financial Officer Erich Hunziker has been appointed Deputy Head of the Executive Committee.

In addition, the following key senior managers have been appointed as permanent participants of the Executive Committee: Eduard Holdener, Head of Global Pharma Development; Peter Hug, Head of Pharma Partnering; Staffan Ek, Head of Roche Diabetes Care; and Rolf Schläpfer, Head of Corporate Communications. Osamu Nagayama, President and CEO of Chugai, who has been participating in meetings of the Executive Committee since 2003 as required, has also been named a permanent participant.

After completing his medical studies, Eduard Holdener, who is Swiss, worked as an internist and

Board of Directors as of 1 January 2005 (from left): John Bell, Rolf Hänggi, Peter Brabeck-Letmathe, Bruno Gehrig, André Hoffmann, Franz B. Humer, Lodewijk J.R. de Vink, DeAnne Julius, Walter Frey, Andreas Oeri, Horst Teltschik

Name, year of birth			Term ends	First election
Board of Directors				
Dr Franz B. Humer (1946)	D*, F	Chairman	2005	1995
Prof. Dr Bruno Gehrig (1946)	C*, D, E	Vice-Chairman and Independent Lead Director	2008	2004
Rolf Hänggi (1943)	A*, B, D, E	Vice-Chairman	2006	1996
Prof. Dr John Bell (1952)	C, E		2005	2001
Peter Brabeck-Letmathe (1944)	E		2006	2000
Lodewijk J.R. de Vink (1945)	A, E		2008	2004
Walter Frey (1943)	B, E		2008	2001
André Hoffmann (1958)	A, C, E		2005	1996
Dr DeAnne Julius (1949)	B*, E		2006	2002
Dr Andreas Oeri (1949)	B, E		2008	1996
Prof. Dr Horst Teltschik (1940)	A, E		2006	2002
Secretary to the Board of Directors				
Dr Gottlieb A. Keller (1954)				

A Finance and Investment Committee.
B Audit and Corporate Governance Committee.
C Remuneration Committee.
D Presidium/Nomination Committee.
E Non-Executive Member.
F Executive Member.
* Committee chairman.

1 January 2005

oncologist at several hospitals in Switzerland and in clinical research at the University of Kansas in the United States. He joined the Group in 1986 as a member of the oncology group in Roche's clinical research organisation and was appointed head of the group in 1991. Mr Holdener was in charge of Pharma Development at Roche Japan from 1995 until his appointment as Head of Global Pharma Development in 1999.

Peter Hug, who is also Swiss, has a PhD in economics. He joined Roche in 1983, working first in a variety of positions in Pharma Marketing in Switzerland, Canada and Greece and later as general manager of the Group's affiliates in Uruguay, Switzerland and Spain. His career at Roche also includes two years as head of Roche's Diagnostics business in Germany. In September 2004 Mr Hug assumed his current position as Head of Pharma Partnering, where he is responsible for the Group's strategically vital network of collaborations and alliances.

Staffan Ek, who is Swedish and has a degree in business administration, began his career as a marketing consultant before joining the Pharmacia pharmaceuticals group, where he worked for 20 years. In 1994 he was appointed head of the diabetes care unit at Boehringer Mannheim, the German diagnostics company acquired by Roche in 1998. As Head of Roche Diabetes Care, he now manages the business area accounting for the largest share of Roche Diagnostics' sales.

After earning a degree in economics, Rolf Schläpfer, who is Swiss, held several management positions in marketing and communications. He was a partner and managing director of the consultancy firm Wirz Identity before joining Roche in 1997 as Head of Corporate Communications, which includes internal and external communications and public affairs.

In recent years the Group has steadily pursued a strategy of reshaping itself into an innovative healthcare company focused on its pharmaceuticals and diagnostics businesses, and the changes to the Executive Committee mark another step in this direction. The new structure gives us a broader leadership base with clearly defined deputising arrangements and enhances transparency. Functions that are vital to our strategy of innovation are now directly represented on the Executive Committee, as are the most important business areas and corporate departments. This move will help ensure the Group's continued ability to revitalise and strengthen its management team. Moreover, the new structure will allow Chairman and CEO Franz B. Humer to focus even more strongly on his role as Chairman of the Board of Directors.

Executive Committee from 1 January 2005 (from left): Jonathan K.C. Knowles, Heino von Prondzynski, William M. Burns, Franz B. Humer, Erich Hunziker, Gottlieb A. Keller

	Name, year of birth	Position
Executive Committee	Dr Franz B. Humer (1946)	Chief Executive Officer
	Dr Erich Hunziker (1953)*	Chief Financial Officer
	William M. Burns (1947)	CEO Division Roche Pharmaceuticals
	Heino von Prondzynski (1949)	CEO Division Roche Diagnostics
	Prof. Jonathan K.C. Knowles (1947)	Research
	Dr Gottlieb A. Keller (1954)	Corporate Services and Human Resources
Permanent Participants	Dr Eduard Holdener (1945)	Global Pharma Development
	Dr Peter Hug (1958)	Pharma Partnering
	Staffan Ek (1945)	Diabetes Care
	Rolf D. Schläpfer (1956)	Corporate Communications
	Osamu Nagayama (1947)	President and CEO, Chugai
Secretary to the Executive Committee	Pierre Jaccoud (1955)	
Statutory Auditors of Roche Holding Ltd and Group Auditors	KPMG Klynveld Peat Marwick Goerdeler SA (since 2004) Principal auditor: John A. Morris (since 2004)	
Compliance Officer	Dr Andreas Greuter (1949) (direct phone number: +41 (0)61 688 75 37)	

*Deputy Head of the Executive Committee.

1 January 2005

'I have beaten the cancer, which is really down to the treatment I received – MabThera.'

Adam Morris (27), a data manager and former professional soccer player who lives in Newtown, Wales, was diagnosed with non-Hodgkin's lymphoma of the bone, a very aggressive type of cancer, in 2002.

Predisposition › Early detection › Prevention › Diagnosis › **Therapy** › Monitoring

MabThera/Rituxan – a 'smart' drug for lymphoma

Non-Hodgkin's lymphoma (NHL) is a common cancer of the lymphatic system that results from defective production of white blood cells.

MabThera (marketed as Rituxan in the United States, Canada and Japan) is a therapeutic antibody that binds to a particular protein on the surface of normal and malignant B cells, a type of white blood cell. It then recruits the body's natural defences to attack and kill the marked cells. While the immune system does its work, healthy new B cells are produced in the bone marrow. After treatment they return to normal levels within several months. The combination of MabThera and chemotherapy is the first new treatment in over 20 years that improves survival in patients with aggressive NHL. To date, more than 540,000 patients around the world have been treated with MabThera.

Therapy

Clinically differentiated medicines – alone or combined with other interventions – are an essential component in the effective treatment of many diseases. Diagnostic tests that help physicians to choose the most appropriate drug and dosage and monitor patients' responses to medication are also playing an increasingly important role in therapy. By using them together, physicians can tailor treatment to a patient's individual needs, improving both clinical outcomes and cost-efficiency.

Corporate Governance

Corporate Governance at Roche takes into account all the principles that govern the management and supervision of our company. A system of checks and balances ensures accountability. In addition to complying with the existing legal and internal company regulations, Roche also operates in accordance with the requirements set out in the Company's Articles of Incorporation and Bylaws. Roche meets all of the requirements of SWX Swiss Exchange (SWX) Corporate Governance Directive (including the Commentary) and also subscribes to the Swiss Code of Best Practice for Corporate Governance as promulgated by the business federation economiesuisse. We aim to serve the diverse interests of all our stakeholders, in particular employees, shareholders, holders of Roche non-voting equity securities and customers, in a balanced fashion. This commitment is reflected in our operating businesses' focus on innovation and value creation, and in a management culture that is characterised by modern, appropriate standards of corporate governance.

We combine the printed Annual Report with key links to the Roche website (www.roche.com), enabling readers to gain both a snapshot at the reporting date and an up-to-date overview of the Company's key corporate governance information. The Annual Report contains all the information available up to 31 December of a given year, while the Internet provides a source of permanent and constantly updated information. The Company's Articles of Incorporation, the Bylaws and the curricula vitae of the members of the Board of Directors and the Executive Committee are regularly updated and made available on the Internet for all those who require information.

1) http://www.roche.com/home/company/com_gov/com_gov_bylaws.htm

Organisational structure of the Board of Directors

Roche's Board of Directors is organised so as to ensure that the Group's businesses are conducted responsibly and with a focus on long-term value creation. Therefore, some years ago the Board of Directors of Roche Holding Ltd delegated certain responsibilities to several committees. These committees are:

- the Presidium of the Board of Directors/ Nomination Committee (Chairman: Franz B. Humer)
- the Audit and Corporate Governance Committee (Chairman: DeAnne Julius)
- the Finance and Investment Committee (Chairman: Rolf Hänggi)
- the Remuneration Committee (Chairman: Bruno Gehrig)

All committees except the Presidium are chaired by independent directors.

The Bylaws of the Board of Directors, containing details on the internal structure of the Board, the allocation of authority and responsibilities, the mandates of the Board committees and the information and control mechanisms available to the Board in its dealings with corporate management, are published on the Internet.[1)]

Under Articles 4.2.2 and 6.2/6.3 of the Bylaws of the Board of Directors, the Independent Lead Director may, at the request of any member, convene a Board meeting without the attendance of the Chairman. The Roche Board meets once a year to assess the Chairman's performance. This meeting, which is held in the absence of the Chairman, is chaired by the Independent Lead Director.

Remuneration

Remuneration of members of the Board of Directors

In 2004 the members of the Board of Directors received the remuneration shown in the table below for serving on the Board:

The remuneration was paid pro rata for their Board membership for the period from January to March 2004.

Otherwise, no additional remuneration was paid to members of the Board of Directors.

Remuneration of members of the Board of Directors

	Remuneration 2004 (in CHF)	Special remuneration 2004 (in CHF)	Additional compensation 2004 committee members[2] (in CHF)
F.B. Humer	300,000[3]	–	–
B. Gehrig	337,500[4]	–	–
R. Hänggi	375,000[5]	–	–
J. Bell	300,000	–	10,000
P. Brabeck-Letmathe	300,000	–	–
L.J.R. de Vink	225,000[6]	–	7,500[6]
W. Frey	300,000	–	10,000
A. Hoffmann	300,000	–	20,000
D.A. Julius	300,000	50,000[7]	10,000
A. Oeri	300,000	–	10,000
H. Teltschik	300,000	–	10,000
Total	3,337,500	50,000	77,500

2) Per committee membership/year, excluding members of the Presidium and vice-chairmen: CHF 10,000.
3) The remuneration paid to the Chairman of the Board F.B. Humer (the only executive member of the Board of Directors) is deducted from his agreed salary (see 'Remuneration of members of the Executive Committee', page 50).
4) Remuneration for serving as Independent Lead Director and Vice-Chairman pro rata for the period from April to December 2004.
5) Remuneration for serving as Vice-Chairman of the Board.
6) Pro rata for the period from April to December 2004.
7) Special remuneration for the additional time required by D.A. Julius in 2003 to evaluate the new auditors.

Remuneration, special remuneration and additional compensation paid to non-executive members of the Board of Directors for serving in the aforementioned capacities totalled 3,165,000 Swiss francs in 2004.

The non-executive members of the Board of Directors were not awarded any shares or options in 2004 and, as of 31 December 2004, held no unvested options awarded in previous years.

In addition, three non-executive members of the Board of Directors who stepped down in 2004 received remuneration totalling 225,000 Swiss francs.

Remuneration of members of the Executive Committee

In 2004 the members of the Executive Committee received the salaries, bonuses, stock options and non-voting equity securities shown in the tables headed 'Remuneration of members of the Executive Committee'.

Senior managers and members of the Executive Committee additionally receive annual expense allowances of 20,000 and 30,000 Swiss francs, respectively; the Chief Executive Officer receives an annual expense allowance of 50,000 Swiss francs. In 2004 the members of the Executive Committee in

Remuneration of members of the Executive Committee:

A. Cash payments (in CHF)

	Annual salary 2004	Annual salary 2003	Annual salary 2002	Bonus 2004	Bonus 2003	Bonus 2002
F.B. Humer	6,030,000	6,030,000	6,030,000	1,000,000	1,000,000	1,500,000
W.M. Burns	1,200,000	1,200,000	1,150,000	800,000	600,000	400,000
E. Hunziker	1,470,000	1,470,000	1,470,000	800,000	600,000	112,000[8)]
G.A. Keller	530,007	417,498	345,000	300,000	120,000	100,000
J.K.C. Knowles	1,025,001	929,500	843,499	600,000	360,000	320,000
R.T. Laube	765,000	705,000	660,000	300,000	150,000	300,000
H. von Prondzynski	1,150,000	1,098,750	865,000	700,000	500,000	500,000
Total	12,170,008	11,850,748	11,363,499	4,500,000	3,330,000	3,232,000

8) Pro rata for the period from 1 October 2001 to 31 December 2001.

B. Stock options, non-voting equity securities (NES; *Genussscheine*) and total remuneration 2004

	Stock options 2004 (value in CHF[9)])	Stock options 2003 (value in CHF[9)])	Stock options 2002 (value in CHF[9)])	NES awarded under the PSP for the years 2002–2004 (total number)	PSP value per year (three-year programme i.e. 1/3 per year) (in CHF)	Total remuneration 2004 (cash, stock options, 1/3 of PSP) (value in CHF)
F.B. Humer	1,780,338	1,780,100	1,367,400	101,772	4,440,652	13,250,990
W.M. Burns	712,135	445,100	319,100	20,254	883,750	3,595,885
E. Hunziker	667,606	445,100	45,600[10)]	24,810	1,082,543	4,020,149
G.A. Keller	222,642	89,100	54,800	6, 920	301,943	1,354,592
J.K.C. Knowles	489,652	311,600	218,800	14,346	625,964	2,740,617
R.T. Laube	267,170	204,800	209,700	11,140	486,075	1,818,245
H. von Prondzynski	578,709	356,100	218,800	14,176	618,546	3,047,255
Total	4,718,252	3,631,900	2,434,200	193,418	8,439,473	29,827,733

9) Black-Scholes valuation as described in section 'C. Stock options'.

10) Pro rata for the period from 1 October 2001 to 31 December 2001.

total received expense allowances totalling 230,000 Swiss francs.

Richard T. Laube stepped down from the Executive Committee on 31 December 2004 and will leave the company on 30 June 2005. Richard T. Laube was awarded a special bonus of 2.5 million Swiss francs in recognition of the successful completion of the sale of Roche Consumer Health (RCH).

C. Stock options

At 31 December 2004 the members of the Executive Committee held options as shown in the table below 'Stock options'. All of the options shown in the table were issued by Roche as employee stock options. Each option entitles the holder to purchase one Roche non-voting equity security (NES; *Genussschein*). Under the terms of this well established option plan, the exercise price of the options shown was the closing price for Roche NES on the trading day prior to the Roche Annual Media Conference. All of the options shown are non-tradable. One third of the options are subject to a vesting period of one year, one third have a vesting period of two years, and one third a vesting period of three years. Unvested options lapse without compensation if a member voluntarily leaves the company, while vested options must be exercised within a limited period of time. If they were tradable, the fair value of the options would be calculated at the date of issue based on the Black–Scholes formula and after deducting 11% for the average two-year vest-

Stock options

	Number of options 2004	Number of options 2003	Number of options 2002
F.B. Humer	55,775	109,410	45,428
W.M. Burns	22,310	27,353	10,600
E. Hunziker	20,915	27,353	1,515[11]
G.A. Keller	6,975	5,471	1,820
J.K.C. Knowles	15,340	19,147	7,269
R.T. Laube	8,370	12,583	6,966
H. von Prondzynski	18,130	14,588	2,423
Total	147,815	215,905	76,021
Exercise price in CHF	129.50	77.80	115.50
Expiry date	3.2.2011	25.2.2010	26.2.2009
Allotment value per option in CHF (value based on Black-Scholes valuation minus 11%)	31.92	16.27	30.10

11) Pro rata for the period from 1 October 2001 to 31 December 2001.

ing period. The exercise price, expiry date and allotment price are shown in the table 'Stock options', above. The value of the options in the table 'Remuneration of members of the Executive Committee, B. Stock options, non-voting equity securities (NES; *Genussscheine*) and total remuneration 2004' was based on the calculation method used at the time of issue.

Indirect benefits

Employer contributions that were made in 2004 to social security schemes, pension plans and a Group-wide employee stock purchase plan (Roche Connect) in respect of members of the Executive Committee are shown in the table 'Indirect benefits'.

Under Roche Connect, a voluntary stock purchase plan, employees have the opportunity to buy Roche non-voting equity securities (NES, *Genussscheine*) up to an amount equal to 10% of their annual salary at a 20% discount. NES purchased under this plan are subject to a holding period, which in Switzerland is four years.

Performance Share Plan 2002–2004

The members of the Executive Committee and other members of senior management whose performance has a major impact on Roche's ability to achieve its corporate objectives (some 40 individuals worldwide) participated in the Performance Share Plan (PSP), which was established at

Indirect benefits

	Pension funds/MGB[12] (in CHF)	AHV/IV/ALV[13] (in CHF)	Roche Connect (in CHF)
F.B. Humer	2,740,991	408,725	50,004
W.M. Burns	768,940	142,865	30,000
E. Hunziker	585,703	158,558	36,756
G.A. Keller	177,664	56,759	12,915
J.K.C. Knowles	1,120,989	112,895	14,900
R.T. Laube	255,170	71,754	18,000
H. von Prondzynski	1,247,074	149,170	24,481
Total	6,896,531	1,100,726	187,056

12) MGB: Stiftung der F. Hoffmann-La Roche AG für Mitarbeiter-Gewinnbeteiligung (employee profit-sharing foundation supplementing occupational pension benefits).

13) AHV/IV/ALV: Swiss social security programmes providing retirement, disability and unemployment benefits.

the beginning of 2002. Under the provisions of this programme (and based on the salaries and NES price that applied at that time) a number of NES were reserved for the participants. The actual distribution of securities depended on whether and to what extent an investment in Roche securities (shares and NES) outperformed the average return on investments in securities issued by a peer set[14] of 17 companies operating in the same industry during the three years in which this programme was in effect. Performance was evaluated on the basis of market price and dividend yields.

Over the last three years Roche securities (shares and NES), including dividend yields, have consistently outperformed the average return delivered by the peer pharmaceuticals and diagnostics companies. Roche ranked second at the end of 2004. During this time Roche's market value increased from 102 billion Swiss francs to 113 billion Swiss francs, equivalent to growth of 10.8% or 11 billion Swiss francs. The distribution of dividends totalled 3.8 billion Swiss francs.

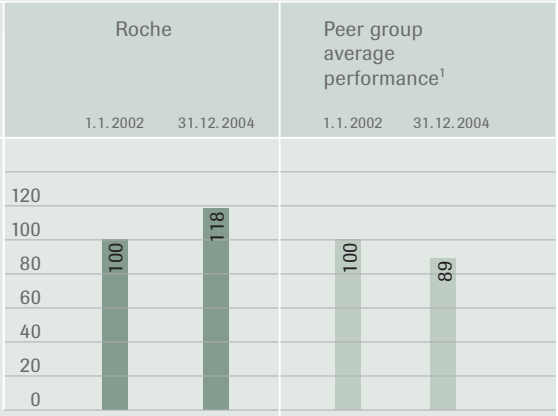
In comparison, the average total shareholder return (TSR) of the peer set was significantly lower, resulting in a decline in value of 11%. Thus TSR on Roche securities over the last three years is 29% higher than the average TSR of the peer companies.

Roche has already made the necessary provisions for the PSP, on a pro rata basis, in its annual accounts for 2002 and 2003.

The PSP ended on 31 December 2004 and, in accordance with the provisions of this programme, participating executives were vested with double the number of NES in recognition of their contribution to the company's success. In addition, some participants elected to place a percentage of their NES in a blocked account for a period of four years. Detailed information concerning members of the Executive Committee is presented in the table 'Remuneration of members of the Executive Committee, B. Stock options, non-voting equity securities (NES; *Genussscheine*) and total remuneration 2004'.

14) Peer set: Abbott Laboratories, Amgen, AstraZeneca, Aventis, Bayer, Becton Dickinson, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck, Novartis, Pfizer, Sanofi-Synthélabo, Schering-Plough, Takeda, Wyeth

Roche performance



Roche market capitalisation *in billions of CHF*		102	113
Roche securities *in CHF*	Non-voting equity security (NES)	118.50	130.90
	Share	136.00	150.00

[1]Prices translated at constant CHF exchange rates.

TSR = stock price change plus dividend.

Other remuneration and emoluments and loans to corporate officers

Gottlieb A. Keller has taken out a mortgage loan of 492,500 Swiss francs with the Pension Fund of F. Hoffmann-La Roche Ltd at an interest rate of 4.2% p. a. The interest rate on this loan is fixed until 31 December 2006.

Pensions totalling 2,161,932 Swiss francs were paid to nine former Executive Committee members or their widows in 2004 and bonuses totalling 1,620,000 Swiss francs were paid to two former Executive Committee members for the previous year (2003).

Otherwise, no additional remuneration was paid to current or former members of the Executive Committee.

Highest total remuneration

The Chairman of the Board and CEO Franz B. Humer was the member of the Board and the member of the Executive Committee with the highest total remuneration in 2004 (as shown in the tables above). Including the allocation of the awards under the three-year Performance Share Plan, his direct salary was as follows:

Highest total remuneration (in CHF)

	2004	2003	2002
Cash payment	7,030,000	7,030,000	7,530,000
Stock options			
(value based on Black-Scholes formula minus 11%)	1,780,338	1,780,100	1,367,400
Performance Share Plan 2002–2004			
(allocation of 1/3 per year)	4,440,652	4,440,652	4,440,652
Total (value)	13,250,990	13,250,752	13,338,052

Shareholdings

The Directors André Hoffmann and Andreas Oeri and members of the founder's family who are closely associated with them belong to a shareholder group with pooled voting rights. At the end of 2004 this group held 80,020,000 shares (50.01% of issued shares). Following Fritz Gerber's retirement from the Board and departure from the shareholder group on 6 April 2004, André Hoffmann took over the role of pool spokesman. Detailed information about this group is presented in Note 38 to the Roche Group Consolidated Financial Statements ('Related parties', page 131) and in the Notes to the Financial Statements of Roche Holding Ltd (page 148). In addition, as of 31 December 2004 the non-executive members of the Board of Directors and persons closely associated with them held 165,975 shares; the members of the Executive Committee and persons closely associated with them held 996 shares at the same date.

Relationship to Group auditors and statutory auditors

At the Annual General Meeting of Roche Holding Ltd on 6 April 2004, KPMG Klynveld Peat Marwick Goerdeler SA (KPMG) was elected as Group auditors and statutory auditors (information on the appointment of the Group auditors and the date on which the principal auditor took up office will be found on page 45). The Group auditors and statutory auditors participate in the Audit and Corporate Governance Committee meetings. The auditors make written and oral reports on the results of their audits. The Audit and Corporate Governance Committee oversees and assesses the auditors and makes recommendations to the Board (for information on the responsibilities of the Audit and Corporate Governance Committee, see Article 8.1[15] of the Bylaws). The Group auditors and statutory auditors participated in three meetings of the Audit and Corporate Governance Committee in 2004.

KPMG received the following remuneration for their services as Group auditors and as statutory auditors of Roche Holding Ltd and other Roche financial companies:

15) http://www.roche.com/home/company/com_gov/com_gov_bylaws.htm

(in millions of CHF)	2004
Auditing services	10.4
Audit-related services	1.7
Tax consultancy services	1.3
Total	13.4

The Group auditors and statutory auditors are elected each year by the Annual General Meeting.

Ernst & Young Ltd received the following remuneration for their services as the auditors of Genentech and Chugai:

(in millions of CHF)	2004
Genentech and Chugai audits	3.3
Other consulting services provided to Genentech and Chugai	1.0
Total	4.3

Additional information relating to corporate governance

Group structure and shareholders

- Roche's operating businesses are organised into two divisions: Pharmaceuticals and Diagnostics. The Pharmaceuticals Division comprises the three business segments Roche prescription, Genentech prescription and Chugai prescription. The sale of the Consumer Health (OTC) business resulted in the transfer of Roche's OTC business to Bayer AG as of 31 December 2004 and Chugai's OTC business to Lion Corporation as of 29 December 2004. The Diagnostics Division consists of five business areas: Diabetes Care, Near Patient Testing, Centralized Diagnostics, Molecular Diagnostics and Applied Science. Business activities are carried out through Group subsidiaries and associated companies. Significant subsidiaries and associated companies are listed in Note 41 to the Roche Group Consolidated Financial Statements ('Subsidiaries and associated Companies', pages 135 to 138).
- Major shareholders are listed in Notes 34 and 38 to the Roche Group Consolidated Financial Statements ('Equity' and 'Related parties', pages 128 and 131) and in the Notes to the Financial Statements of Roche Holding Ltd (page 148).
- André Hoffmann and Andreas Oeri serve on the Board of Directors as representatives of the shareholders with pooled voting rights and receive the remuneration set out in the table 'Remuneration of members of the Board of Directors', above. No other relationships exist with the shareholders with pooled voting rights.
- There are no cross-shareholdings.

Capital structure

- Information on Roche's capital structure is provided in the Notes to the Financial Statements of Roche Holding Ltd (page 148). Additional details are contained in the Articles of Incorporation of Roche Holding Ltd.[16)]
- Changes in equity are detailed in the Notes to the Financial Statements of Roche Holding Ltd (page 148).

16) http://www.roche.com/home/company/com_gov/com_gov_arti.htm

- The Company has a share capital of 160,000,000 Swiss francs, divided into 160,000,000 fully paid bearer shares with a nominal value of 1 Swiss franc each. There are no limitations on the transfer of these shares and no shares with maximum voting rights. Upon deposit, shares can be voted without any restrictions.
- There is no authorised or conditional capital.
- In addition, 702,562,700 NES have been issued in bearer form. They do not form part of the share capital and confer no voting rights. Each NES confers the same rights as one share to participate in available earnings and in any liquidation proceeds following repayment of the share capital. Roche's NES and the provisions securing the claims and rights pertaining thereto are described in §4 of the Articles of Incorporation of Roche Holding Ltd.
- Information on debt instruments which have been issued and on outstanding bonds will be found in Note 32 to the Roche Group Consolidated Financial Statements ('Debt', page 123).
- Additional information on employee stock options will be found in Note 12 to the Roche Group Consolidated Financial Statements ('Employee stock options and other equity compensation benefits', page 108).
- Roche has issued no options apart from those which have been awarded to employees or issued in connection with debt instruments.
- Neither the options awarded to employees nor the debt instruments which have been issued have any effect on Roche's share capital.

Board of Directors and Executive Committee

- Information on each member of the Board of Directors (including the years in which they were elected and the years in which their terms end) and Executive Committee is listed on pages 42 to 45. Curricula vitae and other information about Board and Executive Committee members (including information on board memberships) are available on the Internet[17].
- None of the non-executive members of the Board of Directors has been a member of the Executive Committee of Roche or any of the Group subsidiaries during the three financial years preceding the current reporting period.
- The internal organisation of the Board of Directors and the division of authority and responsibilities between the Board and management are governed by the Bylaws[18].
- The Board of Directors has established a system of controls which is overseen by the Audit and Corporate Governance Committee and consists of the following elements:
  - Reports on financial and operating risks
  - Internal audits
  - Compliance Officer
  - Safety and Environment department
  - Corporate Sustainability Committee
  - Scientific and Ethics Advisory Group (SEAG) for issues relating to genetics and genetic engineering (established 1999).
- Each year several black-out periods are imposed during which all senior employees are prohibited from trading in company stock. The following black-out periods are in effect for 2005:

  1 January to 2 February
  1 April to 19 April
  1 July to 20 July
  1 October to 19 October

  Black-out periods can be changed by the Chairman of the Board of Directors if circumstances warrant.
- The Board of Directors held a total of five meetings in 2004. The Board committees met as follows in 2004:
  - the Presidium of the Board of Directors/Nomination Committee: five meetings
  - the Audit and Corporate Governance Committee: four meetings
  - the Finance and Investment Committee: three meetings
  - the Remuneration Committee: four meetings
- There are no management contracts which fall within the meaning of Subsection 4.3 of the SWX Corporate Governance Directive.

Participatory rights of shareholders

- The participatory rights of shareholders are fully defined in Roche's Articles of Incorporation[19]. As Roche shares are issued to bearer, there are no restrictions on admission to Annual General Meetings, with the exception that shares must be

17) http://www.roche.com/home/company/com_gov.htm
18) http://www.roche.com/home/company/com_gov/com_gov_bylaws.htm
19) http://www.roche.com/home/company/com_gov/com_gov_arti.htm

deposited within a specified period before the date of a meeting and an admittance card must be issued in the shareholder's name, as provided in §12 of the Articles of Incorporation. Any shareholder can elect to be represented by another shareholder at an Annual General Meeting. The Articles of Incorporation contain no restrictions on the exercise of voting rights, and the only quorum requirements are those stipulated in §16.

- Under §10.2 of the Articles of Incorporation, shareholders representing shares with a nominal value of at least 1,000,000 Swiss francs can request the placement of items of business on the agenda of an Annual General Meeting. This must be done no later than 60 days before the date of the meeting.

Change of control and defensive measures

- The Articles of Incorporation contain no provisions on the mandatory bid rule. Swiss law applies.
- There are no change-of-control clauses. Those components of remuneration based on Roche NES would be terminated in the event of an acquisition, and vesting period restrictions on pre-existing awards would be removed, so that all such options could be immediately exercised.

Information policy

- As provided by §33 of the Articles of Incorporation[20], corporate notices are published in the Swiss Official Gazette of Commerce *(Schweizerisches Handelsamtsblatt)* and in other daily newspapers designated by the Board of Directors *(Basler Zeitung, Finanz und Wirtschaft, L'Agefi, Le Temps, Neue Zürcher Zeitung)*.
- Roche reports its half-year and full-year results in business reports published in print and online formats and at media events. In addition, first- and third-quarter sales figures are published each year in April and October. Current dates of publications are available in English and German on the Internet[21].
- All relevant information and documents, including all other media releases and presentations to analyst and investor conferences, are available in English and German on the Internet. Further publications can be ordered by e-mail, fax or telephone (basel.webmaster@roche.com; tel. +41 (0)61 688 83 39; fax +41 (0)61 688 43 43).
- The contact address for Investor Relations is: F. Hoffmann-La Roche Ltd, Investor Relations, Corporate Finance, 4070 Basel, Switzerland; tel. +41(0)61 688 88 80, fax +41(0)61 691 00 14. Additional information, including details on specific contact persons, is available on the Internet[22].

Non-applicability/negative disclosure

It is expressly noted that any information not contained or mentioned herein is non-applicable or its omission is to be construed as a negative declaration (according to the requirements of the SWX Corporate Governance Directive, including the Commentary).

20) http://www.roche.com/home/company/com_gov/com_gov_arti.htm
21) http://www.roche.com/home/media/med_events.htm
22) http://www.roche.com/home/investors/inv-contact.htm

Compliance Officer

The Compliance Officer is committed to ensuring that Roche corporate principles are consistently complied with throughout the Roche Group and also serves as a contact person for shareholders, employees, customers, suppliers and the general public on issues relating to the implementation of and compliance with these principles. Employees and other parties who become aware of violations of Roche corporate principles can and should bring them to the attention of their managers or supervisors or report them to the Compliance Officer (Andreas Greuter, direct phone number: +41(0) 61 688 75 37). Such disclosures will be treated as confidential. Employees who make such disclosures will not be penalised by the Company for doing so, but are not immune from prosecution for legal violations. The Compliance Officer submits regular reports to the Audit and Corporate Governance Committee.

Making diabetes easier to live with

The number of people with diabetes has risen sharply in recent years and, according to a WHO estimate, will reach 300 million by 2025. The situation is already being described as a global epidemic. Diabetes is associated with serious complications, including blindness, heart attack, stroke, kidney damage and limb amputations. Many of these problems can be prevented or improved through regular blood glucose monitoring and the right insulin regimen – which means that health systems as well as patients stand to benefit.

Thirty years ago the idea of people with diabetes monitoring their own glucose as they went about their daily lives seemed unthinkable; now it's the norm. Roche Diagnostics has had a major hand in bringing about this change. Today, small, easy-to-use glucose meters like Accu-Chek Compact can match the precision and accuracy of a laboratory, and our latest software for personal digital assistants now makes it possible to manage glucose and insulin data together.

But the story doesn't end there. We want to make life even simpler and safer for people with diabetes. For example, by finding ways to measure blood glucose without having to take a blood sample; and by developing insulin pumps that allow continuous insulin delivery. Our long-term goal is to create an artificial pancreas. This would be a huge step forward in the fight against diabetes.

Monitoring

Monitoring devices are not just for people with diabetes. The benefits of using a compact high-tech self-monitoring device are just as real for patients taking anticoagulants, who need quick, reliable information about their coagulation status.

And specific diagnostic tests and systems play a vital role in monitoring other types of therapy as well. For example, they help doctors to track patients' responses to anti-HIV therapy and, when necessary, make the right treatment changes at the right time.

'Self-monitoring gives me independence and security – in short, a better quality of life!'

Gudrun Schindler (43), who lives in the Schwäbische Alb region in Germany, advises people with diabetes. She knows what she's talking about: for the last 21 years she has been checking her own blood glucose several times a day – with Roche Accu-Chek systems.

Predisposition | Early detecion | Prevention | Diagnosis | Therapy | Monitoring

Finance in brief

Net income *in millions of CHF*

2004	**6,641**
2003	3,069
2002	-4,026

Net income continuing businesses before exceptional items *in millions of CHF*

2004	**4,343**
2003	3,371
2002[a)]	3,072

EBITDA continuing businesses *in millions of CHF*

2004	**9,231**
2003	8,038
2002	7,219

Net liquidity (year-end) *in millions of CHF*

2004	**11,674**
2003	5,908
2002	600

Debt (year-end) *in millions of CHF*

2004	**8,960**
2003	15,287
2002	22,350

Stock price of non-voting equity security (*Genussschein*; year-end) *in CHF*

2004	**130.90**
2003	124.75
2002	96.35

a) Excluding gain from LabCorp transactions.

Finance

During 2004 Roche Finance has contributed significantly to the excellent Group results by supporting the divestment of the OTC business and by creating the conditions for a balanced financial income in 2005. The 3.7 billion Swiss francs proceeds from the OTC divestment more than covered the 1.8 billion Swiss francs cost for the acquisition of Igen. Debt was reduced by a further 6.3 billion Swiss francs, resulting in significantly lower interest expenses, and we also continued to reduce the risk exposures of financial investments and foreign exchange transactions. These Finance activities, coupled with the strong cash generation of Pharmaceuticals and Diagnostics evidenced by the EBITDA of 9.2 billion Swiss francs, have led to an increase in the Group's net liquidity of 5.8 billion Swiss francs to 11.7 billion Swiss francs. The ratio of equity and minority interests to total assets improved to 57% from 49%.

Erich Hunziker, Chief Financial Officer

Key figures

Key figures *in millions of CHF*

	Roche Group				Continuing businesses[a]			
			% change				% change	
	2004	2003	CHF	LC	2004	2003	CHF	LC
Sales	31,273	31,220	0	+3	29,522	27,190	+9	+12
Research and development	5,093	4,766	+7	+11	5,053	4,624	+9	+14
EBITDA[b]	9,566	8,609	+11	+15	9,231	8,038	+15	+19
Operating profit before exceptional items	7,254	6,268	+16	+20	6,950	5,793	+20	+24
Operating profit	8,979	5,592	+61	+65	6,179	5,520	+12	+16
Financial income	(359)	(667)	-46		(339)	(630)	-46	
Net income before exceptional items[c]	–	–	–		4,343	3,371	+29	
Net income	6,641	3,069	+116		4,339	3,074	+41	
EPS[d] before exceptional items in CHF	–	–	–		5.07	3.97	+28	
EPS[d] in CHF	7.81	3.61	+116		5.09	3.62	+41	
Research and development as % of sales	16.3	15.3			17.1	17.0		
EBITDA as % of sales	30.6	27.6			31.3	29.6		
Operating profit before exceptional items as % of sales	23.2	20.1			23.5	21.3		
Effective tax rate %	24.7	29.6			28.4	29.0		
Net income as % of sales	21.2	9.8			14.7	11.3		

	Roche Group 31 December 2004	Roche Group 31 December 2003
Net liquidity	11,674	5,908
Total assets	58,076	59,486
Equity and minority interests	33,293	29,164
Debt	8,960	15,287
Equity ratio[e]	57%	49%
Debt-equity ratio[f]	27%	52%

a) Continuing businesses includes the Pharmaceuticals and Diagnostics businesses, treasury and other corporate activities. Consumer Health (OTC) and Vitamins and Fine Chemicals are reported as discontinuing businesses.

b) EBITDA: Earnings before exceptional items and before interest and other financial income, tax, depreciation and amortisation, including impairment. This corresponds to operating profit before exceptional items and before depreciation and amortisation, including impairment.

c) Net income before exceptional items and EPS before exceptional items are calculated as shown on page 143.

d) EPS: Earnings per share and non-voting equity security (diluted).

e) Equity ratio: Equity and minority interests as a percentage of total assets.

f) Debt-equity ratio: Debt as a percentage of equity (including minority interests).

LC = local currencies

Finance – 2004 in brief

Above market sales growth
- Sales in two core businesses: up 12% in local currencies.
- Strongest growth in high-margin products and business areas.

Improved profitability in both Pharmaceuticals and Diagnostics
- Operating profit (continuing businesses) before exceptional items: increased by 24% in local currencies.
- Pharmaceuticals operating profit margin before exceptional items: increased by 1.9 percentage points to 25.7%.
- Diagnostics operating profit margin before exceptional items: increased by 2.4 percentage points to 21.4%.
- Continued high investment in R&D of over 5 billion Swiss francs.
- Funding of in-licensing deals by selective disposals of non-core products.

Divestment of OTC business
- Sale of Roche Consumer Health to Bayer.
- Sale of Chugai's OTC business to Lion Corporation.
- Bayer deal includes five Pharmaceuticals production facilities reducing asset levels.
- Transactions realised total pre-tax gains of 2.3 billion Swiss francs.
- Both deals are cash transactions.

Completion of Igen acquisition
- Acquisition completed in February 2004 for 1.8 billion Swiss francs.
- Strengthens access to the diagnostics immunochemistry sector.

Continued debt restructuring
- Further restructuring, with more high-interest debt instruments retired.
- Debt decreased by 6.3 billion Swiss francs.
- Interest expenses reduced by 335 million Swiss francs.
- Exceptional pre-tax income of 908 million Swiss francs from bond conversion and redemption.

Reduced financial risks
- Risk exposures of financial assets and foreign exchange transactions reduced.

Increased net liquidity
- Increased to 11.7 billion Swiss francs from 5.9 billion Swiss francs.

Increased net income
- Increase in net income: 116% or 3.6 billion Swiss francs.
- Increase in net income (continuing businesses) before exceptional items: 29% or 1.0 billion Swiss francs.

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Finance

Operating results (continuing businesses before exceptional items)

Sales: 12% increase in sales, with both core businesses gaining market share

The Roche Group recorded sales of 29.5 billion Swiss francs from its continuing businesses in 2004, which represents an increase of 12% in local currencies (9% in Swiss francs). Growth in both divisions was well ahead of the respective market growth. In Pharmaceuticals this was driven by Roche's successful oncology franchise including first-time sales for Avastin and Tarceva of some 700 and 20 million Swiss francs respectively. There was also strong growth in the virology franchise, including Pegasys+Copegus, and the transplantation franchise with products such as CellCept and Valcyte/Cymevene. In Diagnostics the major drivers were Diabetes Care, Molecular Diagnostics and Immunodiagnostics, where sales grew well ahead of the market rate.

Sales (continuing businesses) *in millions of CHF*

	2004	2003	% change (CHF)	% change (local currencies)
Pharmaceuticals	21,695	19,781	+10	+13
Of which				
– Roche prescription	13,970	13,243	+5	+8
– Genentech prescription	4,522	3,382	+34	+45
– Chugai prescription	3,203	3,156	+1	+3
Diagnostics	7,827	7,409	+6	+8
Sales (continuing businesses)	29,522	27,190	+9	+12

Divisional results

Operating profit before exceptional items increased by 24% in local currencies (20% in Swiss francs) to 7.0 billion Swiss francs. Pharmaceuticals increased its operating profit margin to 25.7%, an increase of 1.9 percentage points, while Diagnostics improved by 2.4 percentage points to 21.4%. This was achieved by the strong sales growth and increased income from product divestments more than covering the additional spending for newly launched products, upcoming launches and investment in the development pipeline.

Divisional results (continuing businesses before exceptional items) *in millions of CHF*

2004	Divisional sales to third parties	EBITDA	EBITDA as % of sales	Operating profit before exceptional items	Operating profit before exceptional items as % of sales
Pharmaceuticals	21,695	7,079	32.6	5,573	25.7
Of which					
– Roche prescription	13,970	4,554	32.6	3,642	26.1
– Genentech prescription	4,522	1,892	41.8	1,444	31.9
– Chugai prescription	3,203	633	19.8	487	15.2
Diagnostics	7,827	2,444	31.2	1,675	21.4
Other	–	(292)	–	(298)	–
Group total (continuing businesses)	29,522	9,231	31.3	6,950	23.5
2003					
Pharmaceuticals	19,781	6,234	31.5	4,698	23.8
Of which					
– Roche prescription	13,243	4,303	32.5	3,354	25.3
– Genentech prescription	3,382	1,327	39.2	882	26.1
– Chugai prescription	3,156	604	19.1	462	14.6
Diagnostics	7,409	2,111	28.5	1,405	19.0
Other	–	(307)	–	(310)	–
Group total (continuing businesses)	27,190	8,038	29.6	5,793	21.3

Pharmaceuticals: Operating profit increased by 23% in local currencies (19% in Swiss francs) to 5.6 billion Swiss francs, representing 25.7% of sales compared to 23.8% in 2003. EBITDA showed a similarly strong result increasing to 7.1 billion Swiss francs, a rise of 18% in local currencies. The EBITDA margin increased to 32.6%. The higher profitability is driven largely by 13% local currency sales growth and under-proportional growth in marketing and distribution, administration and amortisation of intangible assets. Investments in research and development grew at 17% in local currencies to reach 4.4 billion Swiss francs or 20% of sales. This includes in-licensing investments of 250 million Swiss francs, which were funded by gains on product disposals of 430 million Swiss francs.

Roche prescription: The operating profit margin of the Roche prescription business increased by 0.8 percentage points to 26.1%. Marketing and distribution and amortisation of intangible assets grew under-proportionately. Investment in research and development grew significantly faster than sales, driven by the strong development pipeline and in-licensing investments. Royalty expenses for licensed in products also increased. These increases have been largely funded by selective disposals of non-core products.

Genentech prescription: The business achieved further strong sales and profit growth, with operating profit up by 77% in local currencies (64% in Swiss francs). The operating profit margin increased to 31.9% from 26.1% despite the additional spending for marketing and promotional programs to support commercial and pipeline products, primarily Avastin, Tarceva, Raptiva, Xolair, MabThera/Rituxan and Herceptin. Additional expenses were also incurred for the expansion of the infrastructure necessary to support the sales growth and the charges of 48 million Swiss francs related to the discontinuation of the commercialisation of Nutropin Depot.

Chugai prescription: This business posted an operating profit of 487 million Swiss francs and the operating profit margin reached 15.2% compared to 14.6% in 2003. This strong performance is the result of the sales growth. Second half-year 2004 operating profitability of 15.3% was significantly lower than the 21.6% in the comparative period in 2003, driven by the restructuring expenses for the early retirement programme. Without this impact, 2004 showed as in 2003 a significantly higher operating profitability in the second half of the year, which is basically due to the Japanese pattern of relatively low sales in the first quarter following high fourth-quarter sales in the previous year.

Diagnostics: Operating profit increased by 19% to 1.7 billion with an increase in the operating margin of 2.4 percentage points to 21.4%. EBITDA increased by 16% to 2.4 billion Swiss francs, resulting in an EBITDA margin of 31.2%. The main driver of these results is the further sales growth. In addition there was higher royalty income in 2004, which was broadly equivalent to the net effect in the 2003 results of the income from legal settlements and product disposals and costs of Disetronic restructuring charges. The additional 2004 amortisation expenses of intangible assets arising from the Igen acquisition were basically equivalent to the royalty expenses previously paid to Igen.

Other: This includes the costs of Corporate Headquarters.

Group operating results

Operating profit (continuing businesses before exceptional items) *in millions of CHF*

	2004	2003	% change (CHF)	% change (local currencies)
Sales	29,522	27,190	+9	+12
Cost of sales	(6,556)	(6,097)	+8	+9
Gross profit	22,966	21,093	+9	+13
Marketing and distribution	(8,275)	(7,817)	+6	+10
Research and development	(5,053)	(4,624)	+9	+14
Administration	(1,398)	(1,360)	+3	+6
Amortisation of intangible assets	(1,000)	(986)	+1	+6
Other operating income	1,727	1,316	+31	+38
Other operating expense	(2,017)	(1,829)	+10	+13
Operating profit before exceptional items (continuing businesses)	6,950	5,793	+20	+24

Gross profit: The gross profit margin improved by 0.2 percentage points to 77.8%, reflecting growth in high-margin products as well as the effects of continuing productivity improvements.

Marketing and distribution: The increase was due to the support for newly launched products such as Pegasys+Copegus, Fuzeon, Xolair, Raptiva, Avastin and Tarceva as well as marketing activities in the growing Diagnostics business. However, marketing and distribution as a percentage of sales decreased by 0.7 percentage points to 28.0% as the increase in expenditure was less than the sales growth.

Research and development: The increase was mainly due to significantly increased activities to support the strong development pipeline, which includes in-licensed and opt-in compounds. Research and development costs as a percentage of sales was 17.1% in 2004, an increase of 0.1 of a percentage point compared to 2003. For Pharmaceuticals, which accounts for 86% of the Group's research and development expenses, they increased by 0.4 percentage points to 20.1% of sales.

Administration: The increase was in part due to an alignment of the infrastructure at Genentech reflecting the continuing growth of the business, and increased legal expenses.

Amortisation of intangible assets: The increase is due to the intangible assets acquired in the Disetronic and Igen acquisitions. The 2004 results include 50 million Swiss francs for Igen (representing 10 months since acquisition) and a full year's charge of 32 million Swiss francs for Disetronic (the 2003 results only included 8 months of amortisation).

Other operating income: This increase was due to product divestments such as Soriatane, with gains on product divestments totalling 431 million Swiss francs compared to 134 million Swiss francs in 2003. These gains were used to fund the increased level of in-licensing activity. Royalty income also increased.

Other operating expense: This increase was basically due to higher royalty expenses on in-licensed products such as MabThera/Rituxan and Xolair. In addition there were 31 million Swiss francs of charges for intangible asset impairment, in particular resulting from Genentech's decision to discontinue the commercialisation of Nutropin Depot.

Discontinuing operations

Discontinuing operations *in millions of CHF*

	2004	2003
Sales	1,751	4,030
Operating profit before exceptional items	304	475

OTC business: Sales of non-prescription medicines increased by 1% (–1% in Swiss francs) to 1,751 million Swiss francs. Operating profit before exceptional items was 304 million Swiss francs, which includes restructuring costs of 17 million Swiss francs in 2004.

Vitamins and Fine Chemicals business: Effective 30 September 2003, after receiving the final regulatory approvals, the Group completed the sale of its global Vitamins and Fine Chemicals business to the Dutch company DSM. The 2003 results of the Roche Group include the results of the Vitamins and Fine Chemicals business up until 30 September 2003.

Exceptional items and non-operating results

Exceptional items and non-operating results *in millions of CHF*

	Continuing businesses		Discontinuing businesses		Group	
	2004	2003	2004	2003	2004	2003
Operating profit before exceptional items	6,950	5,793	304	475	7,254	6,268
Amortisation of goodwill	(572)	(489)	(7)	(8)	(579)	(497)
Major legal cases	–	216	–	–	–	216
Changes in Group organisation	(199)	–	2,503	(395)	2,304	(395)
Operating profit	6,179	5,520	2,800	72	8,979	5,592
Income from associated companies	(43)	(44)	–	–	(43)	(44)
Financial income	(339)	(630)	(20)	(37)	(359)	(667)
Exceptional income from bond conversion and redemption	908	–	–	–	908	–
Profit before taxes	6,705	4,846	2,780	35	9,485	4,881
Income taxes	(1,902)	(1,406)	(443)	(39)	(2,345)	(1,445)
Profit after taxes	4,803	3,440	2,337	(4)	7,140	3,436
Minority interests	(464)	(366)	(35)	(1)	(499)	(367)
Net income	4,339	3,074	2,302	(5)	6,641	3,069
Earnings per share and non-voting equity security						
Basic (CHF)	5.16	3.67	–	–	7.90	3.66
Diluted (CHF)	5.09	3.62	–	–	7.81	3.61

Amortisation of goodwill: Goodwill amortisation in 2004 from the Disetronic and Igen acquisitions was 57 million Swiss francs (versus 38 million Swiss francs in 2003) and 88 million Swiss francs respectively. Roche continued to amortise goodwill in 2004, including that held by Genentech, but presents this as an exceptional item in view of International Financial Reporting Standards changes that will be implemented in 2005.

Major legal cases: There were no significant developments in 2004 and no additional income or expenses were recorded.

Changes in Group organisation: In 2004 the Group announced the sale of Roche Consumer Health, including five Roche prescription manufacturing sites to Bayer. The sale was substantially completed by the year-end, covering the majority of the sites and businesses involved. In addition Chugai completed the sale of their OTC business in Japan to Lion Corporation. The total pre-tax gain on these sales in 2004 was 2.3 billion Swiss francs. This includes impairments and restructuring charges in Roche's prescription business totalling 276 million Swiss francs. The 2003 results include the losses on the sale of the Vitamins and Fine Chemicals business totalling 395 million Swiss francs.

Operating profit: Overall operating profit increased by 3.4 billion Swiss francs or 65% in local currencies. This follows from the 2.3 billion Swiss franc realised gain on the sale of the Consumer Health (OTC) business compared to the 0.4 billion Swiss franc loss on the disposal of the Vitamins and Fine Chemicals business in 2003. Before exceptional items, operating profit increased by 20% in local currencies to 7.3 billion Swiss francs.

Income from associated companies: The result of associates was not significant.

Financial income: Financial income showed further improvement compared to 2003. Net income from equity securities was 38 million Swiss francs compared to a net expense of 168 million Swiss francs in 2003. The comparative result includes impairment losses of 313 million Swiss francs, compared to 63 million Swiss francs in 2004. Ongoing income from both equity and debt securities decreased due to lower holdings. Total interest expenses were 645 million Swiss francs, a reduction of 34%, due to the retirement of various debt instruments and the refinancing of the obligations covering convertible debt instruments that was carried out in 2003. Net foreign exchange gains were 42 million Swiss francs compared to 270 million Swiss francs in 2003 following the reduction in foreign exchange exposures. A full analysis of financial income is given in Note 15 to the Consolidated Financial Statements.

Exceptional income from bond conversion and redemption: As part of the continuing refinancing and restructuring of the Group's debt, the 'LYONs IV' and 'LYONs III' notes were called for redemption and the Group also redeemed part of the 'Chameleon' bond by a public tender. After the 'LYONs IV' redemption call almost all of the outstanding notes were called for conversion to Genentech shares by the holders. In addition, the Group reassessed the likely future cash outflows for the 'LYONs V' notes and concluded it was appropriate to consider the first call date of 25 July 2007 as the most probable date of cash flows. Accordingly, using the effective interest rate method, the Group recorded a pre-tax expense of 94 million Swiss francs to allow the accreted debt value to meet the issue price plus accrued original issue discount (OID) at 25 July 2007. A net pre-tax gain of 908 million Swiss francs arose from these transactions, primarily from the Group's partial disposal of its interest in Genentech on the conversion of the 'LYONs IV' notes. Due to its material impact this is presented as an exceptional item in the income statement.

Income taxes: The Group's continuing businesses' effective tax rate was 28.4% compared to the 2003 rate of 29.0%. 2004 included the recognition of certain previously unrecognised tax losses and other local effects which offset the negative effects on the tax rate of the conversion and redemption of bonds. The relatively high total Group effective tax rate in the 2003 results is caused by the impairment charges on the Vitamins and Fine Chemicals business. A reconciliation of the effective tax rate is given in Note 16 to the Consolidated Financial Statements.

Minority interests: Income applicable to minorities increased due to the continually improving profit contribution by Genentech and Chugai. 293 million Swiss francs relate to Genentech and 197 million Swiss francs to Chugai.

Net income: The Group increased its net income by 116% in 2004 following the improved operating results and the exceptional gains (after tax and minority interests) of 1.9 billion Swiss francs on the OTC divestment and of 0.7 billion Swiss francs from the bond conversions and redemptions. Excluding these and other exceptional items, net income on a continuing businesses basis increased by 972 million Swiss francs or 29%.

Cash flows and net liquidity

Cash flow statement *in millions of CHF*

	2004	2003
Cash generated from business operations	9,748	9,190
(Increase) decrease in working capital	227	(791)
Income (costs) of major legal cases received (paid)	(131)	395
Other operating cash flows	(1,019)	(775)
Operating activities before income taxes	8,825	8,019
Income taxes paid (all activities)	(1,490)	(766)
Operating activities	7,335	7,253
Investing activities	(2,019)	1,563
Financing activities	(7,863)	(6,745)
Net effect of currency translation on cash	(124)	(225)
Increase (decrease) in cash	(2,671)	1,846

Under the terms of the agreement with Bayer, the majority of the proceeds from the divestment of the Consumer Health (OTC) business amounting to 2,886 million Swiss francs were transferred to the Group on 1 January 2005. These amounts are not included in the above table. See also Note 7 to the Consolidated Financial Statements.

Operating cash flows: The Group's business operations continued to show strong cash generation of 9.7 billion Swiss francs, driven by continued growth in EBITDA. Income taxes paid in 2004 were at a more normal level when compared to 2003, which included large income tax receivables recovered from tax authorities. The cash flows of the OTC business are included in the above figures. EBITDA for this business in 2004 was 335 million Swiss francs (2003: 352 million Swiss francs). The cash flows of the Vitamins and Fine Chemicals business are included in the 2003 figures. EBITDA for this business in 2003 was 219 million Swiss francs.

Investing cash flows: The largest investing cash flow was the 1.8 billion Swiss francs paid in respect of the Igen acquisition. Other investing cash flows also include expenditure on property, plant and equipment. In both 2004 and 2003 there was a large net cash inflow from sales of part of the Group's portfolio of marketable securities in order to fund the repayment of the debt instruments, and also in 2003 for the vitamin case payments. The disposal of the OTC business increased cash by 0.8 billion Swiss francs in 2004, with the main proceeds of 2.9 billion Swiss francs received from Bayer on 1 January 2005.

Financing cash flows: The most significant financing cash flows in 2004 and 2003 relate to dividend payments and the redemption of debt instruments. Dividends paid in 2004 were 1.4 billion Swiss francs (2003: 1.2 billion Swiss francs) and cash used for the redemption of debt instruments was 3.0 billion Swiss francs in 2004 (used for the 'LYONs III' notes and 'Chameleon' bonds) compared to 3.1 billion Swiss francs in 2003 (used for the 'Bullet' bonds and the 'LYONs II' notes). The redemption and conversion of the 'LYONs IV' notes in 2004 had a cash impact of only 5 million Swiss francs as the debt obligation was almost entirely settled by the delivery of Genentech shares. 2003 cash flows also included 2.6 billion Swiss francs proceeds from three issues from the Group's European Medium Term Note programme, and an outflow of 1.6 billion Swiss francs for the refinancing of the instruments covering convertible debt obligations.

Net liquidity *in millions of CHF*

	31 December 2004	31 December 2003	% change
Cash and marketable securities	12,999	16,095	–19
Receivable from Bayer Group collected on 1 January 2005	2,886	–	–
Financial long-term assets and restricted cash	1,999	2,093	–4
Derivative financial instruments, net	(19)	209	–
Own equity instruments	2,769	2,798	–1
Financial assets	20,634	21,195	–3
Long-term debt	(6,947)	(10,246)	–32
Short-term debt	(2,013)	(5,041)	–60
Total debt	(8,960)	(15,287)	–41
Net liquidity	11,674	5,908	+98

Net liquidity increased in 2004, the main driver being a strong cash inflow from operating activities of 7.5 billion Swiss francs. The inflow of 3.7 billion Swiss francs from the divestment of the Consumer Health (OTC) business more than covered the outflow of 1.8 billion Swiss francs for the acquisition of Igen. The 'LYONs IV' notes conversion reduced debt and increased net liquidity by 1.2 billion Swiss francs. The 'LYONs III' and 'Chameleon' transactions affect both debt and cash and therefore have little effect on net liquidity.

Balance sheet

Balance sheet *in millions of CHF*

	31 December 2004	31 December 2003	% change
Long-term assets	28,670	29,820	–4
Current assets	29,406	29,666	–1
Total assets	58,076	59,486	–2
Equity	28,223	23,570	+20
Minority interests	5,070	5,594	–9
Non-current liabilities	14,882	18,658	–20
Current liabilities	9,901	11,664	–15
Total equity, minority interests and liabilities	58,076	59,486	–2

Long-term assets: The Igen acquisition increased goodwill and intangible assets by 2.1 billion Swiss francs. The sale of the OTC business reduced long-term assets by 0.6 billion Swiss francs. The fall in the US dollar to 1.13 against the Swiss franc by end of 2004 reduced long-term assets in Swiss franc terms since many of the Group's production facilities and intangible assets are US dollar denominated.

Current assets: Current assets increased by the 3.7 billion Swiss francs proceeds from the sale of the OTC business and by the cash generated from operations. Current assets decreased by the 1.8 billion Swiss francs cash paid for Igen, the 1.4 billion Swiss francs cash used for payment of dividends and the 3.0 billion Swiss francs cash used in the redemption of the 'LYONs III' notes and the partial redemption of the 'Chameleon' bonds. The sale of the OTC business reduced current assets, mainly inventories and trade receivables by 0.5 billion Swiss francs.

Equity: The most significant movements were the net income of 6.6 billion Swiss francs and the dividend payment of 1.4 billion Swiss francs.

Minority interests: The conversion of the 'LYONs IV' notes led to an increase in the minority ownership of Genentech. In Swiss franc terms this was offset by the fall in the US dollar against the Swiss franc.

Non-current liabilities: The major movement is that the 'Sumo' bonds, with a book value of 1.1 billion Swiss francs due in March 2005, are now classified as short-term debt. The partial redemption of the 'Chameleon' bonds reduced long-term debt by 0.6 billion Swiss francs. The movement in the US dollar rates reduced the Swiss francs carrying value of the Group's US dollar denominated debt instruments.

Current liabilities: The conversion and redemption of the 'LYONs IV' and 'LYONs III' notes reduced short-term debt by 3.5 billion Swiss francs. This was partly compensated for by the reclassification of the 'Sumo' bonds from long-term debt.

Strong financial condition: The Group remains solidly financed, with equity (including minority interests) representing 57% of total assets and 83% of total assets financed long-term.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. Since late 2003 the International Accounting Standards Board (IASB) has published a number of new and revised standards, which the Group will implement effective 1 January 2005. These are fully discussed in Note 1 to the Consolidated Financial Statements. Those changes that the Group expects to have the most significant impact are described below.

Equity compensation plans: The fair value of equity compensation plans awarded to employees will be estimated at grant date and recorded as an expense over the vesting period. This change will be applied retrospectively, using certain transitional restrictions. Based on the initial work carried out and applying the transitional restrictions, the Group estimates that impact on operating income and net income for 2004 would be approximately 143 million Swiss francs and 55 million Swiss francs respectively. Due to the transitional rules these are not indicative of the future impacts.

Goodwill amortisation: Effective 1 January 2005 the amortisation of goodwill will cease. Goodwill will continue to be tested for impairment. The standard requires prospective application. Had the standard been applied in 2004, then goodwill amortisation expenses of 579 million Swiss francs would not have been recorded and net income would be 463 million Swiss francs higher.

Recognition of intangible assets: The revised standards on intangible assets and business combinations will typically result in more intangible assets being recognised from acquisitions and in-licensing collaborations and alliances than previously.

Financial instruments: The Group already fully applies the existing IAS 39 on 'Financial Instruments' and has done so since 2001. The changes to the standards on financial instruments are not expected to have a major effect.

Equity and minority interests: Minority interests will be included as part of the Group's equity and not as a separate category on the balance sheet. This will increase the Group's equity by 5,070 million Swiss francs, effective 1 January 2005.

The Group does not expect that the other new and revised standards will have a significant effect on the Group's results and financial position.

Financial risks

Value-at-Risk and Earnings-at-Risk analysis tools

The Value-at-Risk (VaR) calculations are used to indicate within what ranges the value of the respective assets or liabilities may fluctuate with a certain probability over a certain time period (holding period). The VaR measure is a statistical measure, implicitly assuming that the value changes of the recent past are indicative to value changes in the future. Market shocks are not included in this calculation, unless recently observed. The Group conducts additional stress testing to take such possibilities into consideration. The Group uses statistically relevant observation periods and applies holding periods, which reflect the time period required to change the respective risk exposure if deemed appropriate. With longer holding periods, the probability of higher value changes increases and so does the VaR measure.

Earnings-at-Risk (EaR) is equivalent to the VaR methodology, but rather than potential value changes, it indicates the potential changes to profits (losses) with a certain probability and over a certain time period. The same constraints and limitations apply to this methodology.

The VaR and EAR figures for interest rate risks are measured using a historical simulation approach. For each historical scenario (representing all price and rate changes of all individual instruments over a specific 30-day period in the past), all financial instruments are fully re-valued (using valuation models) and the total change in value and earnings is determined. All other VaR figures are based on a 'Delta normal' approach assuming normal market conditions. All VaR and EaR calculations below are based on 95% confidence level and a holding period of 30 days.

The Group cannot predict future market movements. The VaR and EaR figures given below do not represent the actual losses, which are expected or might be incurred on financial assets and liabilities, nor the possible worst loss over the period stated, nor does it consider the effect of favourable changes in market rates.

Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in Swiss francs.

Growth (continuing businesses)

	Local currencies % 2004	Local currencies % 2003	CHF % 2004	CHF % 2003
Sales	+12	+19	+9	+11
Operating profit before exceptional items	+24	+26	+20	+17

Exchange rates against the Swiss franc

	31 December 2004	Average 2004	31 December 2003	Average 2003
1 USD	1.13	1.24	1.24	1.35
1 EUR	1.54	1.54	1.56	1.52
1 GBP	2.18	2.28	2.20	2.20
100 JPY	1.10	1.15	1.16	1.16

On average in 2004, the US dollar was considerably weaker against the Swiss franc than in 2003, and the euro only slightly stronger against the Swiss franc. The total negative currency effect on sales growth of the continuing businesses and on operating profit growth was 3 percentage points. In absolute terms, the sensitivity of Group sales of continuing businesses to a change of the US dollar against the Swiss franc by 0.01 Swiss francs for the average of 2004 was approximately 85 million Swiss francs, and the corresponding sensitivities for the euro and yen were approximately 55 million Swiss francs and 30 million Swiss francs respectively.

The Group monitors its net currency exposures, and when appropriate, enters into transactions with the aim of preserving the value of assets, commitments and anticipated transactions. The Group uses forward contracts, swaps and foreign currency options to optimise certain anticipated foreign exchange revenues, cash flows and financing transactions. In 2004, the Group further pursued a strategy to continuously lock-in favourable developments of foreign exchange rates by entering into derivative contracts, thereby reducing the exposure to potential future moves in foreign exchange rates. The foreign exchange transaction VaR remained at a low level during 2004.

Foreign exchange risks *in millions of CHF*

	31 December 2004	31 December 2003	% change
VaR of monetary positions	12	41	–70

Interest rate risk

Interest rate risk arises from movements in interest rates which could have adverse effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses on interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments. Where appropriate, the Group uses financial derivatives such as swaps and options to manage its interest rate risk.

In 2004, the Group has further reduced its outstanding debt. In order to achieve a better match between the term structure of assets and liabilities, the Group has also swapped a sizeable part of the remaining debt into floating interest rates. As a consequence, the exposure to potential changes of interest rates has decreased and interest rate VaR, measuring the potential change of the net market value of interest rate sensitive assets and liabilities, has declined.

The comparatively small risks from re-pricing or re-financing were contained at reasonable levels. However, the Earnings-at-Risk (EaR) have slightly increased mainly as a result of the generally higher interest rate level which allows more room for downward changes of interest rates.

Interest rate risks *in millions of CHF*

	31 December 2004	31 December 2003	% change
VaR of instruments sensitive to interest rates	72	110	–35
EaR of instruments sensitive to interest rates	13	6	+117

Market risk of financial assets

Changes in the market value of cash and marketable securities can affect the net income or financial position of the Group. Market risk arises from movements in stock prices, interest rates or foreign exchange rates.

The equity allocation in the Group's portfolio of cash and marketable securities has been further reduced to around 1.2 billion Swiss francs, down from the 1.4 billion Swiss francs at 31 December 2003 and the currency allocation of these funds has changed to an extent as well. This small shift in the Group's asset allocation resulted in a slightly increased VaR position compared to last year. The calculated VaR figures exclude positions at Genentech and Chugai who run their treasury operations independently.

Market risk of financial assets *in millions of CHF*

	31 December 2004	31 December 2003	% change
VaR of cash and marketable securities	128	117	+9

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

Consolidated income statement for year ended 31 December 2004 *in millions of CHF*

	Continuing businesses	Discontinuing businesses	Group
Sales[4]	29,522	1,751	31,273
Cost of sales	(6,556)	(626)	(7,182)
Gross profit	22,966	1,125	24,091
Marketing and distribution	(8,275)	(727)	(9,002)
Research and development[4]	(5,053)	(40)	(5,093)
Administration	(1,398)	(8)	(1,406)
Amortisation of intangible assets[19]	(1,000)	(26)	(1,026)
Other operating income[13]	1,727	10	1,737
Other operating expenses[14]	(2,017)	(30)	(2,047)
Operating profit before exceptional items[4]	6,950	304	7,254
Amortisation of goodwill[18]	(572)	(7)	(579)
Major legal cases[9]	–	–	–
Changes in Group organisation[3]	(199)	2,503	2,304
Operating profit[4]	6,179	2,800	8,979
Income from associated companies[20]	(43)	–	(43)
Financial income[15]	(339)	(20)	(359)
Exceptional income from bond conversion and redemption[15]	908	–	908
Profit before taxes	6,705	2,780	9,485
Income taxes[16]	(1,902)	(443)	(2,345)
Profit after taxes	4,803	2,337	7,140
Minority interests[37]	(464)	(35)	(499)
Net income	4,339	2,302	6,641
Earnings per share and non-voting equity security			
Basic (CHF)[35]	5.16	–	7.90
Diluted (CHF)[35]	5.09	–	7.81

Consolidated income statement for year ended 31 December 2003 *in millions of CHF*

	Continuing businesses	Discontinuing businesses	Group
Sales[4]	27,190	4,030	31,220
Cost of sales	(6,097)	(2,218)	(8,315)
Gross profit	21,093	1,812	22,905
Marketing and distribution	(7,817)	(1,030)	(8,847)
Research and development[4]	(4,624)	(142)	(4,766)
Administration	(1,360)	(90)	(1,450)
Amortisation of intangible assets[19]	(986)	(27)	(1,013)
Other operating income[13]	1,316	19	1,335
Other operating expenses[14]	(1,829)	(67)	(1,896)
Operating profit before exceptional items[4]	5,793	475	6,268
Amortisation of goodwill[18]	(489)	(8)	(497)
Major legal cases[9]	216	–	216
Changes in Group organisation[3]	–	(395)	(395)
Operating profit[4]	5,520	72	5,592
Income from associated companies[20]	(44)	–	(44)
Financial income[15]	(630)	(37)	(667)
Profit before taxes	4,846	35	4,881
Income taxes[16]	(1,406)	(39)	(1,445)
Profit after taxes	3,440	(4)	3,436
Minority interests[37]	(366)	(1)	(367)
Net income	3,074	(5)	3,069
Earnings per share and non-voting equity security			
Basic (CHF)[35]	3.67	–	3.66
Diluted (CHF)[35]	3.62	–	3.61

Consolidated balance sheet *in millions of CHF*

	31 December 2004	31 December 2003
Long-term assets		
Property, plant and equipment[17]	12,408	12,494
Goodwill[18]	5,532	5,206
Intangible assets[19]	6,340	6,945
Investments in associated companies[20]	55	110
Financial long-term assets[22]	1,227	2,093
Other long-term assets[22]	484	523
Deferred income tax assets[16]	1,047	900
Post-employment benefits[11]	1,577	1,549
Total long-term assets	28,670	29,820
Current assets		
Inventories[23]	4,574	5,025
Accounts receivable[24]	6,781	6,774
Current income tax assets[16]	159	238
Other current assets[25]	2,007	1,534
Marketable securities[26]	10,394	10,819
Receivable from Bayer Group collected on 1 January 2005[7]	2,886	–
Cash and cash equivalents[27]	2,605	5,276
Total current assets	29,406	29,666
Total assets	58,076	59,486
Equity		
Share capital[34]	160	160
Non-voting equity securities *(Genussscheine)*[34]	p.m.	p.m.
Own equity instruments[34]	(4,326)	(4,583)
Retained earnings	36,212	30,985
Fair value and other reserves[36]	(3,823)	(2,992)
Total equity	28,223	23,570
Minority interests[37]	5,070	5,594
Non-current liabilities		
Long-term debt[32]	6,947	10,246
Deferred income tax liabilities[16]	3,564	3,133
Post-employment benefits[11]	2,744	2,755
Provisions[30]	683	1,470
Other non-current liabilities[31]	944	1,054
Total non-current liabilities	14,882	18,658
Current liabilities		
Short-term debt[32]	2,013	5,041
Current income tax liabilities[16]	947	714
Provisions[30]	1,086	542
Accounts payable[28]	1,844	1,700
Accrued and other current liabilities[29]	4,011	3,667
Total current liabilities	9,901	11,664
Total equity, minority interests and liabilities	58,076	59,486

p.m. = pro memoria. Non-voting equity securities have no nominal value (see Note 34).

Consolidated statement of changes in equity *in millions of CHF*

	Year ended 31 December 2004	2003
Share capital[34]		
Balance at 1 January and at 31 December	160	160
Non-voting equity securities *(Genussscheine)*[34]		
Balance at 1 January and at 31 December	p.m.	p.m.
Own equity instruments[34]		
Balance at 1 January	(4,583)	(5,853)
Acquisition of Disetronic[3]	–	240
Conversion of 'Helveticus' bonds[32]	–	202
Refinancing of instruments covering convertible debt obligations[34]	–	843
Other movements during the year	257	(15)
Balance at 31 December	(4,326)	(4,583)
Retained earnings		
Balance at 1 January	30,985	29,145
Net income	6,641	3,069
Dividends paid[34]	(1,414)	(1,229)
Balance at 31 December	36,212	30,985
Fair value and other reserves[36]		
Balance at 1 January	(2,992)	(2,642)
Changes in fair value attributable to available-for-sale investments and qualifying cash flow hedges	87	167
Fair value (gains) losses attributable to available-for-sale investments and qualifying cash flow hedges recognised in the income statement	26	244
Fair value (gains) losses attributable to qualifying cash flow hedges transferred to adjust the initial measurement of acquisition cost of assets or other carrying amount of hedged assets or liabilities	43	–
Deferred income taxes and minority interests	(25)	(15)
Currency translation gains (losses)	(962)	(746)
Balance at 31 December	(3,823)	(2,992)
Total equity at 31 December	28,223	23,570

p.m. = pro memoria. Non-voting equity securities have no nominal value (see Note 34).

Consolidated cash flow statement *in millions of CHF*

	Year ended 31 December 2004	2003
Cash flows from operating activities		
Cash generated from operations[39]	9,748	9,190
(Increase) decrease in working capital	227	(791)
Vitamin case payments[8]	(66)	(638)
Igen litigation[9]	–	808
Genentech legal cases[9]	(65)	225
Payments made for defined benefit post-employment plans[11]	(653)	(434)
Utilisation of restructuring provisions[30]	(163)	(159)
Utilisation of other provisions[30]	(128)	(67)
Other operating cash flows	(75)	(115)
Cash flows from operating activities, before income taxes paid	8,825	8,019
Income taxes paid	(1,490)	(766)
Total cash flows from operating activities	7,335	7,253
Cash flows from investing activities		
Purchase of property, plant and equipment[17]	(2,344)	(2,260)
Purchase of intangible assets[19]	(191)	(233)
Disposal of property, plant and equipment	196	267
Disposal of intangible assets	12	2
Disposal of products[13]	431	134
Acquisitions of subsidiaries and associated companies[3]	(1,822)	(897)
Divestments of subsidiaries and associated companies[3]	696	2,113
Interest and dividends received[39]	255	286
Sales of marketable securities	4,965	7,704
Purchases of marketable securities	(4,281)	(6,125)
Other investing cash flows	64	572
Total cash flows from investing activities	(2,019)	1,563
Cash flows from financing activities		
Proceeds from issue of long-term debt instruments[32]	–	2,635
Repayment of long-term debt instruments[32]	(3,039)	(3,085)
Increase (decrease) in other long-term debt	(1,156)	(709)
Refinancing of instruments covering convertible debt obligations[34]	–	(1,635)
Other transactions in own equity instruments[34]	237	(15)
Increase (decrease) in short-term borrowings	(939)	(2,528)
Interest and dividends paid[39]	(1,971)	(1,748)
Genentech and Chugai stock repurchases and exercised employee stock options at Genentech[5, 6]	(1,059)	368
Other financing cash flows	64	(28)
Total cash flows from financing activities	(7,863)	(6,745)
Net effect of currency translation on cash and cash equivalents	(124)	(225)
Increase (decrease) in cash and cash equivalents	(2,671)	1,846
Cash and cash equivalents at beginning of year	5,276	3,430
Cash and cash equivalents at end of year[27]	2,605	5,276

Under the terms of the agreement with Bayer, the majority of the proceeds from the divestment of the Consumer Health (OTC) business amounting to 2,886 million Swiss francs were transferred to the Group on 1 January 2005. These amounts are not included in the above table. See also Note 7.

Reference numbers indicate corresponding Notes to the Consolidated Financial Statements.

1. Summary of significant accounting policies

Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Roche Group have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared using the historical cost convention except that, as disclosed in the accounting policies below, certain items, including derivatives and available-for-sale investments, are shown at fair value. They were approved for issue by the Board of Directors on 27 January 2005 and are subject to approval by the shareholders on 28 February 2005.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change. Where necessary, the comparatives have been reclassified or extended from the previously reported results to take into account presentational changes.

Consolidation policy

These financial statements are the consolidated financial statements of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries ('the Group').

The subsidiaries are those companies controlled, directly or indirectly, by Roche Holding Ltd, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. This control is normally evidenced when Roche Holding Ltd owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital. Special Purpose Entities are consolidated where the substance of the relationship is that the Special Purpose Entity is controlled by the Group. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group. Companies acquired exclusively to be resold in the next twelve months are not consolidated but are classified as financial assets held-for-trading and carried at fair value. Inter-company balances and transactions and resulting unrealised income are eliminated in full.

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

Segment reporting

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments. The risks and returns of the Group's operations are primarily determined by the different products that the Group produces rather than the geographical location of the Group's operations. This is reflected by the Group's divisional management and organisational structure and the Group's internal financial reporting systems.

The Group has two divisions, Pharmaceuticals and Diagnostics. Until its disposal on 30 September 2003 the Group had a third division, Vitamins and Fine Chemicals. Within the Pharmaceuticals Division there are three sub-divisions, Roche prescription, Genentech prescription and Chugai prescription. The three sub-divisions have separate management and reporting structures within the Pharmaceuticals Division and are considered separately reportable segments. The Consumer Health (OTC) business is also a separately reportable business segment and is presented as a discontinuing business. Certain corporate activities that cannot be reasonably allocated to the other reportable segments, such as the costs of Corporate Headquarters, are reported as

'Others'. The Group's geographical segments are determined by geographical location and similarity of economic environments.

Transfer prices between business segments are set on an arm's length basis. Divisional assets and liabilities consist of property, plant and equipment, goodwill and intangible assets, trade receivables/payables and inventories. Other segment assets and liabilities consist of other assets and liabilities which can be reasonably attributed to the reported business segments. These include pension assets/liabilities and provisions. Non-segment assets and liabilities mainly include current and deferred income tax balances, and financial assets and liabilities. These are principally cash, marketable securities, other investments and debt. Capital expenditure comprises additions to goodwill, intangible assets and additions to property, plant and equipment, including those arising from acquisitions.

Foreign currency translation

Most Group companies use their local currency as their measurement currency. Certain Group companies use other currencies (namely US dollars, Swiss francs or euros) as their measurement currencies where this most usefully represents the results and financial positions of these companies, given local economic conditions and circumstances. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges or arise on monetary items that, in substance, form part of the Group's net investment in a foreign entity which are deferred into equity.

Upon consolidation, assets and liabilities of Group companies using measurement currencies other than Swiss francs (foreign entities) are translated into Swiss francs using year-end rates of exchange. Sales, costs, expenses, net income and cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to equity. On the divestment of a foreign entity, the identified cumulative currency translation differences relating to that foreign entity are recognised in income as part of the gain or loss on divestment.

Revenues and cost of sales

Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts and volume rebates and excluding sales and value added taxes. Revenues from the sale of products are recognised upon transfer to the customer of significant risks and rewards, usually upon shipment. Trade discounts, cash discounts and volume rebates are recorded on an accrual basis consistent with the recognition of the related sales. Other revenues are recorded as earned or as the services are performed. Cost of sales includes the corresponding direct production costs and related production overhead of goods sold and services rendered. Start-up costs between validation and the achievement of normal production capacity are expensed as incurred. Royalty income is recognised on an accrual basis in accordance with the economic substance of the agreement and is reported as part of other operating income.

Research and development

Research costs are charged against income as incurred. Development costs are capitalised as intangible assets, in particular when it is probable that future economic benefits will flow to the Group. Such intangible assets are amortised on a straight-line basis over the period of the expected benefit, and are reviewed for impairment at each balance sheet date. Other development costs are charged against income as incurred since the criteria for their recognition as an asset are not met.

In-licensing, milestone and other up-front receipts and payments

Certain Group companies, notably Genentech, receive from third-parties up-front, milestone and other similar non-refundable payments relating to the sale or licensing of products or technology. Revenue associated with performance milestones is recognised based on achievement of the milestones, as defined in the respective agreements. Revenue from non-refundable up-front payments and licence fees is initially reported as deferred income and is recognised in income as earned over the period of the development collaboration or the manufacturing obligation. Payments made by Group companies to third parties and associated companies for

such items are charged against income as research and development costs unless it is probable that future economic benefits will flow to the Group, which is normally evidenced by regulatory approval. In this case they are capitalised as development costs and amortised as described above. In practice this means that most in-licensing and milestone payments for pharmaceutical products are expensed as incurred, as in most cases they have not yet gained regulatory approval. Receipts and payments between consolidated subsidiaries, such as between Genentech, Chugai and other Roche Group subsidiaries, are eliminated on consolidation, except to the extent of any impacts on minority interests.

Employee benefits

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where the Group provides long-term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

The Group operates a number of defined benefit and defined contribution plans throughout the world. The cost for the year for defined benefit plans is determined using the projected unit credit method. This reflects service rendered by employees to the dates of valuation and incorporates actuarial assumptions primarily regarding discount rates used in determining the present value of benefits, projected rates of remuneration growth, and long-term expected rates of return for plan assets. Discount rates are based on the market yields of high-quality corporate bonds in the country concerned. Differences between assumptions and actual experiences and effects of changes in actuarial assumptions are allocated over the estimated average remaining working lives of employees, where these differences exceed a defined corridor. Past service costs are allocated over the average period until the benefits become vested. Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan. The recognition of pension assets is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plans or reductions in future contributions to the plans. The Group's contributions to the defined contribution plans are charged to the income statement in the year to which they relate.

The Group operates several equity compensation plans, including separate plans at Genentech and Chugai. For fixed plans, such as the Roche Option Plan and the equivalent plans at Genentech and Chugai, no expense is recognised at the date of issue as the exercise price is greater or equal to the fair value of the underlying equity instrument at the date of issue. Subsequent cash flows from any exercises of vested grants are recorded to equity or, in the case of Genentech and Chugai plans, to balance sheet minority interests. For performance related and variable plans, such as the Roche Performance Share Plan or the Stock Appreciation Rights, an expense is accrued over the vesting period for the difference between the exercise price and the fair value of the underlying equity instrument.

Taxation

Income taxes include all taxes based upon the taxable profits of the Group, including withholding taxes payable on the distribution of retained earnings within the Group. Other taxes not based on income, such as property and capital taxes, are included within other operating expenses or financial income according to their nature.

Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognised where there is a probable intention to remit such earnings.

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

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

Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction and are depreciated on a straight-line basis, except for land, which is not depreciated. Estimated useful lives of major classes of depreciable assets are as follows:

Buildings and land improvements	40 years
Machinery and equipment	5–15 years
Office equipment	3 years
Motor vehicles	5 years

The estimated useful life of the assets is regularly reviewed and, if necessary, the future depreciation charge is accelerated. Investment grants or similar assistance for projects are initially recorded as deferred income (in other non-current liabilities) and are subsequently recognised as income over the useful lives of the related assets. Repairs and maintenance costs are recognised as expenses as incurred. Borrowing costs are not capitalised.

Leases

Leases of property, plant and equipment where the Group has substantially all of the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the start of the lease at fair value, or the present value of the minimum lease payments, if lower. The rental obligation, net of finance charges, is included in debt. Assets acquired under finance leases are depreciated in accordance with the Group's above policy on property, plant and equipment. The interest element of the lease payment is charged against income over the lease term based on the effective interest rate method.

Leases where substantially all of the risks and rewards of ownership are not transferred to the Group are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. The cost of acquisition is the cash paid plus the fair value at the date of exchange of any other purchase consideration given in exchange for control over the net assets of the acquired company. The cost of acquisition also includes directly attributable incidental costs. The acquired identifiable assets and liabilities are initially recognised at fair value. Where the Group does not acquire 100% ownership of the acquired company, assets and liabilities are recognised at fair value to the extent of the Group's interest and the minority interest is recorded as the minority's proportion of the pre-acquisition carrying amounts of the acquired assets and liabilities. Goodwill is recorded as the surplus of the cost of acquisition over the Group's interest in fair value of identifiable net assets acquired. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired company and are recorded in the local currency of that company. Goodwill is amortised over its useful life on a straight-line basis. Estimated useful life of goodwill is between 5–20 years. Goodwill may also arise upon investments in associated companies, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associated companies, and the amortisation is included within the income from associated companies.

Intangible assets

Patents, licences, trademarks and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Where these have been acquired other than through a business combination, the initial fair value will be cost. Intangible assets are amortised over their useful lives on a straight-line basis. Estimated useful life is the lower of legal duration and economic useful life, which does not exceed 20 years. The estimated useful life of the assets is regularly reviewed and, if necessary, the future amortisation charge is accelerated.

Impairment of property, plant and equipment and intangible assets

When there is evidence that an asset may be impaired, the recoverable amount of the asset is calculated and an impairment assessment is carried out. When the recoverable amount of an asset, being the higher of its net selling price and its value in use, is less than its carrying amount, then the carrying amount is reduced to its recoverable

value. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows, generally over a five-year period, with extrapolating projections for subsequent years. These are discounted using an appropriate long-term pre-tax interest rate. When an impairment loss arises the useful life of the asset in question is reviewed and, if necessary, the future depreciation/amortisation charge is accelerated. The impairment of financial assets is discussed below in the 'financial assets' policy.

Inventories
Inventories are stated at the lower of cost or net realisable value. The cost of finished goods and work in process comprises raw materials, direct labour and other directly attributable costs and overheads based upon normal capacity of production facilities. Borrowing costs are not included. Cost is determined using the weighted average method. Net realisable value is the estimated selling price less cost to completion and selling expenses.

Accounts receivable
Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts. An allowance is recorded for the difference between the carrying amount and the recoverable amount where there is objective evidence that the Group will not be able to collect all amounts due.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and time, call and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the cash flow statement.

Own equity instruments
The Group's holdings in its own equity instruments are recorded as a deduction from equity. The original cost of acquisition, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. These instruments have been acquired primarily to meet the obligations that may arise in respect of certain of the Group's debt instruments.

Debt instruments
Debt instruments are initially reported at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortised cost using the effective interest method. To the extent that debt instruments are hedged under qualifying fair value hedges, the carrying value of the hedged item is adjusted for the fair value movement attributable to the risk being hedged. Any discount between the net proceeds received and the principal value due on redemption is amortised over the duration of the debt instrument and is recognised as part of interest expense in the income statement.

On issue of convertible debt instruments, the cost of the liability portion is initially calculated using the market interest rate for an equivalent non-convertible instrument. The remainder of the net proceeds is allocated to the equity conversion option, which is reported in equity, and to deferred income tax liabilities. Where the equity conversion option is on shares of a consolidated subsidiary, the portion of net proceeds attributable to that option is recorded within minority interest. The liability element is subsequently reported at amortised cost. Amortisation of the debt discount and release of the deferred tax liabilities are recognised in the income statement over the duration of the debt instrument. The value of the equity conversion option recorded in equity is not changed in future periods.

The limited conversion preferred stock is in substance a financial liability rather than an equity instrument, and therefore it is classified as long-term debt in the balance sheet and the related dividend payments are treated as interest expense.

Provisions
Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. In particular, restructuring provisions are recognised when the Group has a detailed formal plan that has either commenced implementation or been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account foreign

currency effects arising from their translation from measurement currency into Swiss francs and the time value of money, where material. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events, or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Fair values

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. It is determined by reference to quoted market prices or by the use of established estimation techniques such as option pricing models and estimated discounted values of cash flows. The fair values at the balance sheet date are approximately in line with their reported carrying values unless specifically mentioned in the Notes to the Consolidated Financial Statements.

Financial assets

Financial assets, principally investments, including marketable securities, are classified as either 'Held-for-trading', 'Available-for-sale', 'Held-to-maturity' or 'Originated by the Group'. Held-for-trading financial assets are acquired principally to generate profit from short-term fluctuations in price. Held-to-maturity financial assets are securities with a fixed maturity that the Group has the intent and ability to hold until maturity. Financial assets originated by the Group are loans and other long-term financial assets created by the Group or acquired from the issuer in a primary market. All other financial assets are considered as available-for-sale.

All financial assets are initially recorded at cost, including transaction costs. All purchases and sales are recognised on the settlement date. Held-for-trading financial assets are subsequently carried at fair value, with all changes in fair value recorded as financial income in the period in which they arise. Held-to-maturity financial assets are subsequently carried at amortised cost using the effective interest rate method. Available-for-sale financial assets are subsequently carried at fair value, with all unrealised changes in fair value recorded in equity. When the available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognised in equity are included in financial income for the current period. Financial assets originated by the Group are subsequently carried at amortised cost.

Financial assets are assessed for possible impairment at each balance sheet date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. Any available-for-sale financial assets that have a market value of more than 25% below their original cost, net of any previous impairment, for a sustained six-month period will be considered as impaired. Any decreases in the market price of less than 25% of original cost, net of any previous impairment, or for less than a sustained six-month period are not by themselves considered as objective evidence of impairment, and such movements in fair value are recorded in equity until there is objective evidence of impairment or until the asset is sold or otherwise disposed of. For financial assets carried at amortised cost, any impairment charge is the difference between the carrying value and the recoverable amount, being calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in equity for the difference between the original cost, net of any previous impairment, and the fair value.

Derivatives

All derivative financial instruments are initially recorded at cost, including transaction costs. Derivatives are subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments (see below), all changes in fair value are recorded as financial income in the period in which they arise. Embedded derivatives are recognised separately if not closely related to the host contract.

Hedging

For the purposes of hedge accounting, hedging relationships may be of three types. Fair value hedges are hedges of particular risks that may change the fair value of a recognised asset or liability. Cash flow hedges are hedges of particular risks that may change the amount or timing of future cash flows. Hedges of net investment in a foreign entity are hedges of particular risks that may change the carrying value of the net assets of a foreign entity.

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

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

For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in financial income. If the hedging relationship is the hedge of a firm commitment or highly probable forecasted transaction, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in the initial carrying value of the asset or liability at the time it is recognised. For all other qualifying cash flow hedges, the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in financial income at the time when the forecasted transaction affects net income.

For qualifying hedges of net investment in a foreign entity, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity. Any remaining ineffective portion is recorded in financial income where the hedging instrument is a derivative and in equity in other cases. If the entity is disposed of, then the cumulative changes of fair value of the hedging instrument that have been recorded in equity are included in financial income at the time of the disposal.

Changes in accounting policy
There were no significant changes in accounting policy in the periods presented.

International Financial Reporting Standards
There were no revised or new standards or interpretations that became effective from 1 January 2004 that had a significant effect on the Group's financial statements.

In late 2003 the International Accounting Standards Board (IASB) published a revised version of IAS 32 'Financial Instruments: Disclosure and Presentation', a revised version of IAS 39 'Financial Instruments: Recognition and Measurement' and 'Improvements to International Accounting Standards', which makes changes to 14 existing standards. In the first quarter of 2004 the IASB published IFRS 2 'Share-based Payment', IFRS 3 'Business Combinations', IFRS 4 'Insurance Contracts', IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', revised versions of IAS 36 'Impairment of Assets' and IAS 38 'Intangible Assets' and further amendments to IAS 39. The Group will adopt these effective 1 January 2005. The Group estimates that the most significant effects on the Group's results will come from the implementation of IFRS 2 and IFRS 3.

IFRS 2: 'Share-based payment'. Amongst other matters, the new standard requires that the fair value of all equity compensation plans awarded to employees be estimated at grant date and recorded as an expense over the vesting period. Currently those plans that are equity-settled are recorded to equity or, in the case of Genentech and Chugai plans, to balance sheet minority interests. The standard also requires retrospective application, within certain transitional restrictions. Based on the initial work carried out and applying the transitional restrictions, the Group estimates that the pre-tax expense for 2004 would be approximately 143 million Swiss francs. Of this 131 million Swiss francs relate to Genentech's equity compensation plans (see Note 5) and 12 million Swiss francs relate to the Roche Option Plan (see Note 12). Due to the impact of the transitional arrangements this amount is not indicative of the future expenses for such plans. Further information on the Group's equity compensation plans is given in Notes 5, 6 and 12.

The new standard will also affect the Group's effective tax rate, as deferred tax will be recorded based on the expected tax benefits arising from vested awards using the current equity price as an input to the calculation. Therefore the deferred tax benefit recorded in a particular period is sensitive to the current equity price, whereas the pre-tax expense is fixed with reference to the equity price at grant date and is not sensitive to the current

equity price. The impact in the income statement of any deferred tax benefit is capped with reference to the IFRS 2 pre-tax expense, with any excess recognised directly to equity. Based on the initial work carried out and applying the transitional restrictions, the Group estimates that the tax benefit for 2004 would be approximately 54 million Swiss francs. Of the after-tax additional expense of 89 million Swiss francs, 34 million Swiss francs would be attributable to minorities, leaving an estimated impact on net income of 55 million Swiss francs.

IFRS 3: 'Business combinations': Amongst other matters, the new standard requires that amortisation of goodwill cease from the date of implementation. Goodwill will continue to be tested for impairment. The standard requires prospective application. Had this standard been applied in 2004, then goodwill amortisation expenses of 579 million Swiss francs would not have been recorded. No additional impairment would have been necessary. In addition, together with IAS 38 (revised) 'Intangible assets', this standard will typically result in more intangible assets being recognised from acquisitions than previously and consequently less goodwill will arise.

The new standard will also affect the Group's effective tax rate, as currently no tax benefit is recorded in respect of goodwill amortisation. Based on the Group's 2004 results, the Group's effective tax rate is expected to reduce by between two and three percentage points.

IAS 38 (revised): 'Intangible assets': Amongst other matters, the revised standard will typically result in more intangible assets being recognised from in-licensing arrangements and similar research and development alliances. Previously such expenditure would be recorded as research and development expenses. The revised standard requires prospective application.

IAS 1 (revised): 'Presentation of financial statements': Amongst other matters, the revised standard will require that minority interests are included as part of the Group's equity and not as a separate category on the balance sheet. This will increase the Group's equity by 5,070 million Swiss francs, effective 1 January 2005.

The Group does not expect that the other new and revised standards will have a significant effect on the Group's results and financial position. The Group draws attention to the fact that it already fully applies the existing IAS 39 on 'Financial Instruments' and has done so since 2001.

2. Financial risk management

The Group is exposed to various financial risks arising from the Group's underlying operations and corporate finance activities. The financial risks the Group is exposed to are predominantly related to changes in foreign exchange rates, interest rates, equity prices as well as the creditworthiness and the solvency of the Group's counter-parties.

The Group's subsidiaries Genentech and Chugai have their own treasury operations. These have operational independence, whilst working within a financial risk management framework that is consistent with the rest of the Group. More information on their financial risks is available in the annual reports of Chugai and Genentech.

Financial risk management within the Group is governed by policies and guidelines approved by senior management. These policies and guidelines cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. Group policies and guidelines also cover areas such as cash management, investment of excess funds and the raising of short- and long-term debt. The compliance with the policies and guidelines is overseen by segregated functions within the Group.

The objective of financial risk management is to contain, where deemed appropriate, exposures in the various types of financial risks mentioned above in order to limit negative impact on the Group's financial income and balance sheet.

The Group actively measures, monitors and manages its financial risk exposures by various functions pursuant to segregation of duties principles.

In accordance with the financial risk policies the Group manages its market risk exposures, when deemed appropriate, through the use of financial instruments such as derivatives. It is the Group's policy and practice not to enter into derivatives transactions for trading or speculative purposes nor purposes unrelated to the underlying business.

Foreign exchange risk

The Group operates across the world and is exposed to movements in foreign currencies affecting its net income and financial position, as expressed in Swiss francs. The Group actively monitors its currency exposures, and when appropriate, enters into transactions with the aim of preserving the value of assets, commitments and anticipated transactions. The Group uses forward contracts, foreign exchange options and cross-currency swaps to hedge certain committed and anticipated foreign exchange flows, financing transactions as well as net investments.

Transaction exposure arises because the amount of local currency paid or received for transactions denominated in foreign currencies may vary due to changes in exchange rates. For many Group companies income will be primarily in the local currency. A significant amount of expenditure, especially for purchase of goods for resale and interest on and repayment of loans will be in foreign currencies. Similarly, transaction exposure arises on net balances of monetary assets held in foreign currencies. At local level, the Group companies manage this exposure, if necessary by means of financial instruments such as options and forward contracts. In addition, Group Treasury monitors total worldwide exposure with the help of comprehensive data received on a monthly basis.

Translation exposure arises from the consolidation of the foreign currency denominated financial statements of the Group's foreign subsidiaries. The effect on the Group's consolidated equity is shown as a currency translation movement. The Group partially hedges net investments in foreign currencies by taking foreign currency loans or issuing foreign currency denominated debt instruments. Major translation exposures are monitored on a regular basis.

A significant part of the Group's cash outflows for research, development, production and administration is denominated in Swiss francs, while a much smaller proportion of the Group's cash inflows are Swiss franc denominated. As a result, an increase in the value of the Swiss franc relative to other currencies has an adverse impact on consolidated net income. Similarly, a relative fall in the value of the Swiss franc has a favourable effect on results published in Swiss francs.

Interest rate risk

Interest rate risk arises from movements in interest rates which could have effects on the Group's net income or financial position. Changes in interest rates cause variations in interest income and expenses and in interest-bearing assets and liabilities. In addition, they can affect the market value of certain financial assets, liabilities and instruments as described in the following section on market risk. The interest rates on the Group's major debt instruments are fixed, as described in Note 32. The Group uses interest rate derivatives to manage its interest rate risk.

Market risk of financial assets

Changes in the market value of certain financial assets and derivative instruments can affect the net income or financial position of the Group. Financial long-term assets are held for strategic purposes and marketable securities are held for fund management purposes. The risk of loss in value is managed by reviews prior to investing and continuous monitoring of the performance of investments and changes in their risk profile. Investments in equities, bonds, debentures and other fixed income instruments are entered into on the basis of guidelines with regard to liquidity and credit rating.

Credit risk

Credit risk arises from the possibility that the counter-party to a transaction may be unable or unwilling to meet their obligations causing a financial loss to the Group. Trade receivables are subject to a policy of active risk management focussing on the assessment of country risk, credit availability, ongoing credit evaluation and account monitoring procedures. There are no significant concentrations within trade receivables of counter-party credit risk, due to the Group's large number of customers and their wide geographical spread. For some credit exposures in critical countries, the Group has entered into respective credit insurance. Country risk limits and exposures are continuously monitored. The exposure of other financial assets to credit risk is controlled by setting a policy for limiting credit exposure to high-quality counter-parties, regular reviews of credit ratings, and setting defined limits for each individual counter-party. Where appropriate to reduce exposure, netting agreements under an ISDA (International Swaps and Derivatives Association) master agreement are signed with the respective counter-parties. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements, is equal to the carrying amount of financial assets. The credit exposure is diversified amongst different counter-parties.

Liquidity risk

Group companies need to have sufficient availability of cash to meet their obligations. Individual companies are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover cash deficits, subject to guidance by the Group and, in certain cases, to approval at Group level. The Group maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements at all times. In addition, the strong international creditworthiness of the Group allows it to make efficient use of international capital markets for financing purposes.

3. Changes in Group organisation

A listing of the major Group subsidiaries and associated companies is included in Note 41.

Gains (losses) from changes in Group organisation *in millions of CHF*

	2004	2003
Consumer Health (OTC) business[7]		
– gain (loss) on disposal of the Consumer Health (OTC) business	2,503	–
– gain (loss) on disposal attributable to Roche prescription business	(199)	–
Vitamins and Fine Chemicals business[8]		
– impairment of net assets	–	(375)
– gain (loss) on disposal	–	(20)
Total	2,304	(395)

The disposal of the Consumer Health (OTC) business is discussed in Note 7 and the disposal of the Vitamins and Fine Chemicals business is discussed in Note 8.

Igen

On 13 February 2004 the Group acquired a 100% controlling interest in Igen International Inc. (Igen), a public company headquartered in Gaithersburg, Maryland, USA. The acquisition gives the Group broad access to the human in-vitro diagnostics immunochemistry sector through the use of electrochemiluminiscence (ECL) technology in further development of the Elecsys product line. The acquisition was approved by an extraordinary general meeting of Igen's shareholders on 13 February 2004 and has been cleared by the relevant antitrust authorities. The total cash consideration paid was 1,776 million Swiss francs and incidental costs were 4 million Swiss francs. In addition the accumulated losses of 43 million Swiss francs that were recorded in equity from the hedging of this transaction were removed from equity and included as part of the acquisition cost. The allocation of the total purchase consideration of 1,823 million Swiss francs is as follows:

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

Goodwill	1,315
Intangible assets	740
Deferred income taxes	(166)
Cash	8
Other net assets (liabilities)	(74)
Total	1,823

Goodwill and acquired intangible assets are amortised on a straight-line basis over 12.5 years, beginning 1 March 2004.

Igen acquisition: impact on operating profit *in millions of CHF*

	2004	2003
Royalty expenses (pre-acquisition)	(9)	(48)
Amortisation of intangible assets	(50)	–
Effect on operating profit before exceptional items	(59)	(48)
Goodwill amortisation	(88)	–
Effect on operating profit	(147)	(48)

Disetronic

Effective 2 May 2003 the Group acquired a controlling interest in Disetronic, a public company headquartered in Burgdorf, Switzerland. Disetronic is a world leader in the research, development and commercialisation of insulin pumps and injection systems for the treatment of diabetes. Disetronic's Infusion Systems division has become part of Roche Diagnostics' Diabetes Care business area. As part of the acquisition process Disetronic's Injection Systems was simultaneously resold to Disetronic's founder and chairman and continues to operate as an independent company. The Group has a 100% interest in Disetronic.

The acquisition was approved by an extraordinary general meeting of Disetronic's shareholders on 23 April 2003 and was subsequently cleared by the relevant antitrust authorities. The Group paid the shareholders of Disetronic 670 Swiss francs in cash and two Roche non-voting equity securities for each Disetronic share. The net consideration paid was 1,132 million Swiss francs, of which 892 million Swiss francs was in cash and 240 million Swiss francs was in the form of 2,744,893 Roche non-voting equity securities. In addition incidental costs were 4 million Swiss francs.

Cash flows from changes in Group organisation *in millions of CHF*

	2004	2003
Acquisitions		
– Igen	(1,815)	–
– Disetronic	–	(884)
– other acquisitions	(7)	(13)
Total cash flows from acquisitions of subsidiaries and associated companies	(1,822)	(897)
Divestments		
– Consumer Health (OTC) business	696	–
– Vitamins and Fine Chemicals business	–	2,113
– other divestments	–	–
Total cash flows from divestments of subsidiaries and associated companies	696	2,113

These amounts are net of any cash balances in the acquired/divested company/business and include cash outflows for incidental transaction costs.

4. Segment information

Information by business segment *in millions of CHF*

	Roche prescription		Genentech prescription		Chugai prescription		Total Pharmaceuticals	
	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenues								
Segment revenue/ divisional sales	14,511	13,924	4,669	3,527	3,203	3,156	22,383	20,607
Less inter-divisional sales	(541)	(681)	(147)	(145)	–	–	(688)	(826)
Divisional sales to third parties	13,970	13,243	4,522	3,382	3,203	3,156	21,695	19,781
Operating profit before exceptional items	3,642	3,354	1,444	882	487	462	5,573	4,698
Amortisation of goodwill	42	42	(265)	(287)	(10)	(10)	(233)	(255)
Major legal cases	–	–	–	225	–	–	–	225
Changes in Group organisation	(199)	–	–	–	–	–	(199)	–
Segment results/ operating profit	3,485	3,396	1,179	820	477	452	5,141	4,668
Segment assets and liabilities								
Divisional assets	11,797	12,790	6,195	6,184	3,580	3,894	21,572	22,868
Other segment assets	1,342	1,382	–	–	19	–	1,361	1,382
Segment assets	13,139	14,172	6,195	6,184	3,599	3,894	22,933	24,250
Non-segment assets								
Total assets								
Divisional liabilities	(372)	(366)	(103)	(59)	(69)	(89)	(544)	(514)
Other segment liabilities	(1,587)	(1,593)	(709)	(734)	(144)	(339)	(2,440)	(2,666)
Segment liabilities	(1,959)	(1,959)	(812)	(793)	(213)	(428)	(2,984)	(3,180)
Non-segment liabilities								
Total liabilities								
Other segment information								
Capital expenditure	754	787	762	523	113	222	1,629	1,532
Depreciation	501	533	211	210	68	64	780	807
Amortisation of intangible assets	406	415	208	235	78	78	692	728
Impairment of long-term assets	188	1	29	–	–	–	217	1
Restructuring expenses	5	8	–	–	64	30	69	38
Research and development costs	2,709	2,408	1,130	923	516	568	4,355	3,899
Income from associated companies	(41)	(35)	–	–	–	–	(41)	(35)
Investments in associated companies	8	64	–	–	–	–	8	64
Number of employees	32,380	32,871	7,646	6,226	5,082	5,438	45,108	44,535

Chugai prescription: The 2003 results include 49 million Swiss francs for the write-off of the fair value adjustment to inventories arising from the acquisition accounting for Chugai (see Note 6). These fair value adjustments were written off in line with the inventory turnover and were fully written off by the end of the first quarter of 2003.

Consumer Health (OTC): This is shown as a discontinuing business (see Note 7). The segment results exclude a total of 44 million Swiss francs (2003: 44 million Swiss francs) of administration and other costs that were previously allocated to the Consumer Health (OTC) business in the Group's published segment results. These items are not transferred with the sale of the business and therefore they have been reclassified to the business segment 'Others' within the Group's continuing business results.

Diagnostics 2004	Diagnostics 2003	Others 2004	Others 2003	Continuing businesses 2004	Continuing businesses 2003	Consumer Health (OTC) 2004	Consumer Health (OTC) 2003	Vitamins and Fine Chemicals 2004	Vitamins and Fine Chemicals 2003	Group 2004	Group 2003
7,832	7,423	–	–	30,215	28,030	1,754	1,772	–	2,332	31,969	32,134
(5)	(14)	–	–	(693)	(840)	(3)	(2)	–	(72)	(696)	(914)
7,827	7,409	–	–	29,522	27,190	1,751	1,770	–	2,260	31,273	31,220
1,675	1,405	(298)	(310)	6,950	5,793	304	311	–	164	7,254	6,268
(339)	(234)	–	–	(572)	(489)	(7)	(8)	–	–	(579)	(497)
–	(9)	–	–	–	216	–	–	–	–	–	216
–	–	–	–	(199)	–	2,503	–	–	(395)	2,304	(395)
1,336	1,162	(298)	(310)	6,179	5,520	2,800	303	–	(231)	8,979	5,592
14,004	12,588	126	142	35,702	35,598	54	1,008	–	–	35,756	36,606
144	157	56	–	1,561	1,539	16	10	–	–	1,577	1,549
14,148	12,745	182	142	37,263	37,137	70	1,018	–	–	37,333	38,155
										20,743	21,331
										58,076	59,486
(360)	(243)	(2)	(5)	(906)	(762)	(19)	(97)	–	–	(925)	(859)
(1,717)	(1,687)	(115)	(191)	(4,272)	(4,544)	(30)	(15)	(208)	(203)	(4,510)	(4,762)
(2,077)	(1,930)	(117)	(196)	(5,178)	(5,306)	(49)	(112)	(208)	(203)	(5,435)	(5,621)
										(19,348)	(24,701)
										(24,783)	(30,322)
3,064	2,038	1	1	4,694	3,571	6	15	–	172	4,700	3,758
456	430	6	3	1,242	1,240	5	8	–	55	1,247	1,303
308	258	–	–	1,000	986	26	27	–	–	1,026	1,013
5	18	–	–	222	19	–	6	–	375	222	400
(5)	42	–	–	64	80	17	2	–	3	81	85
698	724	–	1	5,053	4,624	40	47	–	95	5,093	4,766
–	–	(2)	(9)	(43)	(44)	–	–	–	–	(43)	(44)
7	–	40	46	55	110	–	–	–	–	55	110
19,109	18,302	377	430	64,594	63,267	109	2,090	–	–	64,703	65,357

Vitamins and Fine Chemicals: This is shown as a discontinuing business (see Note 8). The business was sold effective 30 September 2003. The 2003 results include an impairment charge of 375 million Swiss francs on the net assets of the Vitamins and Fine Chemicals business.

Others: This includes the costs of Corporate Headquarters, as well as the non-allocated administration and other costs referred to above. The Group will be reassessing the latter during 2005 with a view to reducing them through restructuring.

Information by geographical segment *in millions of CHF*

2004	Sales to third parties (by destination)	Segment assets	Capital expenditure
Switzerland	442	6,138	299
European Union	10,563	11,298	899
Rest of Europe	993	295	17
Europe	11,998	17,731	1,215
North America	11,025	14,373	3,215
Latin America	1,825	1,106	74
Japan	3,875	3,531	128
Rest of Asia	1,553	377	46
Asia	5,428	3,908	174
Africa, Australia and Oceania	997	215	22
Segment total	31,273	37,333	4,700
Non-segment assets	–	20,743	–
Consolidated total	31,273	58,076	4,700
2003			
Switzerland	529	6,386	1,602
European Union	9,681	11,543	764
Rest of Europe	1,520	554	55
Europe	11,730	18,483	2,421
North America	10,789	13,802	941
Latin America	2,076	1,237	69
Japan	3,948	3,951	249
Rest of Asia	1,697	406	50
Asia	5,645	4,357	299
Africa, Australia and Oceania	980	276	28
Segment total	31,220	38,155	3,758
Non-segment assets	–	21,331	–
Consolidated total	31,220	59,486	3,758

5. Genentech

Effective 7 September 1990 the Group acquired a majority interest of approximately 60% of Genentech, Inc., a biotechnology company in the United States. On 13 June 1999 the Group exercised its option to acquire the remaining shares of Genentech on 30 June 1999, at which point Genentech became a 100% owned subsidiary of the Group. On 23 July 1999, 26 October 1999 and 29 March 2000 the Group completed public offerings of Genentech's Common Stock, as a result of which the Group's majority interest was 60%. Genentech issues additional shares of common stock in connection with its equity compensation plans and also may issue additional shares for other purposes. The affiliation agreement between the Group and Genentech provides, amongst other things, that Genentech establish a stock repurchase programme to maintain the Group's percentage ownership interest in Genentech.

During 2004 the Group's ownership of Genentech decreased by 2.45% due to the conversion and redemption of 'LYONs IV' US dollar exchangeable notes, as described in Note 32. Changes in the Group's ownership also arose from the stock repurchases by Genentech and the exercise of stock options by Genentech employees. Effective 28 April 2004 Genentech implemented a two-for-one share split of Genentech's common stock in the form of a stock dividend, which had no impact on either the Group's percentage ownership of Genentech or the Group's consolidated results. At 31 December 2004 the Group's interest in Genentech was 56.1% (2003: 58.4%). 'Genentech prescription' is shown as a separate business segment in the segment information.

The common stock of Genentech is publicly traded and is listed on the New York Stock Exchange, under the symbol DNA. Genentech prepares financial statements in conformity with accounting principles generally accepted in the United States (US GAAP). These are filed on a quarterly basis with the US Securities and Exchange Commission (SEC).

Differences between IFRS and US GAAP

Due to certain consolidation entries and differences in the requirements of International Financial Reporting Standards (IFRS) and US GAAP, there are differences between Genentech's stand-alone results on a US GAAP basis and the results of Genentech as consolidated by the Roche Group in accordance with IFRS.

Reconciliation of Genentech results

	2004 USD millions	2004 CHF millions	2003 USD millions	2003 CHF millions
Operating margin (US GAAP basis)	1,137		805	
– redemption costs	145		154	
– special litigation items	37		(113)	
Operating margin (non-US GAAP basis)	1,319		846	
Add (deduct) differences and consolidation entries				
– add back redemption costs	(145)		(154)	
– other differences and consolidation entries	(12)		(38)	
Operating profit before exceptional items (IFRS basis)	1,162	1,444	654	882
Add (deduct) exceptional items				
– amortisation of goodwill		(265)		(287)
– major legal cases		–		225
Segment result/operating profit (IFRS basis)		1,179		820
Add (deduct) non-operating items (IFRS basis)				
– financial income		7		51
– income taxes		(515)		(367)
Net income (IFRS basis)		671		504
Minority interest percentage (average during year)		43.7%		40.7%
Income applicable to minority interest (IFRS basis)		(293)		(205)

Translated at 1 USD = 1.24 CHF (2003: 1 USD = 1.35 CHF).

Following the acquisition by the Group of 100% interest in Genentech on 30 June 1999, the analysis carried out for the acquisition accounting identified amounts attributable to in-process research and development (IPR&D). In Genentech's US GAAP financial statements these items have been recorded in 1999 as either an adjustment to equity or as a one-time expense. Under IFRS these items cannot be classified as separate assets at the date of acquisition and therefore form part of goodwill. Therefore in the years subsequent to 1999 there is a goodwill amortisation expense in respect of this IPR&D in the Group's results under IFRS. Genentech adopted US accounting standards FAS 141 and FAS 142 effective 1 January 2002, under which goodwill is no longer amortised, but is subject to an impairment test at least annually. Under IFRS goodwill continues to be amortised, while also being subject to testing for impairment. Effective 1 January 2005 the Group will implement IFRS 3 'Business Combinations' and from this date goodwill will no longer be amortised. There are other differences between IFRS and US GAAP, but these have a relatively minor impact.

Genentech stock repurchases and stock options

In September 2004 Genentech's Board of Directors authorised an extension of the current stock repurchase programme to repurchase up to a further 1,000 million US dollars of Genentech's common stock through 31 December 2005. Previously on 5 December 2003 Genentech's Board of Directors had authorised a stock repurchase programme to repurchase up to 1,000 million US dollars of Genentech's common stock. In 2004 Genentech had repurchased common stock worth 1,352 million US dollars or 1,680 million Swiss francs (2003: 201 million US dollars or 271 million Swiss francs).

Genentech has an employee stock purchase programme that allows employees to purchase Genentech's common stock at 85% of the lower of market value at the grant date or purchase date. 1,717 thousand shares of Genentech common stock were purchased in 2004 resulting in a cash inflow of 73 million Swiss francs.

Genentech also has a stock option plan adopted in 1999 and amended in 2000. In April 2004 Genentech's shareholders approved an equity incentive plan. The plans allow for the granting of various stock options, incentive stock options and stock purchase rights shares to employees, directors and consultants of Genentech. No incentive stock options and stock purchase rights have been granted under this plan to date. Details of stock options are shown in the table below, which has been restated for the effects of the 2004 two-for-one share split.

Genentech stock options

Number of options (thousands)	2004	2003
Outstanding at 1 January	96,126	110,838
Granted	20,967	21,780
Exercised	(21,484)	(32,078)
Cancellations	(1,843)	(4,414)
Outstanding at end of year	93,766	96,126
– of which exercisable	46,339	47,607

Terms of options outstanding as at 31 December 2004

	Options outstanding			Options exercisable	
Range of exercise prices (USD)	Number outstanding (thousands)	Weighted average years remaining contractual life	Weighted average exercise price (USD)	Number exercisable (thousands)	Weighted average exercise price (USD)
6.27–8.89	1,068	5.70	7.49	1,068	7.49
10.00–14.35	24,640	6.75	13.61	15,356	13.21
15.04–22.39	17,089	6.34	20.81	13,313	20.96
22.88–33.00	993	6.15	28.31	781	28.92
35.63–49.98	30,328	7.79	41.38	15,738	40.55
50.96–59.61	19,648	9.71	53.36	83	54.34
Total	93,766			46,339	

During 2004 Genentech granted 20,967 thousand options with an average exercise price of USD 53.04. The options vest over a four-year period and expire in 2014. The fair value of the options granted, estimated using a binomial model, was 413 million Swiss francs. Options exercised during 2004 had an average exercise price of USD 20.81 and the cash inflow was equivalent to 555 million Swiss francs.

The net accounting effect of Genentech stock repurchases and stock options is recorded to minority interests (see Note 37).

Effective 1 January 2005 the Group will implement IFRS 2: 'Share-based payment'. Amongst other matters, the new standard requires that the value of equity-settled plans, such as the Genentech stock option plans and employee stock purchase programme, be estimated at grant date and recorded as an employee remuneration expense over the vesting period. For example the fair value of 413 million Swiss francs for the options granted in 2004 would be recorded as an expense over the subsequent four-year vesting period. Based on the initial work carried out and applying the transitional restrictions, the Group estimates that the pre-tax expense for 2004 for Genentech's equity compensation plans would be approximately 131 million Swiss francs. Due to the impact of the transitional arrangements this amount is not indicative of the future expenses for these plans. See also Note 1.

Other matters

As discussed in Note 9, in 2003 the Group has recorded income of 225 million Swiss francs in respect of certain litigation matters at Genentech.

6. Chugai

Effective 1 October 2002 the Roche Group and Chugai completed an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. The merged company, known as Chugai, is a fully consolidated subsidiary of the Group. At 31 December 2004 the Group's interest in Chugai was 50.6% (2003: 50.5%). 'Chugai prescription' is shown as a separate business segment in the segment information. The results of Chugai's OTC business are included in the 'Consumer Health (OTC)' business segment. Segment information is given in Note 4.

The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange. 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.

Differences between IFRS and JGAAP

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.

The acquiring by Roche of a 50.1% in Chugai is treated as an acquisition for IFRS. For JGAAP the alliance is treated as a merger between Chugai and Nippon Roche. Therefore the JGAAP results of Chugai do not include the goodwill and fair value adjustments that are recorded in Roche's results, and which are quantified in the table below. Moreover the acquisition accounting only includes Roche's 50.1% of these fair value adjustments and therefore the impact of these on net income needs to be added back in the minority interest calculations in Roche's IFRS results.

In Roche's IFRS results, depreciation on property, plant and equipment is calculated using the straight-line method. In Chugai's JGAAP results the reducing balance method is used. Additionally certain income and expenses, notably some restructuring costs, are required by JGAAP to be reported as extraordinary items. In Chugai's JGAAP results extraordinary items are reported below the operating profit line. In Roche's IFRS results such items are normally included as part of operating profit and are not treated as extraordinary or exceptional items. Restructuring costs were 64 million Swiss francs (2003: 30 million Swiss francs). There are other differences between IFRS and JGAAP, but these have a relatively minor impact.

Reconciliation of Chugai prescription results *in millions of CHF*

	2004	2003
Chugai prescription operating profit before exceptional items and before acquisition accounting impacts (IFRS basis)	565	590
– write-off of fair value adjustments to inventories	–	(49)
– depreciation of property, plant and equipment	(9)	(9)
– amortisation of acquisition-related intangible assets	(69)	(70)
Chugai prescription operating profit before exceptional items (IFRS basis)	487	462
Add (deduct) exceptional items		
– amortisation of goodwill	(10)	(10)
Chugai prescription segment result/operating profit (IFRS basis)	477	452
Add (deduct) Chugai OTC and non-operating items (IFRS basis)		
– financial income and Chugai OTC	101	(24)
– income taxes	(238)	(188)
Net income (IFRS basis)	340	240
Minority interest calculation		
Add back acquisition accounting impact on net income	57	86
Net income excluding acquisition accounting	397	326
Minority interest percentage (average during year)	49.5%	49.7%
Income applicable to minority interest (IFRS basis)	197	163

Translated at 100 JPY = 1.15 CHF (2003: 100 JPY = 1.16 CHF).

Dividends

The dividends distributed to third-parties holding Chugai shares during 2004 totalled 5,952 million Japanese yen or 68 million Swiss francs (2003: 2,198 million Japanese yen or 26 million Swiss francs) and has been recorded against minority interests (see Note 37). Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Chugai OTC

On 30 July 2004 Chugai announced the sale of its OTC business to Lion Corporation. The sale was completed effective 29 December 2004 and a pre-tax gain on disposal of 103 million Swiss francs was recorded.

Early retirement programme

On 18 May 2004 Chugai announced an early retirement programme with a retirement date of 30 September 2004. At the end of the application period on 6 August 2004 a total of 216 employees had applied for the programme. Restructuring costs of 4.2 billion Japanese yen (48 million Swiss francs) were recorded for this programme.

Share repurchase

During 2004 Chugai repurchased 1,000,000 of its common shares for a total consideration of 1.6 billion Japanese yen (19 million Swiss francs). As a result the Group's ownership in Chugai increased to 50.6%. The net accounting effect of Chugai share repurchases is recorded to minority interests (see Note 37).

Chugai convertible bonds

Details of the 'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds', including conversions during the year, are given in Note 32.

Stock acquisition rights

During 2003 Chugai adopted a Stock Acquisition Rights programme. The programme allows for the granting of rights to employees and directors of Chugai. Each right entitles the holder to purchase 100 Chugai shares at a specified exercise price.

Chugai stock acquisition rights

Number of rights	2004	2003
Outstanding at 1 January	2,310	–
Granted	2,320	2,310
Exercised	–	–
Cancellations	–	–
Outstanding at end of year	4,630	2,310
– of which exercisable	4,630	2,310

Terms of rights outstanding as at 31 December 2004

	Rights outstanding			Rights exercisable	
Year of grant	Number outstanding	Remaining contractual life	Exercise price (JPY)	Number exercisable	Exercise price (JPY)
2003	2,310	8.5 years	145,400	2,310	145,400
2004	2,320	9.2 years	167,500	2,320	167,500

During 2004 Chugai granted 2,320 rights with an exercise price of JPY 167,500. The rights vested immediately and expire in 2014. The fair value of the rights granted, estimated using a binomial model, was 2 million Swiss francs.

Effective 1 January 2005 the Group will implement IFRS 2 'Share-based payment'. Amongst other matters, the new standard requires that the value of equity-settled plans, such as the Chugai stock acquisition rights, be estimated at grant date and recorded as an expense over the vesting period. See also Note 1.

7. Consumer Health (OTC) business

On 19 July 2004 the Group announced the sale of Roche Consumer Health, its global OTC (over-the-counter medicines) business, to the Bayer Group. The sale also included five production facilities belonging to the Roche prescription business. Under the agreement with Bayer the majority of local businesses were transferred to Bayer at the end of 2004. In a few smaller markets where the transaction has yet to be closed, completion is expected within the first half of 2005. By 31 December 2004, 98% of the divestment to Bayer was completed, measured in terms of Roche Consumer Health sales to third parties.

On 30 July 2004 Chugai announced the sale of its OTC business to Lion Corporation. This sale was completed effective 29 December 2004.

Gain on disposal of Consumer Health (OTC) business and five Roche prescription production facilities as at 31 December 2004 *in millions of CHF*

Consideration		3,835
– less net debt adjustments		(98)
– less other purchase price adjustment mechanisms		(36)
Net proceeds		3,701
Of which		
– cash		815
– receivable from Bayer collected on 1 January 2005		2,886
		3,701
Incidental transaction costs		(87)
Net assets of the Consumer Health (OTC) business and five production facilities		
– property, plant and equipment[17]	240	
– goodwill[18]	78	
– intangible assets[19]	240	
– inventories[23]	192	
– accounts receivable	264	
– cash	38	
– provisions[30]	(2)	
– accounts payable	(61)	
– other net assets and liabilities	(131)	
– accumulated currency translation adjustments[36]	44	
		(902)
Impairment and restructuring charges and accruals for residual obligations retained by the Roche Group		(408)
Gain on disposal		2,304
Of which		
– Discontinuing businesses: Consumer Health (OTC) business segment		2,503
– Continuing businesses: Roche prescription business segment		(199)
		2,304

The above table includes preliminary assessments of the net debt adjustments and other purchase price mechanisms as well as initial calculations of the impairment and restructuring charges and accruals for residual obligations retained by the Roche Group. The final assessments and calculations will be made in 2005.

The preliminary assessment of the disposal results in a tax expense currently estimated at 368 million Swiss francs. Of the after-tax gain of 1,936 million Swiss francs, 30 million Swiss francs are attributable to minority interests, giving a net income of 1,906 million Swiss francs from the disposal.

The cash inflow from the disposal in 2004, net of cash balances of 38 million Swiss francs held by companies within the Consumer Health (OTC) business and cash payments for transaction costs of 81 million Swiss francs, was 696 million Swiss francs. Under the terms of the agreement the majority of cash proceeds, totalling 2,886 million Swiss francs, were transferred to the Group on 1 January 2005. This amount is shown as a receivable in the 31 December 2004 balance sheet.

Discontinuing businesses: Consumer Health (OTC) business segment

The Consumer Health (OTC) business is shown as a discontinuing operation in the consolidated results as it represents a separate major line of business that can be distinguished operationally and for financial reporting purposes. The results of the Consumer Health (OTC) business segment are shown in Note 4.

Consumer Health (OTC) business: amounts included in the income statement *in millions of CHF*

	2004	2003
Sales to third parties	1,751	1,770
Expenses	(1,447)	(1,459)
Operating profit before exceptional items	304	311
Amortisation of goodwill	(7)	(8)
Major legal cases	–	–
Changes in Group organisation	2,503	–
Operating profit	2,800	303
Result of associated companies	–	–
Financial income	(4)	–
Profit before taxes	2,796	303
Income taxes	(447)	(83)
Profit after taxes	2,349	220
Minority interests	(35)	(2)
Net income	2,314	218

The above figures exclude a total of 44 million Swiss francs (2003: 44 million Swiss francs) of administration and other overheads that were previously allocated to the Consumer Health (OTC) business in the Group's published segment results. These items are not transferred with the sale of the business and therefore they have been reclassified to the business segment 'Others' within the Group's continuing business results. The Group will be reassessing these during 2005 with a view to reducing them through restructuring.

Consumer Health (OTC) business: amounts included in the balance sheet *in millions of CHF*

	31 December 2004	31 December 2003
Property, plant and equipment	1	45
Other long-term assets	16	380
Current assets	53	593
Total assets	70	1,018
Long-term debt	–	–
Provisions	(30)	(15)
Current liabilities	(19)	(97)
Total liabilities	(49)	(112)
Net assets	21	906

The significant operating cash flows from the Consumer Health (OTC) business of 335 million Swiss francs (2003: 352 million Swiss francs) arise from the operating profit before exceptional items and before depreciation, amortisation and impairment. There were no significant investing and financing cash flows from the Consumer Health (OTC) business.

Continuing businesses: Roche prescription business segment

The five production facilities included in the sale to Bayer are shown as part of the Roche prescription results until the date of disposal. All five production facilities were transferred to Bayer at the end of 2004 and therefore are not included in the 31 December 2004 balance sheet.

In connection with the divestment of Roche Consumer Health, the Roche prescription business reassessed the utilisation of its manufacturing facilities, infrastructure and service capacities. In addition, under the terms of the agreement with Bayer, the Roche prescription business has agreed certain interim manufacturing and service obligations with Bayer. As a result of this, the Roche prescription business recorded an impairment charge based on the estimated net selling price as shown in the table below.

Bayer transaction: impact on Roche prescription business segment *in millions of CHF*	
Net proceeds	317
Incidental transaction costs	(3)
Net assets of the five production facilities	(237)
Impairment charges	(183)
Restructuring charges and accruals for residual obligations retained by the Roche prescription business	(93)
Gain (loss) on disposal: Roche prescription business segment	(199)

On 19 July 2004, in a separate transaction, the Roche prescription business announced that it has granted GlaxoSmithKline Consumer Healthcare an exclusive license for the US non-prescription rights to the anti-obesity drug orlistat, marketed by Roche as a prescription medicine under the brand name Xenical. The agreement provides for an up-front payment in 2004 of 100 million US dollars (124 million Swiss francs) and additional payments on the achievement of agreed milestones and royalties. The up-front payment received in 2004 was initially reported as deferred income and is being recognised in income as earned over the period of the development collaboration. The Group retains all rights to market Xenical as a prescription drug in the US and all rights (prescription and non-prescription) outside the US.

8. Vitamins and Fine Chemicals business

Effective 30 September 2003, after receiving the final regulatory approvals, the Group completed the sale of its global Vitamins and Fine Chemicals business ('the VFC business') to the Dutch company DSM.

An impairment charge of 375 million Swiss francs was recorded at 30 June 2003. This was based on assessments at the respective dates of the difference between the expected net proceeds from disposal and the net assets of the VFC business, taking into account the residual obligations that will be retained by the Roche Group. The preliminary assessment made in 2003 showed that an additional loss on disposal of 20 million Swiss francs arose on the disposal of the VFC business. The final assessment is expected to be finalised in 2005, following review and approval by the Group and by DSM of the implementation of the purchase price adjustment mechanisms. Based on the current status of the review and approval process, no adjustments to the preliminary estimate of the loss on disposal have been made.

Gain (loss) on disposal of Vitamins and Fine Chemicals business *in millions of CHF*	
Consideration	2,681
– less net debt adjustment	(252)
– less other purchase price adjustment mechanisms	(62)
Net proceeds from DSM received in 2003	2,367
Of which	
– cash	2,226
– DSM shares	141
	2,367
Incidental transaction costs	(42)
Net assets of the VFC business, net of impairment charges and accruals for residual obligations retained by the Roche Group	(2,345)
Gain (loss) on disposal	(20)

The preliminary assessment of the disposal in 2003 resulted in a tax benefit of 41 million Swiss francs. The cash inflow from the disposal in 2003, net of cash balances of 113 million Swiss francs held by companies within the VFC business, was 2,113 million Swiss francs.

Following the sale of the VFC business, certain assets and liabilities of the Vitamins and Fine Chemicals Division, mainly associated with the vitamin case, remain with the Group. These are described below in the section on the vitamin case. In addition the Group has given DSM certain indemnities in respect of any remedial actions at the

sites of the VFC business that may be required by environmental laws. Further arrangements were put in place regarding utilisation of certain assets and certain purchasing contracts as well as adopting DSM as a preferred supplier for pharmaceutical ingredients. Under one of these arrangements, the Group has guaranteed to purchase for a period of four years beginning 1 January 2004 products with a sales value totalling 100 million euros. The Group will reimburse DSM for 75% of any unutilised amounts. The other arrangements consist of certain residual obligations, which are fully accrued for.

The Vitamins and Fine Chemicals Division is shown as a discontinuing operation in the consolidated results. The 2003 results of the VFC business that was sold to DSM are included in the consolidated results of the Group up until the sale on 30 September 2003. The results of the Vitamins and Fine Chemicals business segment are shown in Note 4.

VFC business: amounts included in the income statement *in millions of CHF*

	VFC business sold to DSM		Vitamin case and other residual amounts		Vitamins and Fine Chemicals business	
	2004	2003	2004	2003	2004	2003
Sales to third parties	–	2,260	–	–	–	2,260
Expenses	–	(2,083)	–	(13)	–	(2,096)
Operating profit before exceptional items	–	177	–	(13)	–	164
Amortisation of goodwill	–	–	–	–	–	–
Major legal cases	–	–	–	–	–	–
Changes in Group organisation	–	(395)	–	–	–	(395)
Operating profit	–	(218)	–	(13)	–	(231)
Result of associated companies	–	–	–	–	–	–
Financial income	–	(37)	(16)	–	(16)	(37)
Profit before taxes	–	(255)	(16)	(13)	(16)	(268)
Income taxes	–	40	4	4	4	44
Profit after taxes	–	(215)	(12)	(9)	(12)	(224)
Minority interests	–	1	–	–	–	1
Net income	–	(214)	(12)	(9)	(12)	(223)

The remaining segment liabilities of the VFC business are shown in Note 4. These consist primarily of provisions related to the vitamin case and other matters that have not been transferred to DSM.

In 2003, in addition to the vitamin case payments, the cash flows from the VFC business for the nine months prior to the sale to DSM consisted of operating cash flow of 165 million Swiss francs, financing cash outflows of 36 million Swiss francs and investing cash outflows of 163 million Swiss francs.

Vitamin case

Following the settlement agreement with the US Department of Justice on 20 May 1999 regarding pricing practices in the vitamin market and the overall settlement agreement to a class action suit brought by the US buyers of bulk vitamins, the Group recorded provisions in respect of the vitamin case in 1999. These provisions were the Group's best estimate at that time of the total liability that may arise, taking into account currency movements and the time value of money. Provisions for legal fees were recorded separately. At 31 December 2001 and 31 December 2002, based on the development of the litigation and recent settlement negotiations, the Group recorded additional provisions of 760 and 1,770 million Swiss francs, respectively.

On 17 January 2003 the District of Columbia Circuit Court of Appeals ruled that non-US plaintiffs may bring claims in US courts under US anti-trust laws for alleged damages suffered from transactions outside the United States in connection with the vitamin case. On 14 June 2004 the Supreme Court of the United States nullified the decision of the District of Columbia Circuit Court of Appeals in a class action litigation brought on behalf of non-US purchasers of bulk vitamins from Roche and other manufacturers. In addition to the nullification of

the decision of the lower court, the Supreme Court remanded the case to the lower court to review alternative arguments which might permit such claims to proceed in the US. The District of Columbia Circuit Court of Appeals has asked the parties to submit written briefs and an oral hearing is scheduled for April 2005. No provisions have been recorded in respect of this litigation as the eventual outcome is uncertain at this stage.

Total payments during the year were 66 million Swiss francs (2003: 638 million Swiss francs), which were charged against the provisions previously recorded. Payments made in 2003 include 403 million US dollars (545 million Swiss francs) to direct customers in the United States.

The Group is seeking to resolve the remaining outstanding issues; however the timing and the final amounts involved are uncertain. The remaining provisions recorded total 128 million Swiss francs and are based on current litigation and recent settlement agreements. These provisions are all considered as short-term as cash outflows are expected to arise during 2005 and are not discounted as the time value of money is not considered material in this case. As the litigation and negotiations progress it is possible that the ultimate liability may be different from the amount of provisions currently recorded.

As part of the disposal process, the liabilities in respect of the vitamin case, which are discussed above, remain with the Roche Group. Roche and DSM have signed an Indemnity and Co-operation Agreement under which Roche may provide DSM with certain indemnities and guarantees in connection with the vitamin case.

9. Major legal cases

Income (expenses) from major legal cases *in millions of CHF*

	2004	2003
Igen litigation		
– write-off of intangible assets[19]	–	(117)
– release of provisions[30]	–	108
Genentech legal cases		
– receipts (payments) from settlements	–	225
Total income (expense)	–	216

Igen litigation

On 15 February 2002 the United States District Court of Maryland entered judgement in the civil litigation between Roche Diagnostics GmbH, Germany (RDG) and Igen International, Inc. (Igen) over claims related to the licensing of Igen's electrochemiluminescence (ECL) technology to RDG. The court concluded that several breaches of the licence agreement were material so that Igen has the right to terminate the licence agreement, and awarded Igen 105.4 million US dollars in compensatory damages and 400 million US dollars in punitive damages. On 9 July 2003 the United States Court of Appeals for the Fourth Circuit reversed the substantial damages awarded against RDG. The court reversed the finding that RDG had engaged in unfair competition through the continuation of a patent lawsuit against Igen by one of RDG's affiliated companies. In setting aside that claim, the Court eliminated the only basis for the award of 400 million US dollars in punitive damages against RDG. The court also held that RDG did not violate an implied covenant of good faith and fair dealing under the License Agreement, thereby also setting aside the award of 82 million US dollars in compensatory damages on that claim. In total the Court eliminated 486 million US dollars of the 505 million US dollars judgement entered against RDG. The Court left intact the jury's award of the remaining damages and the finding that Igen may terminate the License Agreement with RDG. Igen notified RDG that Igen will terminate the License Agreement. On 24 July 2003 the Group and Igen announced plans under which the Group will acquire Igen. This acquisition was completed effective 13 February 2004 (see Note 3).

As the previous license agreement was terminated, the Group wrote off the intangible assets for this technology that were recorded at the time of the acquisition of the Corange Group by the Roche Group in 1997. The net book value of these was 117 million Swiss francs. At the same time the Group released to income 108 million Swiss francs of litigation provisions, being the balance in the provision less the remaining outstanding compensatory damages awards. The net of these two amounts, an expense totalling 9 million Swiss francs, has been recorded as an expense from major legal cases in the 2003 results.

In March 2002 RDG paid 606 million US dollars into a collateral deposit account in relation to the Igen litigation. Following entry of the final judgement RDG paid the remaining 18.6 million US dollars (25 million Swiss francs) in respect of the remaining compensatory damages to Igen. The amount in the collateral deposit account was repaid to the Group in 2003. The net cash inflow of these two transactions was 808 million Swiss francs.

Genentech legal cases

In 2003 the Group has recorded income of 225 million Swiss francs in respect of certain litigation settlements, including litigation involving Amgen.

On 10 June 2002 Genentech announced that a Los Angeles County Superior Court jury voted to award City of Hope Medical Center approximately 300 million US dollars in compensatory damages based on a finding of a breach of a 1976 agreement between Genentech and the City of Hope. On 24 June 2002 the jury voted to award City of Hope 200 million US dollars in punitive damages in the same case. On 13 September 2002 Genentech filed a notice of appeal of the jury verdict and damages awards with the California Court of Appeal. On 21 October 2004 the Court of Appeal affirmed the verdict and damages awards in all respects. Also, on 21 October 2004 Genentech announced that it will seek review by the California Supreme Court, which has discretion over which cases it will review. On 24 November 2004 Genentech filed its petition for review by the California Supreme Court. City of Hope filed its answer on 14 December 2004, and Genentech filed its reply on 27 December 2004. The California Supreme Court has not yet ruled on this petition. A full provision, which is now classified as short-term, has been recorded for the damages awards. During the appeals process interest accrues on the total amount of the damages at a simple annual rate of 10%. Following the judgement interest of 61 million Swiss francs (2003: 69 million Swiss francs) was recorded as the time cost of provisions, within interest expenses (see Note 15). On 3 October 2002 Genentech entered into an arrangement with third party insurance companies to post a surety bond of 600 million US dollars in connection with this judgement. As part of this arrangement Genentech pledged 630 million US dollars in cash and investments to secure this bond. This was increased in 2004 by 52 million US dollars to 682 million US dollars (772 million Swiss francs). This amount is reported as restricted cash within other current assets (see Note 25).

In addition, Genentech is party to a patent infringement suit filed by Chiron Corporation on 7 June 2000 in the US District Court in the Eastern District of California (Sacramento) in respect of Herceptin. On 25 June 2002 the court issued several decisions regarding summary judgement motions that had been filed. The jury trial of this suit began on 6 August 2002. Following the first phase of the trial, based on the findings by the jury, the court entered judgement in favour of Genentech. On 20 November 2002 Chiron filed notice of appeal with the US Court of Appeals for the Federal Circuit. On 4 December 2002 Genentech filed notice of cross-appeal with the same court. On 6 April 2004 Genentech announced that the US Court of Appeals for the Federal Circuit unanimously affirmed the 2002 judgement of the US District Court in the Eastern District of California (Sacramento) that found in favour of Genentech. Chiron filed a petition for rehearing with the Court of Appeals and that motion was subsequently denied. On 4 October 2004 Chiron filed a petition with the United States Supreme Court seeking review of the judgment in favour of Genentech. On 10 January 2005, the Supreme Court announced that it had denied review of the judgment.

On 12 August 2002 the United States Patent and Trademark Office declared an interference between the Chiron patent involved in this lawsuit and a patent application exclusively licensed to Genentech from the University of Pennsylvania relating to anti-HER2 antibodies. In declaring the interference, the Patent Office has determined that there is substantial question as to whether the inventors of the Chiron patent were the first to invent the technology involved and are entitled to the patent. Subsequently the Patent Office redeclared the interference to include, in addition to the above-referenced Chiron patent and university patent application, a number of patents and patent applications owned by either Chiron or Genentech, including a Chiron patent that is also at issue in a second patent infringement lawsuit filed on 13 March 2001 against Genentech by Chiron. On 30 November 2004 the Patent Office issued rulings on several preliminary motions. These rulings terminated both interferences involving the patent application referenced above that Genentech licensed from a university, redeclared interferences between the Genentech and Chiron patents and patent applications, and made several determinations which could affect the validity of the Genentech and Chiron patents and patent applications involved in the remaining interferences. The interference proceedings are ongoing, including the possibility that the rulings on the preliminary motions will be challenged or appealed, and therefore the outcome of this matter

cannot be determined at this time. In connection with the second patent infringement lawsuit filed on 13 March 2001 against Genentech by Chiron, discovery in that case is currently stayed.

On 13 January 2003 arbitration proceedings began between Genentech and Tanox Biosystems, Inc. ('Tanox') regarding a July 1996 Settlement and Cross-Licensing Agreement relating to the development and manufacture of certain antibody products directed towards immunoglobin E, including Xolair and Hu-901. Tanox claimed breaches of the agreement and Genentech made counterclaims. On 26 February 2004 Genentech announced that an agreement had been reached between Tanox, Genentech and Novartis, which settled all litigation between the parties and finalised the detailed terms of the three-party collaboration. As part of the settlement Genentech and Novartis each reimbursed Tanox 3.3 million US dollars for a portion of its development costs.

On 27 August 2003 Genentech and Amgen, Inc. announced a settlement of their patent litigation in the US District Court for the Northern District of California. Under the settlement agreement, both parties agreed to dismiss their claims and counterclaims against each other. As part of the settlement Amgen made a one-time payment to Genentech. In November 2003 Genentech and Bayer settled a breach-of-contract action that Genentech brought against Bayer relating to Bayer's manufacture and sale of Factor VIII under a license agreement between Bayer and Genentech. As part of the settlement, Bayer made a one-time payment to Genentech. Income from major legal cases of 225 million Swiss francs has been recorded in the 2003 results in respect of these settlements.

On 4 October 2004 Genentech received a subpoena from the United States Department of Justice, requesting documents related to the promotion of Rituxan, a prescription product approved for the treatment of relapsed or refractory, low-grade or follicular, CD20 positive, B-cell non-Hodgkin's lymphoma. Genentech is co-operating with the associated investigation, which, as Genentech has been advised, is both civil and criminal in nature. The potential outcome of this matter cannot be determined at this time.

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

10. Employee benefits

Employee remuneration *in millions of CHF*

	2004	2003
Wages and salaries	6,290	6,494
Social security costs	769	777
Post-employment benefits: defined benefit plans	532	469
Post-employment benefits: defined contribution plans	146	117
Other employee benefits	362	397
Total employees' remuneration	8,099	8,254

The charges for employee benefits are included in the relevant expenditure line by function. The number of employees at the year-end was 64,703 (2003: 65,357). Other employee benefits consist mainly of life insurance schemes and certain other insurance schemes providing medical cover as well as long and short-term disability benefits.

11. Pensions and other post-employment benefits

Most employees are covered by retirement benefit plans sponsored by Group companies. The nature of such plans varies according to legal regulations, fiscal requirements and economic conditions of the countries in which the employees are employed. The major plans are defined benefit plans, the largest of which are located in Switzerland, the United States, Germany, the United Kingdom and Japan. Other post-employment benefits consist mostly of post-retirement healthcare and life insurance schemes, principally in the United States. Plans are usually funded by payments from the Group and by employees to trusts independent of the Group's finances. Where a plan is unfunded, notably for the major defined benefit plans in Germany, a liability for the obligation is recorded in the Group's balance sheet.

Defined benefit plans: expenses recognised *in millions of CHF*

	2004	2003
Current service cost	331	351
Interest cost	598	584
Expected return on plan assets	(599)	(602)
Net actuarial (gains) losses recognised	175	109
Past service cost	32	4
(Gains) losses on curtailment	(5)	23
Total included in employees' remuneration	532	469

The actual return on plan assets was 848 million Swiss francs (2003: 815 million Swiss francs).

In December 2004 the Group paid an additional contribution of 150 million Swiss francs into one of its Swiss post-employment defined benefit plans. This payment is included in 'contributions paid' in the table below and is accounted for as part of the recognised surplus on funded pension plans in the Group's consolidated financial statements in 2004. Thereafter it will be included in the actuarial calculation of the Group's pension expenses and balances.

Defined benefit plans: movements in recognised net asset (liability) *in millions of CHF*

	2004	2003
At beginning of year	(1,206)	(1,165)
Disetronic[3]	–	(7)
Consumer Health (OTC) business[7]	20	–
Vitamins and Fine Chemicals business[8]	–	242
Total expenses included in employees' remuneration (as above)	(532)	(469)
Contributions paid	571	340
Benefits paid (unfunded plans)	91	94
Currency translation effects and other	(111)	(241)
At end of year (as below)	(1,167)	(1,206)

Defined benefit plans: amounts recognised in balance sheet *in millions of CHF*

	2004	2003
Funded plans		
Actuarial present value of funded obligations due to past and present employees	(10,233)	(9,785)
Plan assets held in trusts at fair value	9,922	9,490
Plan assets in excess (deficit) of actuarial present value of funded obligations	(311)	(295)
Unrecognised actuarial (gains) losses	1,752	1,459
Unrecognised past service costs	(57)	27
Net recognised asset (liability) for funded obligations due to past and present employees	1,384	1,191
Unfunded plans		
Actuarial present value of funded obligations due to past and present employees	(2,731)	(2,626)
Unrecognised actuarial (gains) losses	169	233
Unrecognised past service costs	11	(4)
Recognised (liability) for actuarial present value of unfunded obligations due to past and present employees	(2,551)	(2,397)
Total recognised asset (liability) for funded and unfunded obligations due to past and present employees	(1,167)	(1,206)
Reported as		
– surplus recognised as long-term asset	1,577	1,549
– deficit recognised as non-current liability	(2,744)	(2,755)
Total net asset (liability) recognised	(1,167)	(1,206)

The above amounts include non-pension post-employment benefit schemes, principally medical plans as shown below.

Other post-employment benefit plans *in millions of CHF*

	2004	2003
Actuarial present value of obligations due to past and present employees	(784)	(886)
Plan assets held in trusts at fair value	342	369
Plan assets in excess (deficit) of actuarial present value of funded obligations	(442)	(517)
– less unrecognised actuarial (gains) losses	299	395
Net recognised asset (liability)	(143)	(122)

Amounts recognised in the balance sheet for post-employment defined benefit plans are predominantly non-current and are reported as long-term assets and non-current liabilities.

Plan assets of the funded plans do not include any of the Group's own equity instruments.

The Group operates defined benefit schemes in many countries and the actuarial assumptions vary based upon local economic and social conditions. The range of assumptions used in the actuarial valuations of the most significant defined benefit plans, which are in countries with stable currencies and interest rates, are shown below.

Defined benefit plans: actuarial assumptions

	2004		2003	
	Weighted average	Range	Weighted average	Range
Discount rates	4.30%	2%–7%	4.90%	3%–7%
Projected rates of remuneration growth	2.93%	2%–9%	3.37%	1%–9%
Expected rates of return on plan assets	6.52%	2%–9%	6.41%	2%–9%
Healthcare cost trend rate	7.91%	4%–13%	8.30%	4%–12%

12. Employee stock options and other equity compensation benefits

Roche Option Plan

The Group offers non-voting equity security options to certain directors and management. The exercise price is at or above the market price of the non-voting equity securities at the date of issue. The options, which are non-tradable, have a seven-year duration and vest on a phased basis over three years. The Group covers such obligations by purchasing non-voting equity securities, or derivatives thereon (see Note 34). The cost of these instruments is reported in own equity instruments, within equity on the balance sheet. When the options are exercised the cash received is credited to own equity instruments. There are no impacts on the income statement, other than employer social insurance costs and the administrative costs of the plan. The previous option compensation plan, whereby the Group purchased options directly from third-party financial institutions and granted them to certain employees, is closed and no further such options are being granted. Details of the Roche Option Plan are shown in the table below.

Roche Option Plan

Number of options	2004	2003
Outstanding at 1 January	1,876,419	584,694
Granted	829,965	1,342,116
Exercised	(219,530)	(2,131)
Cancellations	(30,127)	(48,260)
Outstanding at end of year	2,456,727	1,876,419
– of which exercisable	703,369	197,428

Terms of options outstanding as at 31 December 2004

	Options outstanding			Options exercisable	
Year of grant	Number outstanding	Weighted average years remaining contractual life	Weighted average exercise price (CHF)	Number exercisable	Weighted average exercise price (CHF)
2002	466,489	4.19	115.11	296,724	115.19
2003	1,170,533	5.16	78.36	358,443	78.15
2004	819,705	6.09	129.50	48,202	129.50
Total	2,456,727	5.28	102.81	703,369	97.30

During 2004 the Group granted 829,965 options with an average exercise price of CHF 129.50. The options vest over a three-year period and expire in 2011. The fair value of the options granted, estimated using a binomial model, was 17 million Swiss francs. Options exercised during 2004 had an average exercise price of CHF 93.47 and the cash inflow was equivalent to 21 million Swiss francs.

Effective 1 January 2005 the Group will implement IFRS 2 'Share-based payment'. Amongst other matters, the new standard requires that the value of equity-settled plans, such as the Roche Option Plan, be estimated at grant date and recorded as an expense over the vesting period. See also Note 1.

Roche Performance Share Plan

The Group offered future non-voting equity security awards (or at the Board's discretion, their cash equivalent) to certain directors and key senior managers. The programme was established at the beginning of 2002 and was in effect for three years. The amount of non-voting equity securities granted depended upon the individual's salary level, the achievement of performance targets linked to the Group's total shareholders' return (shares and non-voting equity securities combined) relative to the Group's peers during the three-year period from the date of the grant and the discretion of the Board of Directors. The plan concluded at the end of 2004 and 377,626 non-voting equity securities were vested. These have a fair value of 49 million Swiss francs and will be allocated to the recipients after a blackout period had ended. The cost of the plan was accrued over the vesting period of the grant, based on the final fair value award estimated at each balance sheet date. During the year the cost of the plan was 19 million Swiss francs (2003: 18 million Swiss francs), which was reported within the relevant operating expense categories. During 2004 the Board approved a new three-year cycle of the Roche Performance Share Plan, to operate during 2005–2007.

Roche Connect

This programme enables all employees worldwide, except for those in the United States and certain other countries, to make regular deductions from their salaries to purchase non-voting equity securities. It is administered by independent third parties. The Group makes a contribution to the programme, which allows the employees to purchase non-voting equity securities at a discount (usually 20%). The administrator purchases the necessary non-voting equity securities directly from the market. 511,574 non-voting equity securities were held at 31 December 2004 (2003: 279,143). The programme has been operational since 1 October 2002. During the year the cost of the plan was 7 million Swiss francs (2003: 6 million Swiss francs), which was reported within the relevant operating expense categories.

Stock Appreciation Rights

Some employees of certain North American subsidiaries of the Group receive Stock Appreciation Rights (SARs) as part of their compensation. The SARs may be exercised after a vesting period of between one and three years for a cash payment, based upon the amount that the market price of the Group's American Depositary Receipts (ADRs) at the point of exercise exceeds the strike price (grant price at issuance).

Stock Appreciation Rights

Number of rights	2004	2003
Outstanding at 1 January	5,317,155	4,869,400
Granted	1,806,372	1,834,330
Exercised	(2,153,297)	(456,325)
Cancellations	(686,271)	(930,250)
Outstanding at end of year	4,283,959	5,317,155
– of which exercisable	1,346,717	1,671,425

Amounts recorded in the consolidated financial statements

Expense in millions of CHF	117	154
Accrual in millions of CHF	151	129

Terms of rights outstanding as at 31 December 2004

	Rights outstanding			Rights exercisable	
Year of grant	Number outstanding	Expiry	Weighted average exercise price (USD)	Number exercisable	Weighted average exercise price (USD)
2001 award	353,791	2007	72.60	353,791	72.60
2002 award	846,009	2008	69.35	846,009	69.35
2003 award	1,313,875	2010	57.65	146,917	57.65
2004 award	1,770,284	2011	104.15	–	104.15
Total	4,283,959			1,346,717	

During 2004 the Group granted 1,806,372 rights with an average exercise price of USD 104.15. The rights vest over a three-year period and expire in 2011. The fair value of the rights granted, estimated using a binomial model, was 42 million Swiss francs. Rights exercised during 2004 had an average exercise price of USD 67.37 and the cash outflow was equivalent to 75 million Swiss francs. Following the approval of the Roche global long-term incentive programme (see below), the Group does not in the future plan to award any further cash-settled SARs based on the market price of ADRs.

Roche global long-term incentive programme

During 2004 the Board approved a new global long-term incentive programme for 2005 onwards which will be available to certain directors, management and employees selected at the discretion of the Group. The programme will consist of stock-settled stock appreciation rights (S-SARs) with the Group having the alternative of granting awards under the existing Roche Option Plan. The S-SARs will give employees the right to receive non-voting equity securities reflecting the value of any appreciation in the market price of the non-voting equity securities between the grant date and the exercise date. The Group would cover such obligations by purchasing non-voting equity securities or derivatives thereon.

Genentech and Chugai plans

The Genentech Stock Option Plan is discussed in Note 5 and the Chugai Stock Acquisition Rights programme is discussed in Note 6.

13. Other operating income

Other operating income *in millions of CHF*

	2004	2003
Royalty income	879	739
Gains on disposal of products	431	134
Other	427	462
Total other operating income	1,737	1,335

As part of the continuous realignment of its product portfolio, the Group periodically disposes of product lines that are no longer considered as core products or priorities within the product development portfolio. The proceeds are reinvested in the Group's in-licensing arrangements and other research and development alliances and collaborations.

On 9 February 2004 the Group announced the sale of the exclusive US rights to Soriatane to Connetics Corporation. The cash received was 155 million Swiss francs. On 1 August 2004 the Group agreed to license and sell certain patent rights from our patent portfolio to a third party. The cash received was 188 million Swiss francs. On 30 September 2003 the Group announced the sale to Protein Design Labs (PDL) of the business related to the Zenapax product worldwide in all disease indications other than organ transplantation. The Group will continue to market Zenapax in transplantation indications until 2007, at which point PDL have an option to purchase. The cash received was 106 million Swiss francs. During 2004 the Group and PDL signed a separate agreement to co-develop and commercialise Zenapax for asthma and related respiratory diseases. For all of these disposals the products concerned had no book value and so the gain on disposal was the same as the cash proceeds. All of these disposals are reported within the operating profit of the 'Roche prescription' segment.

14. Other operating expenses

Other operating expenses *in millions of CHF*

	2004	2003
Royalty expenses	(1,375)	(1,153)
Restructuring expenses	(81)	(85)
Impairment of property, plant and equipment[17]	(8)	(4)
Impairment of intangible assets[19]	(31)	(21)
Stock Appreciation Rights[12]	(117)	(154)
Other	(435)	(479)
Total other operating expenses	(2,047)	(1,896)

15. Financial income

Financial income *in millions of CHF*

	2004	2003
Gains on sale of equity securities	112	274
(Losses) on sale of equity securities	(43)	(208)
Dividend income	34	61
Gains (losses) on equity derivatives, net	(2)	18
Write-downs and impairments of equity securities	(63)	(313)
Net income from equity securities	38	(168)
Interest income	204	203
Gains on sale of debt securities	103	61
(Losses) on sale of debt securities	(108)	(49)
Write-downs and impairments of long-term loans	–	–
Net interest income and income from debt securities	199	215
Interest expense	(438)	(560)
Amortisation of discount on debt instruments	(143)	(354)
Gains (losses) on interest rate derivatives, net	13	30
Time cost of provisions[30]	(77)	(96)
Net interest expense	(645)	(980)
Foreign exchange gains (losses), net	(27)	254
Gains (losses) on foreign currency derivatives, net	69	16
Net foreign exchange gains (losses)	42	270
Net other financial income (expense)	7	(4)
Total net financial income	(359)	(667)

Exceptional income from bond conversion and redemption

During 2004 the Group has converted or redeemed certain of its debt instruments. Debt was reduced by 4,026 million Swiss francs, the total cash outflow was 3,039 million Swiss francs and a net pre-tax gain of 908 million Swiss francs resulted as shown below. This net gain is reported as an exceptional item due to the materiality of the gain and in order to fairly present the Group's results. Further details are given in Note 32.

Impact of bond conversion and redemption *in millions of CHF*

	Exceptional income from bond conversion and redemption (pre-tax)	Increase (reduction) in debt	Cash outflow
'LYONs IV' US dollar exchangeable notes	1,136	(1,220)	(5)
'LYONs III' US dollar exchangeable notes	(60)	(2,256)	(2,316)
'Chameleon' US dollar bonds	(74)	(641)	(715)
'LYONs V' US dollar exchangeable notes	(94)	94	–
Limited Conversion Preferred Stock	–	(3)	(3)
Total	908	(4,026)	(3,039)

16. Income taxes

Income tax expenses *in millions of CHF*

	2004	2003
Current income taxes	2,167	1,794
Adjustments recognised for current tax of prior periods	25	39
Deferred income taxes	153	(388)
Total charge for income taxes	2,345	1,445

Since the Group operates across the world, it is subject to income taxes in many different tax jurisdictions. The Group calculates its average expected tax rate as a weighted average of the tax rates in the tax jurisdictions in which the Group operates. Within the Group's average expected tax rate, the increasing significance of Genentech and Chugai causes an increase in the rate which has been offset by ongoing improvement of the Group's structures.

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

Reconciliation of the Group's effective tax rate *in millions of CHF*

	2004	2003
Group's average expected tax rate	24.1%	24.3%
Tax effect of		
– Unrecognised tax losses	–1.5%	–0.1%
– Non-taxable income/non-deductible expenses	+0.3%	–0.1%
– Impairment of financial assets[15]	+0.0%	+1.2%
– Other differences	+2.1%	+0.5%
Continuing businesses before exceptional items effective tax rate	25.0%	25.8%

	Profit before tax	Income taxes	2004 Tax rate	Profit before tax	Income taxes	2003 Tax rate
Continuing businesses before exceptional items effective tax rate	6,568	(1,645)	25.0%	5,119	(1,319)	25.8%
Amortisation of goodwill[18]	(572)	–		(489)	–	
Major legal cases[9]	–	–		216	(87)	
Changes in Group organisation in continuing businesses[3]	(199)	33		–	–	
Exceptional income from bond conversion and redemption[15]	908	(290)		–	–	
Continuing businesses effective tax rate	6,705	(1,902)	28.4%	4,846	(1,406)	29.0%
Discontinuing businesses[7, 8]	277	(75)		430	(80)	
Changes in Group organisation in discontinuing businesses[3]	2,503	(368)		(395)	41	
Group's effective tax rate	9,485	(2,345)	24.7%	4,881	(1,445)	29.6%

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

	2004	2003
Current income taxes		
Current income tax assets	159	238
Current income tax liabilities	(947)	(714)
Net current income tax asset (liability)	(788)	(476)
Deferred income taxes		
Deferred income tax assets	1,047	900
Deferred income tax liabilities	(3,564)	(3,133)
Net deferred income tax asset (liability)	(2,517)	(2,233)

Deferred income tax assets are recognised for tax loss carry forwards only to the extent that realisation of the related tax benefit is probable. The Group has unrecognised tax losses, including valuation allowances, of 172 million Swiss francs (2003: 594 million Swiss francs), of which 88 million Swiss francs expire within four years and 40 million Swiss francs expire within six years. The remaining 44 million Swiss francs of losses expire after fifteen years or more. Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are currently regarded as permanently reinvested. These unremitted earnings totalled 27.6 billion Swiss francs at 31 December 2004 (2003: 22.8 billion Swiss francs).

The deferred income tax assets and liabilities and the deferred income tax charges (credits) are attributable to the following items:

Deferred income taxes: movements in recognised net assets (liabilities) *in millions of CHF*

2004	Property, plant and equipment, and intangible assets	Restructuring provisions	Other temporary differences	Total
Net deferred income tax asset (liability) at beginning of year	(3,597)	125	1,239	(2,233)
(Charged) credited to the income statement	390	(22)	(521)	(153)
(Charged) credited to equity[36]	–	–	(19)	(19)
Acquisition of Igen[3]	(259)	–	93	(166)
Disposal of Consumer Health (OTC) business[7]	4	–	(2)	2
Currency translation effects and other	403	(73)	(278)	52
Net deferred income tax asset (liability) at end of year	(3,059)	30	512	(2,517)
2003				
Net deferred income tax asset (liability) at beginning of year	(3,343)	135	441	(2,767)
(Charged) credited to the income statement	(322)	(18)	728	388
(Charged) credited to equity[36]	–	–	1	1
Disetronic[3]	(80)	–	(3)	(83)
Disposal of Vitamins and Fine Chemicals business[8]	223	(3)	109	329
Currency translation effects and other	(75)	11	(37)	(101)
Net deferred income tax asset (liability) at end of year	(3,597)	125	1,239	(2,233)

17. Property, plant and equipment

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

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	2004 Total	2003 Total
Net book value						
At beginning of year	836	5,085	4,881	1,692	12,494	13,434
Disetronic[3]	–	–	–	–	–	58
Disposal of Consumer Health (OTC) business[7]	(5)	(153)	(247)	(18)	(423)	–
Disposal of Vitamins and Fine Chemicals business[8]	–	–	–	–	–	(1,326)
Additions	182	118	828	1,229	2,357	2,265
Disposals	(4)	(57)	(113)	(18)	(192)	(244)
Transfers	36	584	751	(1,371)	–	–
Depreciation charge	–	(222)	(1,025)	–	(1,247)	(1,303)
Impairment charge[14]	–	–	(8)	–	(8)	(4)
Currency translation effects	(53)	(232)	(210)	(78)	(573)	(386)
At end of year	992	5,123	4,857	1,436	12,408	12,494
At 31 December						
Cost	992	7,548	10,943	1,436	20,919	20,654
Accumulated depreciation	–	(2,425)	(6,086)	–	(8,511)	(8,160)
Net book value	992	5,123	4,857	1,436	12,408	12,494

The decrease in property, plant and equipment of 423 million Swiss francs from the disposal of the OTC business consists of assets transferred with the business of 240 million Swiss francs and an impairment charge of 183 million Swiss francs. See Note 7.

Finance leases

As at 31 December 2004 the capitalised cost of property, plant and equipment under finance leases amounts to 867 million Swiss francs (2003: 1,036 million Swiss francs) and the net book value of these assets amounts to 640 million Swiss francs (2003: 846 million Swiss francs).

Finance leases: present value of future minimum lease payments *in millions of CHF*

	2004	2003
Within one year	19	32
Between one and five years	510	569
More than five years	172	289
Total present value of minimum lease payments	701	890

Group companies are party to a number of finance leases, the most significant of which are those entered into by Genentech in respect of its manufacturing facility at Vacaville, California and certain buildings on its South San Francisco site. Upon lease expiry Genentech may either purchase the property at a pre-determined amount, sell the property to a third party or renew the lease. If the property is sold to a third party at an amount lower than the amount financed by the lessor, Genentech has agreed a residual value guarantee to pay the lessor up to an agreed percentage of the amount financed by the lessor. Genentech is also required to maintain financial covenants in the form of certain pre-defined financial ratios and is limited to the amount of debt it can assume. The carrying value of these lease obligations is 577 million US dollars (653 million Swiss francs).

Genentech leases *in millions of USD*

	Approximate initial fair value of property	Lease expiry	Maximum residual value guarantee
Vacaville	425	November 2006	372
South San Francisco	160	June 2007	136
Total	585		508

Operating leases

Total operating lease rental expense was 245 million Swiss francs (2003: 219 million Swiss francs).

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

	2004	2003
Within one year	103	114
Between one and five years	163	177
More than five years	63	15
Total minimum payments	329	306

Group companies are party to a number of operating leases, mainly for plant and machinery, including motor vehicles, and for certain short-term property rentals. The arrangements do not impose any significant restrictions on the Group.

Capital commitments

The Group has capital commitments for the purchase or construction of property, plant and equipment totalling 1.5 billion Swiss francs (2003: 1.1 billion Swiss francs). In addition to this, on 15 December 2004 Genentech entered into a Master Lease Agreement for the lease of property in South San Francisco. Genentech's aggregate lease payments through 2020 are estimated at approximately 540 million US dollars.

18. Goodwill

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

	2004	2003
Net book value		
At beginning of year	5,206	5,057
Igen acquisition[3]	1,315	–
Disetronic acquisition[3]	–	861
Disposal of Consumer Health (OTC) business[7]	(78)	–
Amortisation charge	(579)	(497)
Impairment charge	–	–
Currency translation effects	(332)	(215)
At end of year	5,532	5,206
At 31 December		
Cost	14,578	14,682
Accumulated amortisation	(9,046)	(9,476)
Net book value	5,532	5,206
Of which		
– Genentech acquisition	1,557	1,963
– Corange acquisition	1,713	1,902
– Chugai acquisition	122	158
– Disetronic acquisition	765	823
– Igen acquisition	1,090	–
– Others	285	360
Total	5,532	5,206

The goodwill arising from investments in associated companies is classified as part of the investments in associated companies (see Note 20).

Effective 1 January 2005 the Group will implement IFRS 3 'Business combinations'. Amongst other matters, the new standard requires that amortisation of goodwill cease from the date of implementation. Goodwill will continue to be tested for impairment. The standard requires prospective application. Had this standard been applied in 2004, then goodwill amortisation expenses of 579 million Swiss francs would not have been recorded. No additional impairment would have been necessary.

19. Intangible assets

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

	Patents, licences, trademarks and other intangible assets			
	Acquisition-related	Other	2004 Total	2003 Total
Net book value				
At beginning of year	5,384	1,561	6,945	7,786
Igen acquisition[3]	740	–	740	–
Disetronic acquisition[3]	–	–	–	320
Disposal of Consumer Health (OTC) business[7]	(234)	(6)	(240)	–
Additions	4	284	288	233
Disposals	–	(12)	(12)	(2)
Amortisation charge	(728)	(298)	(1,026)	(1,013)
Impairment charge[14]	(2)	(29)	(31)	(21)
Igen litigation[9]	–	–	–	(117)
Currency translation effects	(258)	(66)	(324)	(241)
At end of year	4,906	1,434	6,340	6,945
At 31 December				
Cost	11,627	2,685	14,312	14,729
Accumulated amortisation	(6,721)	(1,251)	(7,972)	(7,784)
Net book value	4,906	1,434	6,340	6,945

	Remaining useful life	2004	2003
Of which			
– Genentech acquisition	1–10 years	592	826
– Corange acquisition	3–13 years	2,345	2,705
– Chugai acquisition	8–16 years	680	781
– Disetronic acquisition	9 years	267	300
– Igen acquisition	12 years	634	–
– Kytril	4 years	755	988
– Others	Various	1,067	1,345
Total		6,340	6,945

The majority of the Group's intangible assets result from the acquisitions made by the Group. The patents, licenses, trademarks and other intangible assets are recorded at fair value in the acquisition accounting and are subsequently amortised over their useful lives. The Kytril intangible assets arise from the purchase by the Group of the global rights to Kytril (granisetron) from SmithKline Beecham in December 2000. The Group currently has no internally generated intangible assets from development as the criteria for the recognition as an asset are not met.

20. Associated companies

The Group's investments in associated companies have been accounted for using the equity method. The goodwill arising from investments in associated companies is classified as part of the investments in associated companies.

Investments in associated companies *in millions of CHF*

	Share of net income		Balance sheet value	
	2004	2003	2004	2003
Basilea Pharmaceutica (Switzerland)	(31)	(28)	–	31
Other investments in associated companies	(12)	(16)	55	79
Total investments in associated companies	(43)	(44)	55	110

Basilea Pharmaceutica: The Group owns a non-controlling interest of 33% (2003: 46%) in Basilea Pharmaceutica Ltd ('Basilea'). Basilea is a Swiss biotechnology company in the anti-bacterial, anti-fungal and dermatology fields.

The Group's other major investments in associates are Tripath Inc., and Antisoma. Additional information about these companies is given in Note 41. Transactions between the Group and its associated companies are given in Note 38. On 20 April 2004 the Group announced that it would no longer continue the joint development of the renal transplantation drug ISA(TX)247 with Isotechnika. As a result the Group no longer has the potential to exercise significant influence over Isotechnika and accordingly Isotechnika is no longer reported as an associated company. An impairment loss of 10 million Swiss francs (2003: none) was recorded on the Group's investments in associates.

21. Joint ventures

The Group's interests in joint ventures are reported in the financial statements using the proportionate consolidation method. The significant joint ventures are detailed below.

Bayer joint venture: As part of the disposal of the Roche Consumer Health business (see also Note 7) the Group sold to Bayer its 50% stake in Bayer Roche LLC, a joint venture with Bayer in the over-the-counter (OTC) field to market and distribute the product Aleve and certain other OTC products in the United States.

Joint ventures: recognised income statement and balance sheet amounts *in millions of CHF*

	2004	2003
Income statement		
Sales	230	249
Expenses	(159)	(190)
Net income after taxes	71	59
Balance sheet		
Long-term assets	–	235
Current assets	14	173
Non-current liabilities	–	(88)
Current liabilities	(3)	(187)
Net assets	11	133

22. Financial and other long-term assets

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

	2004	2003
Available-for-sale investments	980	934
Held-to-maturity investments	77	125
Loans receivable	32	108
Long-term trade receivables	54	77
Restricted cash	84	849
Total financial long-term assets	1,227	2,093
Prepaid employee benefits	174	187
Other	310	336
Total other long-term assets	484	523

Financial long-term assets are held for strategic purposes and therefore are classified as non-current. The available-for-sale investments are mainly equity investments. The effective interest rate of held-to-maturity investments is 1.5% (2003: 1.0%). Loans receivable comprise all loans to third parties with a term of over one year.

Restricted cash in 2003 included 630 million US dollars (779 million Swiss francs) of cash and investments pledged by Genentech in connection with the City of Hope litigation (see Note 9). In 2004 this was included in current assets (see Note 25).

23. Inventories

Inventories *in millions of CHF*

	2004	2003
Raw materials and supplies	533	606
Work in process	621	590
Finished goods and intermediates	3,565	4,006
Less: provision for slow-moving and obsolete inventory	(145)	(177)
Total inventories	4,574	5,025

Inventories held at net realisable value have a carrying value of 6 million Swiss francs (2003: 8 million Swiss francs). As a result of the disposal of the Consumer Health (OTC) business, inventories decreased by 192 million Swiss francs, effective 31 December 2004 (see Note 7). As a result of the disposal of the Vitamins and Fine Chemicals business, inventories decreased by 1,014 million Swiss francs, effective 30 September 2003 (see Note 8).

24. Accounts receivable

Accounts receivable *in millions of CHF*

	2004	2003
Trade accounts receivable	7,012	6,863
Notes receivable	143	283
Less: provision for doubtful accounts	(374)	(372)
Total accounts receivable	6,781	6,774

At 31 December 2004 accounts receivable include amounts denominated in US dollars equivalent to 1.7 billion Swiss francs (2003: 1.4 billion Swiss francs) and amounts denominated in euros equivalent to 2.6 billion Swiss francs (2003: 2.8 billion Swiss francs).

Bad debt expense was 17 million Swiss francs (2003: 47 million Swiss francs).

25. Other current assets

Other current assets *in millions of CHF*

	2004	2003
Accrued interest income	34	51
Prepaid expenses	253	338
Derivative financial instruments[33]	151	357
Restricted cash	772	–
Other receivables	797	788
Total other current assets	2,007	1,534

Restricted cash consists of 682 million US dollars (772 million Swiss francs) of cash and investments pledged by Genentech in connection with the City of Hope litigation (see Note 9). In 2003 this was included in financial long-term assets (see Note 22).

26. Marketable securities

Marketable securities *in millions of CHF*

	2004	2003
Held-for-trading investments		
– bonds and debentures	674	644
Available-for-sale current investments		
– shares	1,229	1,399
– bonds and debentures	1,868	2,306
– money market instruments and time accounts over three months	6,623	6,470
Total marketable securities	10,394	10,819

Marketable securities are held for fund management purposes and therefore are classified as current. They are primarily denominated in Swiss francs, euros, US dollars and pounds sterling. Other investments held for strategic purposes are classified as non-current (see Note 22).

Shares: These consist primarily of readily saleable equity securities.

Bonds and debentures *in millions of CHF*

Contracted maturity	Amount	Average effective interest rate
2004		
Within one year	1,840	2.4%
Between one and five years	528	3.4%
More than five years	174	4.2%
Total bonds and debentures	2,542	2.7%
2003		
Within one year	1,526	1.3%
Between one and five years	1,293	2.4%
More than five years	131	4.4%
Total bonds and debentures	2,950	1.9%

Money market instruments: These generally have fixed interest rates ranging from 0.52% to 4.90% (2003: 0.07% to 6.06%) depending upon the currency in which they are denominated. They are contracted to mature within one year of 31 December 2004.

27. Cash and cash equivalents

Cash and cash equivalents *in millions of CHF*

	2004	2003
Cash		
– cash in hand and in current or call accounts	2,317	4,122
Cash equivalents		
– time accounts with a maturity of three months or less	288	1,154
Total cash and cash equivalents	2,605	5,276

28. Accounts payable

Accounts payable *in millions of CHF*

	2004	2003
Trade accounts payable	925	859
Other taxes payable	463	309
Other accounts payable	456	532
Total accounts payable	1,844	1,700

29. Accrued and other current liabilities

Accrued and other current liabilities *in millions of CHF*

	2004	2003
Deferred income	107	87
Accrued payroll and related items	1,077	987
Interest payable	78	136
Derivative financial instruments[33]	170	148
Other accrued liabilities	2,579	2,309
Total accrued and other current liabilities	4,011	3,667

30. Provisions and contingent liabilities

Provisions: movements in recognised liabilities *in millions of CHF*

	Environmental and legal provisions	Restructuring provisions	Other provisions	2004 Total	2003 Total
At beginning of year	1,312	443	257	2,012	2,860
Disposal of Consumer Health (OTC) business[7]	(1)	–	(1)	(2)	–
Vitamin case[8]					
– additional provisions created	–	–	–	–	–
– utilised during the year	(66)	–	–	(66)	(638)
Major legal cases[9]					
– additional provisions created	–	–	–	–	–
– unused amounts reversed	–	–	–	–	(108)
– utilised during the year	–	–	–	–	(25)
Other provisions					
– additional provisions created	55	86	77	218	305
– unused amounts reversed	(54)	(17)	(13)	(84)	(99)
– utilised during the year	(34)	(163)	(94)	(291)	(226)
Increase in discounted amount due to passage of time or change in discount rate[15]	72	5	–	77	96
Currency translation effects	(86)	(6)	(3)	(95)	(153)
At end of year	1,198	348	223	1,769	2,012
Of which					
– current portion of provisions	873	144	69	1,086	542
– non-current portions of provisions	325	204	154	683	1,470
Total provisions	1,198	348	223	1,769	2,012
Expected outflow of resources					
– within one year	873	144	69	1,086	542
– between one to two years	197	69	77	343	1,167
– between two to three years	22	39	12	73	88
– more than three years	106	96	65	267	215
Total provisions	1,198	348	223	1,769	2,012

Environmental and legal provisions

These provisions include 181 million Swiss francs (2003: 208 million Swiss francs) for environmental matters and 1,017 million Swiss francs (2003: 1,104 million Swiss francs) for litigation, including major legal cases and the vitamin case.

Provisions for environmental matters cover various separate environmental issues in a number of countries. Approximately half of these were pre-existing in companies acquired by the Group. By their nature the amounts and timing of any outflows are difficult to predict. The Group estimates that approximately half of the amount provided for may result in cash outflows over the next five years. Significant provisions are discounted by between 6% and 7%.

Legal provisions consist mainly of the major legal cases, notably the City of Hope Medical Center litigation (see Note 9) and the vitamin case (see Note 8). The amounts, timing and uncertainties of any outflows are discussed in those notes, as are the discount rates used. The remaining legal provisions, which account for less than 25% of the balance, consist of a number of other separate legal matters in various Group companies. The majority of any cash outflows are expected to occur within the next one to three years, although these are dependent on the development of the various litigations. Significant provisions are discounted by between 5% and 6%.

Major legal cases are described in Note 9 and the vitamin case is described in Note 8. Other litigation matters, which are currently not as significant, are described below.

Carvedilol arbitration: Roche Diagnostics GmbH ('RDG') and SmithKline Beecham (Cork) Ltd ('SB') are party to arbitration concerning RDG's termination in 1998 of the Carvedilol License Agreement of 1987, as amended in 1995, relating to the licensing and co-marketing of Carvedilol. RDG has submitted a claim for damages to an Arbitration Tribunal in Zurich and SB has submitted a counterclaim asserting the invalidity of RDG's termination and claiming damages. The final decision of the Arbitration Tribunal is expected at the earliest in 2005. The amount of provisions, if any, recorded by RDG is not disclosed as this may seriously prejudice RDG's position in this matter.

Applera litigation: On 9 October 2003 Applera Corporation ('Applera') filed suit against the Group in the Superior Court of California and filed a Notice of Arbitration with the American Arbitration Association. Both the Superior Court lawsuit and the arbitration demand make claims concerning the interpretation and enforcement of contracts between the Group and Applera for the commercialisation of the polymerase chain reaction ('PCR') technology. The claims seek termination of certain contracts, declarations regarding rights and obligations under those contracts, and monetary damages and other relief in an unspecified amount for alleged breaches of various agreements between the parties. On 15 December 2003, the Group filed its response in the arbitration proceeding. On the same day, the Group also responded to Applera's complaint in the Superior Court proceeding by petitioning the Court to compel arbitration of the claims alleged by Applera and to stay the lawsuit pending completion of the arbitration. On 22 October 2004 the Court of Appeal of the State of California ruled that the petition to compel arbitration should be granted and remanded the case to the Superior Court, with directions to grant the petition. A first meeting in the arbitration will take place in February 2005. No provisions have been recorded in respect of these matters, as the outcome cannot be determined as of the date of these financial statements.

Promega litigation: In 1992 the Group filed a suit against the Promega Corporation ('Promega') alleging patent infringement and breach of a licence agreement relating to the polymerase chain reaction ('PCR') technology. In May 2004 the US District Court of the Northern District of California decided that one of the patents concerned was unenforceable and rejected the breach of licence claim. The suit regarding alleged infringement of the other PCR patents is still in progress. On 12 November 2003 the Group was notified that Promega had filed a non-public (Qui Tam) action against the Group with the US District Court of the Eastern District of West Virginia in March 2000. This complaint, filed under the False Claims Act, alleges that the US Federal Government was overcharged in its purchase of PCR enzyme products. In July 2003 the US Federal Government notified the Court of its decision not to intervene in Promega's complaint and on 12 November 2003 the Court ordered the complaint of 2000 to be unsealed. The Group filed a motion to dismiss this complaint and on 20 August 2004 the Court dismissed the complaint with prejudice.

Restructuring provisions

These arise from planned programmes that materially change the scope of business undertaken by the Group or the manner in which business is conducted. Such provisions include only the costs necessarily entailed by the restructuring which are not associated with the recurring activities of the Group. The remaining amounts are mostly in respect of obligations towards former employees arising from the Pharmaceuticals Division restructuring and other previous restructuring plans. The timings of these cash outflows are reasonably certain on a global basis and are shown in the above table. Significant provisions are discounted by 4%.

Other provisions

Other provisions consist mostly of claims arising from trade and various other provisions from Group companies that do not fit into the above categories. The timings of cash outflows are by their nature uncertain and the best estimates are shown in the above table. These provisions are not discounted as the time value of money is not considered material in this case.

Contingent liabilities

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those relating to environmental protection, in the countries in which it operates. The industries in which the Group is engaged are also subject to physical risks of various kinds. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings are not predictable. See also Note 8 in respect of the vitamin case and Note 9 in respect of major legal cases.

The Group has entered into strategic alliances with various companies in order to gain access to potential new products or to utilise other companies to help develop the Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The Group's best estimate of future commitments for such payments is 215 million Swiss francs in 2005, 219 million Swiss francs in 2006 and 169 million Swiss francs in 2007.

31. Other non-current liabilities

Other non-current liabilities *in millions of CHF*

	2004	2003
Deferred income	262	149
Other long-term liabilities	682	905
Total other non-current liabilities	944	1,054

32. Debt

Debt: recognised liabilities *in millions of CHF*

	2004	2003
Debt instruments	6,472	10,579
Amounts due to banks and other financial institutions	1,643	3,666
Capitalised lease obligations	701	890
Other borrowings	144	152
Total debt	8,960	15,287
Reported as		
– Long-term debt	6,947	10,246
– Short-term debt	2,013	5,041
Total debt	8,960	15,287

Debt: repayment terms *in millions of CHF*

	2004	2003
Within one year	2,013	5,041
Between one and two years	688	2,327
Between two and three years	2,297	493
Between three and four years	2,743	2,223
Between four and five years	568	3,010
More than five years	651	2,193
Total debt	8,960	15,287

The 'LYONs' zero coupon US dollar exchangeable notes (see below) are reflected as due the first year that the holders of the notes can request the Group to purchase the notes.

The fair value of the debt instruments is 6.9 billion Swiss francs (2003: 11.6 billion Swiss francs) and the fair value of total debt is 9.4 billion Swiss francs (2003: 16.3 billion Swiss francs). This is calculated based upon the present value of the future cash flows on the instrument, discounted at a market rate of interest for instruments with similar credit status, cash flows and maturity periods.

There are no pledges on the Group's assets in connection with debt, except as noted below. The obligation arising from leases at Genentech is secured on property, plant and equipment which has a net book value of 502 million Swiss francs as at 31 December 2004.

Amounts due to banks and other financial institutions

Interest rates on these amounts, which are primarily denominated in euros, average approximately 3.5% (2003: 3.4%). Repayment dates vary between one and four years. 683 million Swiss francs (2003: 1,571 million Swiss francs) are due within one year.

Debt instruments

Recognised liabilities and effective interest rates of debt instruments *in millions of CHF*

	Effective interest rate	2004	2003
European Medium Term Note programme			
4% bonds due 9 October 2008, principal 750 million euros	4.16%	1,150	1,159
5.375% bonds due 29 August 2023, principal 250 million pounds sterling	5.46%	536	541
3.25% bonds due 2 October 2007, principal 750 million US dollars	3.28%	848	926
Swiss franc bonds			
'Rodeo' 1.75% due 20 March 2008, principal 1 billion Swiss francs	3.00%	969	956
US dollar bonds			
'Chameleon' 6.75% due 6 July 2009, principal 487 million US dollars (1 billion US dollars in 2003)	6.77%	561	1,229
Zero coupon US dollar exchangeable notes			
'LYONs III' due 6 May 2012, principal 3 billion US dollars in 2003	6.91%	–	2,136
'LYONs IV' due 19 January 2015, principal 1.506 billion US dollars in 2003	4.26%	–	1,171
'LYONs V' due 25 July 2021, principal 2.051 billion US dollars	4.14%	1,264	1,233

	Effective interest rate	2004	2003
Japanese yen exchangeable bonds			
'Sumo' 0.25% due 25 March 2005, principal 104.6 billion Japanese yen	1.89%	1,123	1,186
Limited conversion preferred stock			
due 11 November 2004	3.00%	–	2
Japanese yen convertible bonds issued by Chugai			
'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds' 1.05% due 30 September 2008, principal amount of 1.86 billion Japanese yen (3.44 billion Japanese yen in 2003)	1.05%	21	40
Total debt instruments		6,472	10,579
Weighted average effective interest rate		3.80%	4.65%

Unamortised discount included in carrying value of debt instruments *in millions of CHF*

	2004	2003
Swiss franc bonds	34	44
US dollar bonds	4	8
Euro bonds	8	11
Sterling bonds	10	11
Zero coupon US dollar exchangeable notes	1,058	3,564
Japanese yen exchangeable bonds	4	23
Total unamortised discount	1,118	3,661

Issues of new debt instruments

There were no issues of new debt instruments in 2004. In 2003 the Group established a European Medium Term Note programme and three issues were subsequently made.

Cash inflows from issue of new debt instruments *in millions of CHF*

	2004	2003
European Medium Term Note programme		
4% euro-denominated bonds issued 9 April 2003	–	1,104
5.375% sterling-denominated bonds issued 29 August 2003	–	547
3.25% US dollar-denominated bonds issued 2 October 2003	–	984
Total cash inflows for new issues during the year	–	2,635

Repayments, redemptions and conversions of debt instruments

During 2004 the Group has converted or redeemed certain of its debt instruments. Debt was reduced by 4,026 million Swiss francs, the total cash outflow was 3,039 million Swiss francs and a net pre-tax gain of 908 million Swiss francs resulted as shown in Note 15. This net gain is reported as an exceptional item due to the materiality. These transactions are described below.

Conversion and redemption of 'LYONs IV' US dollar exchangeable notes: On 3 March 2004 the Group exercised its option to call these notes for redemption on 5 April 2004 at the original issue amount plus accrued original issue discount (OID). The effective interest rate of these notes was 4.26%. In the period to 5 April 2004 notes with a principal amount of 1,506 million US dollars were called for conversion by the holders and the remaining notes were redeemed for cash on 5 April 2004. A total of 12,999,662 Genentech shares were used to meet these obligations. As a result the Group's ownership of Genentech decreased by 2.45% and the Group realised a pre-tax gain of 1,136 million Swiss francs on the part disposal of its interest in Genentech and redemption of the remaining notes.

Redemption of 'LYONs III' US dollar exchangeable notes: On 5 April 2004 the Group exercised its option to call these notes for redemption on 6 May 2004 at the original issue amount plus accrued original issue discount (OID). The effective interest rate of these notes was 6.91%. Notes with a principal amount of 3 billion US dollars were redeemed for cash. The Group realised a pre-tax loss of 60 million Swiss francs on the early redemption of the notes.

Partial redemption of 'Chameleon' US dollar bonds: On 3 June 2004 the Group announced a tender offer for the redemption of the 'Chameleon' bond. The effective interest rate of these bonds was 6.77%. The tender offer expired on 23 June 2004 and pricing was on 24 June 2004, at which point bonds with a principal amount of 513 million US dollars, representing approximately 51.25% of the outstanding bonds, had been tendered for redemption. Settlement was made on 29 June 2004. The Group realised a pre-tax loss of 74 million Swiss francs on the partial early redemption of these bonds.

Redemption of Limited Conversion Preferred Stock: On the mandatory redemption date of 11 November 2004 the Group redeemed the remaining instruments at the original issue amount plus accrued interest. The effective interest rate of these instruments was 3.00%. Instruments with a principal amount of 2 million US dollars were redeemed for cash. The Group did not realise any gain or loss on the redemption of these instruments.

Reassessment of probable redemption date of 'LYONs V' US dollar exchangeable notes: Effective 30 September 2004 the Group reassessed the likely future cash outflows for this instrument and concluded it was appropriate to consider the first call date of 25 July 2007 as most probable date of cash flows. Accordingly, using the effective interest rate method, the Group recorded a pre-tax expense of 94 million Swiss francs and an increase in debt of the same amount. This reflects an increase in the carrying value of the debt to allow the accreted value to meet the issue price plus accrued original issue discount (OID) at 25 July 2007. There was no cash effect in 2004.

Partial conversion of 'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds': During 2004 bonds with a face value of 1.6 billion Japanese yen (18 million Swiss francs) were converted to shares of Chugai. The Group's percentage ownership in Chugai was unaffected by this conversion, as the Group has bonds convertible into Chugai shares that mirror those that Chugai has outstanding with third parties. The net accounting effect of Chugai convertible bond conversions and Chugai share repurchases is recorded to minority interests (see Note 37).

Conversion of 'Helveticus' Swiss franc convertible bonds: By the due date of 31 July 2003 all of the remaining Swiss franc convertible bonds originally issued in 1995 were converted into non-voting equity securities *(Genussscheine).* A total of 2,167,600 non-voting equity securities were used to meet the conversion obligations of the 'Helveticus' bonds in 2003. In accordance with the terms of the bonds, an additional cash payment of CHF 200 per bond was made upon the conversion of the remaining principal. The conversion reduced debt by 207 million Swiss francs, of which 202 million Swiss francs was in the form of non-voting equity securities and 5 million Swiss francs in the form of cash.

Cash outflows from repayments and redemptions of debt instruments *in millions of CHF*

	2004	2003
'LYONs IV' US dollar exchangeable notes	(5)	–
'LYONs III' US dollar exchangeable notes	(2,316)	–
'Chameleon' US dollar bonds	(715)	–
Limited Conversion Preferred Stock	(3)	–
'Bullet' Swiss franc bonds	–	(1,250)
'LYONs II' US dollar exchangeable notes	–	(1,830)
'Helveticus' Swiss franc convertible bonds	–	(5)
Total cash outflows from repayments and redemptions during the year	(3,039)	(3,085)

Terms of outstanding convertible debt instruments

'LYONs V': The notes are exchangeable for Non-voting Equity Securities (NES) or American Depositary Shares (ADS) at an exchange ratio of 5.33901 NESs or 10.67802 exchange ADSs per USD 1,000 principal amount at maturity of the notes. The Group will purchase any note for cash, at the option of the holder, on 25 January 2005,

25 July 2007 and 25 July 2011 for a purchase price per USD 1,000 principal amount of the notes of USD 552.79, USD 604.74 and USD 698.20, respectively. In addition, the notes will be redeemable at the option of the Group in whole or in part at any time after 25 July 2007 at the issue price plus accrued original issue discount (OID). If the notes outstanding at 31 December 2004 were all exchanged it would require 10,952,268 non-voting equity securities to meet the obligation.

'Sumo': Each bond of JPY 1,410,000 par value is exchangeable for 103.292 non-voting equity securities of Roche Holding Ltd. The bonds will be redeemable at maturity at the issue price (96.4%) plus accrued original issue discount (OID) at 100%. If the bonds outstanding at 31 December 2004 were all exchanged it would require 7,664,266 non-voting equity securities to meet the obligation.

'Series 6 Chugai Pharmaceutical Unsecured Convertible Bonds': Each bond of JPY 1,000,000 par value is convertible for 1,311 shares of Chugai. Conversion is at the option of the bondholder and may be made at any time up to the due date of 30 September 2008. The bonds will be redeemable at maturity at the issue price. If the bonds outstanding at 31 December 2004 were all converted it would require 2,440,655 Chugai shares to exactly meet the obligation. The Group's percentage ownership in Chugai would not be affected by any conversion, as the Group has bonds convertible into Chugai shares that mirror those that Chugai has outstanding with third parties.

33. Derivative financial instruments

In appropriate circumstances the Group uses derivative financial instruments as part of its risk management and trading strategies. This is discussed in Note 2. Derivative financial instruments are carried at fair value. The methods used for determining fair value are described in Note 1.

Derivative financial instruments *in millions of CHF*

	Assets		Liabilities	
	2004	2003	2004	2003
Foreign currency derivatives				
– forward exchange contracts and swaps	85	167	(99)	(98)
– other	1	4	(4)	–
Interest rate derivatives				
– swaps	22	12	(6)	(42)
– other	–	–	–	–
Other derivatives	43	174	(61)	(8)
Total derivative financial instruments[25, 29]	151	357	(170)	(148)

Hedge accounting

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

As described in Note 2, the Group has financial risk management policies, which cover foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk. When deemed appropriate, certain of the above risks are altered through the use of derivatives. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in financial income.

The Group generally limits the use of hedge accounting to certain significant transactions. Consequently as at 31 December 2004 the Group has no fair value hedges, cash flow hedges or hedges of net investment in a foreign entity that meet the strict requirements to qualify for hedge accounting, apart from those described below.

The Group has hedged some of its fixed term debt instruments with interest rate swaps. As at 31 December 2004 such instruments, which are designated and qualify as fair value hedges, are recorded in the balance sheet with a fair value of 15 million Swiss francs.

Genentech has non-US dollar cash flows from future royalty income and development expenses expected over the next one to five years. To hedge part of this transaction exposure Genentech enters into derivative financial instruments such as options and forward contracts. Genentech has equity investments in various biotechnology companies that are subject to a greater risk of market fluctuation than the stock market in general. To manage part of this exposure Genentech enters into derivative financial instruments such as zero cost collars and forward contracts. As at 31 December 2004 such instruments, which are designated and qualify for hedge accounting, are recorded in the balance sheet with a fair value of 25 million Swiss francs. These matters are also described in Genentech's annual report and quarterly SEC filings.

Movements on the fair value reserve for designated cash flow hedges are included in Note 36.

34. Equity

Share capital

As of 31 December 2004, the share capital of Roche Holding Ltd, which is the Group's parent company, consists of 160,000,000 shares with a nominal value of 1.00 Swiss franc each, as in the preceding year. The shares are bearer shares and the Group does not maintain a register of shareholders. Based on information supplied to the Group, a shareholders' group with pooled voting rights owns 50.0125% (2003: 50.0125%) of the issued shares. This is further described in Note 38. Based on information supplied to the Group, Novartis International Ltd, Basel, and its affiliates own 33.3330% (participation below 33⅓%) of the issued shares (2003: 33.3330%).

Non-voting equity securities *(Genussscheine)*

As of 31 December 2004, 702,562,700 non-voting equity securities were in issue as in the preceding year. Under Swiss company law these non-voting equity securities have no nominal value, are not part of the share capital and cannot be issued against a contribution which would be shown as an asset in the balance sheet of Roche Holding Ltd. Each non-voting equity security confers the same rights as any of the shares to participate in the net profit and any remaining proceeds from liquidation following repayment of the nominal value of the shares and, if any, participation certificates. In accordance with the law and the Articles of Incorporation of Roche Holding Ltd, the Company is entitled at all times to exchange all or some of the non-voting equity securities into shares or participation certificates.

Dividends

On 6 April 2004 the shareholders approved the distribution of a dividend of 1.65 Swiss francs per share and non-voting equity security (2003: 1.45 Swiss francs) in respect of the 2003 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 1,414 million Swiss francs (2003: 1,229 million Swiss francs) and has been recorded against retained earnings in 2004. The Board has proposed dividends for the 2004 business year of 2.00 Swiss francs per share and non-voting equity security. This is subject to approval at the Annual General Meeting on 28 February 2005.

Own equity instruments

In 2003, following the redemption of the 'LYONs II' exchangeable notes on 20 April 2003 (see Note 32) and in light of the restructuring of the Group's treasury operations and debt financing, the Group carried out a comprehensive review of the arrangements whereby it covers the potential conversion obligations that may arise from its convertible debt instruments. The Group refinanced the various instruments that cover its potential obligations to deliver non-voting equity securities. The Group sold 11,671,933 of those non-voting equity securities that it previously held in a series of transactions, in addition to the 2,744,893 non-voting equity securities utilised for the Disetronic transaction (see Note 3) and the 2,167,600 utilised for the conversion of the 'Helveticus' bonds (see Note 32). The Group also agreed with its counter-parties to restructure its previous arrangements which used written/short put options and purchased/long call options at the same strike price, which had the combined effect of a forward purchase. By 31 December 2003 all of these arrangements have been closed. In addition, in 2003 the Group purchased from various counter-parties Low Exercise Price Options (LEPOs), which give the Group the right to purchase non-voting equity securities at a low strike price.

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

	31 December 2004	31 December 2003
Non-voting equity securities	87,386	6,448,687
Low Exercise Price Options	21,080,081	16,591,394
Forward purchases and derivative instruments	4,723,565	3,023,565
Total non-voting equity instruments	25,891,032	26,063,646

Own equity instruments are recorded within equity at original cost of acquisition. Details of own equity instruments held at 31 December 2004 are shown in the table below. Fair values are disclosed for information purposes.

Own equity instruments: supplementary information

	Equivalent number of non-voting equity securities	Maturity	Strike price (CHF)	Fair value (millions of CHF)
Non-voting equity securities	87,386	n/a	n/a	11
Low Exercise Price Options	21,080,081	21 Feb. 2005–30 Nov. 2007	0.01–10.00	2,664
Derivative instruments				
– Roche Option Plan	3,611,605	26 Feb. 2009–3 Feb. 2011	77.80–129.50	92
– other options	1,111,960	17 Feb. 2005–24 Apr. 2006	150.00–250.00	2
Total	25,891,032			2,769

Non-voting equity securities and Low Exercise Price Options are mainly held for the potential conversion obligations that may arise from the Group's convertible debt instruments (see Note 32). The Group's potential obligations to employees for the Roche Option Plan (see Note 12) are covered by call options that are exercisable at any time up to their maturity. The Group also holds a residual number of options that were purchased for use in the Group's previous option compensation scheme, which is now closed (see Note 12).

The net cash inflow from transactions in own equity instruments was 237 million Swiss francs (2003: net cash outflow of 15 million Swiss francs). Additionally in 2003 there was a net cash outflow of 1,635 million Swiss francs from the refinancing of instruments covering convertible debt obligations.

The Group holds none of its own shares.

35. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

For the calculation of basic earnings per share and non-voting equity security, the number of shares and non-voting equity securities is reduced by the weighted average number of its own non-voting equity securities held by the Group during the period.

Basic earnings per share and non-voting equity security

	Continuing businesses		Group	
	2004	2003	2004	2003
Net income (millions of CHF)	4,339	3,074	6,641	3,069
Number of shares (millions)[34]	160	160	160	160
Number of non-voting equity securities (millions)[34]	703	703	703	703
Weighted average number of own non-voting equity securities held (millions)	(22)	(24)	(22)	(24)
Weighted average number of shares and non-voting equity securities in issue used to calculate basic earnings per share (millions)	841	839	841	839
Basic earnings per share and non-voting equity security (CHF)	5.16	3.67	7.90	3.66

Diluted earnings per share and non-voting equity security

For the calculation of diluted earnings per share and non-voting equity security, the net income and weighted average number of shares and non-voting equity securities outstanding are adjusted for the effects of all dilutive potential shares and non-voting equity securities.

Potential dilutive effects arise from the convertible debt instruments and the employee stock option plans. If the outstanding convertible debt instruments were to be converted this would lead to a reduction in interest expense and an increase in the number of shares which may have a net dilutive effect on the earnings per share. The exercise of outstanding vested employee stock options would have a dilutive effect. The exercise of the outstanding vested Genentech employee stock options would have a dilutive effect if the net income of Genentech is positive. The diluted earnings per share and non-voting equity security shows the potential impacts of these dilutive effects on the earnings per share figures.

Diluted earnings per share and non-voting equity security

	Continuing businesses		Group	
	2004	2003	2004	2003
Net income (millions of CHF)	4,339	3,074	6,641	3,069
Elimination of interest expense, net of tax, of convertible debt instruments, where dilutive (millions of CHF)	15	60	15	60
Increase in minority share of Group net income, net of tax, assuming all outstanding Genentech stock options exercised (millions of CHF)	(31)	(26)	(31)	(26)
Net income used to calculate diluted earnings per share (millions of CHF)	4,323	3,108	6,625	3,103
Weighted average number of shares and non-voting equity securities in issue (millions)	841	839	841	839
Adjustment for assumed conversion of convertible debt instruments, where dilutive (millions)	8	20	8	20
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	849	859	849	859
Diluted earnings per share and non-voting equity security (CHF)	5.09	3.62	7.81	3.61

36. Fair value and other reserves

Fair value and other reserves: movement in recognised amounts *in millions of CHF*

	Fair value reserve: available-for-sale investments	Fair value reserve: qualifying cash flow hedges	Equity conversion options	Currency translation reserve	2004 Total	2003 Total
At beginning of year	132	(41)	110	(3,193)	(2,992)	(2,642)
Changes in fair value	138	(51)	–	–	87	167
Fair value (gains) losses recognised in the income statement	26	–	–	–	26	244
Fair value (gains) losses recognised in the balance sheet[3]	–	43	–	–	43	–
Deferred income taxes[16]	(37)	18	–	–	(19)	1
Minority interests[37]	(17)	11	–	–	(6)	(16)
Currency translation gains (losses)	(19)	2	–	(945)	(962)	(746)
At end of year	223	(18)	110	(4,138)	(3,823)	(2,992)

Included in the movements in the currency translation reserve are 44 million Swiss francs relating to the Consumer Health (OTC) business. These were included in the calculation of the gain on disposal of that business. See Note 7.

37. Minority interests

Minority interests: movement in recognised amounts *in millions of CHF*

	2004	2003
At beginning of year	5,594	4,963
Minority share of Group net income, net of tax	499	367
Net effect of movements in fair value (charged) credited to equity[36]	6	16
Conversion and redemption of 'LYONs IV' US dollar exchangeable notes[32]	78	–
Net effect of exercise of Genentech stock options and Genentech stock repurchases[5]	(643)	793
Net effect of partial conversion of Chugai convertible bonds and Chugai share repurchases[6, 32]	7	(48)
Chugai dividend payments[6]	(68)	(26)
Currency translation effects	(403)	(471)
At end of year	5,070	5,594
Of which		
– Genentech[5]	3,240	3,810
– Chugai[6]	1,811	1,783
– other	19	1
Total minority interests	5,070	5,594

38. Related parties

Controlling shareholders

The share capital of Roche Holding Ltd, which is the Group's parent company, consists of 160,000,000 bearer shares. Based on information supplied by a shareholders' group with pooled voting rights, comprising Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Ms Beatrice Oeri and Ms Maja Oeri, that group holds 80,020,000 shares as in the preceding year, which represents 50.01% of the issued shares. This figure does not include any shares without pooled voting rights that are held outside this group by individual members of the group.

Mr André Hoffmann and Dr Andreas Oeri are members of the Board of Directors of Roche Holding Ltd and in this capacity receive an annual remuneration of 300 thousand Swiss francs. In addition Mr Hoffmann and Dr Oeri receive 20 thousand Swiss francs and 10 thousand Swiss francs respectively for their time and expenses related to their membership of Board committees. Until his retirement at the Annual General Meeting on 6 April 2004 Dr Fritz Gerber was a member of the above mentioned shareholders' group and was also a member of the Board of Directors of Roche Holding Limited. For the period until 6 April 2004 Dr Gerber received a remuneration of 75 thousand Swiss francs and a pension of 396 thousand Swiss francs.

There were no other transactions between the Group and the individual members of the above shareholders' group.

Subsidiary and associated companies

A listing of the major Group subsidiaries and associated companies is included in Note 41. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation.

Transactions between the Group and its associated companies *in millions of CHF*

	2004	2003
Income statement		
Income from the sale of goods or supply of services	–	4
Expenses for the purchase of goods or supply of services	–	(21)
Milestone and other upfront payments	–	(11)
Balance sheet		
Trade accounts receivable	–	1
Trade accounts payable	–	–

Key management personnel

Members of the Board of Directors of Roche Holding Ltd receive an annual remuneration and payment for their time and expenses related to their membership of Board committees. Total payments to non-executive directors in 2004 for this remuneration and expenses were 3 million Swiss francs (2003: 3 million Swiss francs). Payments to Dr Franz B. Humer, who is also a member of the Executive Committee, are included in the figures for the Executive Committee below.

Members of the Executive Committee received total remuneration as shown in the table below.

Remuneration of members of the Executive Committee *in millions of CHF*

	2004	2003
Salary	12	13
Bonuses	5	4
Total cash remuneration paid	17	17
Options awarded (equivalent number of non-voting equity securities)	147,815	226,482
Pension and social insurance contributions paid by the Group	8	6

As part of the Roche Performance Share Plan, members of the Executive Committee were awarded 193,418 non-voting equity securities with a fair value of 25 million Swiss francs in respect of the Group's performance in 2002–2004. See also Note 12.

Supplementary information is given within the Group's Corporate Governance disclosures on pages 48–56.

39. Cash flow statement

Cash flows from operating activities

Cash flows from operating activities are those derived from the Group's primary activities, as described in the divisional review. This is calculated by the indirect method, adjusting the Group's operating profit for any operating income and expenses that are not cash flows (for example depreciation, amortisation and impairment) in order to derive the cash generated from operations. This and other operating cash flows are shown in the cash flow statement. Operating cash flows also include income taxes paid on all activities, including, for example, the taxes paid on the gains from the conversion and redemption of bonds.

Cash generated from operations *in millions of CHF*

	2004	2003
Net income	6,641	3,069
Add back non-operating (income) expense		
– Income from associated companies[20]	43	44
– Financial income[15]	359	667
– Exceptional income from bond conversion and redemption[32]	(908)	–
– Income taxes[16]	2,345	1,445
– Income applicable to minority interests[37]	499	367
Operating profit	8,979	5,592
Depreciation of property, plant and equipment[17]	1,247	1,303
Amortisation of goodwill[18]	579	497
Amortisation of intangible assets[19]	1,026	1,013
Impairment of long-term assets[14]	39	25
Changes in Group organisation[3]	(2,304)	395
Chugai transaction: write-off of fair value adjustments to inventories[6]	–	49
Major legal cases[9]	–	(216)
Expense for defined benefit post-employment plans[11]	532	469
Other adjustments	(350)	63
Cash generated from operations	9,748	9,190

Cash flows from investing activities

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

Interest and dividends received *in millions of CHF*

	2004	2003
Interest received	221	225
Dividends received	34	61
Total	255	286

Cash flows from financing activities

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

Interest and dividends paid *in millions of CHF*

	2004	2003
Interest paid	(489)	(493)
Dividends paid[6, 34]	(1,482)	(1,255)
Total	(1,971)	(1,748)

Significant non-cash transactions

In 2004 significant non-cash investing and financing transactions included the conversion of the 'LYONs IV' notes into Genentech shares (see Note 32).

In 2003 significant non-cash investing and financing transactions included the non-voting equity securities used in the Disetronic acquisition (see Note 3), the DSM shares acquired from the disposal of the Vitamins and Fine Chemicals business (see Note 8) and the non-voting equity securities used in the conversion of the 'Helveticus' bonds (see Note 32).

40. Subsequent events

There were no significant events after the balance sheet date.

41. Subsidiaries and associated companies

Listed companies

Country	Company	City	Share capital (in mill.)		Equity interest (in %)
Switzerland	Roche Holding Ltd Stock Exchange: Zurich Valor Share: 1203211 Valor *Genussscheine:* 1203204 ISIN Share: CH0012032113 ISIN *Genussscheine:* CH0012032048 Market Capitalisation: CHF 113,195.0 mill.	Basel	CHF	160.0	
	Basilea Pharmaceutica Ltd. Stock Exchange: Zurich, NASDAQ Biotech Valor: 1143244 ISIN: CH0011432447 Market Capitalisation: CHF 668.0 mill.	Basel	CHF	7.4	33.2
USA	Genentech, Inc. Stock Exchange: New York ISIN: US3687104063 Market Capitalisation: USD 57,005.6 mill.	South San Francisco (incorporated in Delaware)	USD	20.9	56.1
	TriPath Imaging Inc. Stock Exchange: NASDAQ NM ISIN: US8969421093 Market Capitalisation: USD 341.9 mill.	Burlington	USD	0.4	21.0
Japan	Chugai Pharmaceutical Co., Ltd. Stock Exchange: Tokyo ISIN: JP3519400000 Market Capitalisation: JPY 931,030.4 mill.	Tokyo	JPY	70,532.0	50.6
Great Britain	Antisoma plc Stock Exchange: London ISIN: GB0055696032 Market Capitalisation: GBP 43.2 mill.	London	GBP	2.7	7.8

Non-listed companies

Country	Company	City	Share capital (in mill.)		Equity interest (in %)
Argentina	Productos Roche S.A. Química e Industrial	Buenos Aires	ARS	83.0	100
Australia	Roche Diagnostics Australia Pty. Limited	Castle Hill	AUD	5.0	100
	Roche Products Pty. Limited	Dee Why	AUD	65.0	100
	Syntex Australia Limited	North Sydney	AUD	25.1	100
Austria	Roche Austria GmbH	Vienna	EUR	14.5	100
	Roche Diagnostics GmbH	Vienna	EUR	1.5	100
Bangladesh	Roche Bangladesh Ltd.	Dhaka	BDT	27.2	100
Belgium	N.V. Roche S.A.	Brussels	EUR	4.8	100
	Roche Diagnostics Belgium S.A.	Brussels	EUR	3.8	100
Bermuda	Canadian Pharmholding Ltd.	Hamilton	GBP	(–)	100
	Corange International Ltd.	Hamilton	USD	1.0	100
	Corange Ltd.	Hamilton	USD	38.0	100
	Roche Capital Management Ltd.	Hamilton	USD	1.0	100
	Roche Capital Transactions Limited	Hamilton	USD	(–)	100
	Roche Financial Investments Ltd.	Hamilton	USD	(–)	100
	Roche Financial Services Ltd.	Hamilton	USD	0.1	100
	Roche Healthcare Limited	Hamilton	USD	1.0	100
	Roche Interfinance Ltd.	Hamilton	USD	(–)	100
	Roche International Finance (Bermuda) Ltd.	Hamilton	USD	(–)	100
	Roche International Ltd.	Hamilton	USD	(–)	100
	Roche Intertrade Ltd.	Hamilton	USD	10.0	100
	Roche Services Holdings Ltd.	Hamilton	USD	(–)	100
	Syntex Pharmaceuticals International Ltd.	Hamilton	USD	(–)	100
Brazil	Produtos Roche Químicos e Farmacêuticos S.A.	São Paulo	BRL	41.7	100
	Roche Diagnostics Brasil Ltda.	São Paulo	BRL	126.5	100
Bulgaria	Roche Bulgaria Eood	Sofia	BGN	5.1	100
Canada	Chempharm Limited	Toronto	CAD	2.0	100
	Hoffmann-La Roche Limited	Toronto	CAD	15.3	100
	Sapac Corporation Ltd.	St. John	USD	(–)	100

Country	Company	City	Share capital (in mill.)		Equity interest (in %)
Chile	Productos Farmoquímicos Roche Ltda.	Santiago de Chile	CLP	70.9	100
China	Roche Diagnostics (Hong Kong) Limited	Hong Kong	HKD	10.0	100
	Roche Diagnostics (Shanghai) Limited	Shanghai	USD	1.0	100
	Roche Hong Kong Limited	Hong Kong	HKD	10.0	100
	Roche R&D Center (China) Ltd.	Shanghai	USD	6.3	100
	Shanghai Roche Pharmaceuticals Limited	Shanghai	USD	19.5	70
Colombia	Productos Roche S.A.	Bogotá	COP	1,923.7	100
Costa Rica	Productos Roche S.A.	San José	USD	0.1	100
	Roche Servicios S.A.	San José	USD	0.1	100
Czech Republic	Roche s.r.o.	Prague	CZK	200.0	100
Denmark	Roche a/s	Hvidovre	DKK	4.0	100
Dominican Republic	Productos Roche Dominicana S.A.	Santo Domingo	DOP	0.6	100
Ecuador	Roche Ecuador S.A.	Quito	USD	1.1	100
Egypt	Roche Egypt SAE	Giza	EGP	1.0	100
	Ropharm Limited	Giza	EGP	0.1	95
El Salvador	Productos Roche (El Salvador) S.A.	San Salvador	USD	(–)	100
Finland	Roche Oy	Espoo	EUR	0.1	100
France	Hoffmann-La Roche France S.A.S.	Neuilly-sur-Seine	EUR	52.7	100
	Roche Diagnostics S.A.	Meylan	EUR	16.0	100
	Roche S.A.	Neuilly-sur-Seine	EUR	35.2	100
Germany	Disetronic Medical Systems GmbH	Sulzbach	EUR	(–)	100
	Galenus Mannheim GmbH	Mannheim	EUR	1.7	100
	Hestia Health Care GmbH	Mannheim	EUR	1.5	100
	Hoffmann-La Roche Aktiengesellschaft	Grenzach-Wyhlen	EUR	61.4	100
	Roche Deutschland Holding GmbH	Grenzach-Wyhlen	DEM	10.0	100
	Roche Diagnostics GmbH	Mannheim	EUR	94.6	100
Great Britain	Roche Diagnostics Ltd.	Lewes	GBP	22.6	100
	Roche Holding (UK) Limited	Welwyn Garden City	GBP	100.0	100
	Roche Products Limited	Welwyn Garden City	GBP	61.0	100
	Roche Registration Limited	Welwyn Garden City	GBP	(–)	100
Greece	Roche (Hellas) S.A.	Athens	EUR	19.5	100
Guatemala	Productos Roche Guatemala S.A.	Guatemala	GTQ	0.6	100
Guernsey	Roche Capital Market International Limited	St. Peter Port	CHF	0.5	100
	Roche Financial Market Limited	St. Peter Port	CHF	0.2	100
	Roche International Finance Corporation Limited	St. Peter Port	CHF	10.0	100
Honduras	Productos Roche (Honduras), S.A.	Tegucigalpa	HNL	(–)	100
Hungary	Roche (Hungary) Ltd.	Budapest	HUF	25.0	100
India	Roche Diagnostics India (Pvt) Ltd.	Mumbai	INR	20.2	100
	Roche Scientific Company (India) Private Limited	Mumbai	INR	1.0	100
Indonesia	P.T. Roche Indonesia	Jakarta	IDR	1,323.0	92.9
Ireland	Roche Ireland Limited	Clarecastle	EUR	6.4	100
	Roche Products (Ireland) Limited	Dublin	EUR	0.2	100
Italy	Roche Diagnostics S.p.A.	Milan	EUR	18.1	100
	Roche S.p.A.	Milan	EUR	34.1	100
Japan	Roche Diagnostics K.K.	Tokyo	JPY	2,500.0	100
Luxembourg	Pharminvest S.A.	Luxembourg	EUR	28.0	100
Malaysia	Roche Diagnostics (Malaysia) Sdn Bhd	Kuala Lumpur	MYR	0.9	100
	Roche Malaysia Sdn Bhd	Kuala Lumpur	MYR	4.0	100

Country	Company	City	Share capital (in mill.)		Equity interest (in %)
Mexico	Grupo Roche Syntex de México, S.A. de C.V.	Mexico City	MXN	3.5	100
	Lakeside de México, S.A. de C. V.	Mexico City	MXN	48.0	100
	Productos Roche S.A. de C.V.	Mexico City	MXN	2.2	100
	Syntex S.A. de C.V.	Mexico City	MXN	80.4	100
Morocco	Roche S.A.	Casablanca	MAD	9.5	45
Netherlands	Roche Diagnostics Nederland B.V.	Almere	EUR	2.3	100
	Roche Finance Europe B.V.	Woerden	EUR	2.0	100
	Roche Nederland B.V.	Woerden	EUR	10.9	100
	Roche Pharmholding B.V.	Woerden	EUR	467.8	100
New Zealand	Roche Diagnostics New Zealand Pty. Ltd.	Auckland	NZD	3.0	100
	Roche Products (New Zealand) Limited	Auckland	NZD	13.5	100
Nicaragua	Productos Roche (Nicaragua) S.A.	Managua	NIO	(–)	100
Norway	Roche Norge A/S	Oslo	NOK	11.0	100
Pakistan	Roche Pakistan Ltd.	Karachi	PKR	38.3	100
Panama	Productos Roche Interamericana S.A.	Panama City	USD	0.1	100
	Productos Roche Panamá S.A.	Panama City	PAB	(–)	100
	Roche Capital Corporation	Panama City	USD	(–)	100
	Syntex Corporation	Panama City	USD	1.0	100
Peru	Productos Roche Química Farmacéutica S.A.	Lima	PEN	11.2	100
Philippines	Roche (Philippines) Inc.	Makati	PHP	100.0	100
Poland	Roche Diagnostics Polska Sp. z o.o.	Warsaw	PLN	2.0	100
	Roche Polska Sp. z o.o.	Warsaw	PLN	2.0	100
Portugal	Roche Farmacêutica Química Lda.	Amadora	EUR	1.1	100
	Roche Sistemas de Diagnósticos Sociedade Unipessoal Lda.	Linda-A-Velha	EUR	0.6	100
Puerto Rico	Syntex Puerto Rico Inc.	Humacao	USD	(–)	100
Russia	Roche Moscow Ltd.	Moscow	RUB	2.6	100
Singapore	Roche Diagnostics Asia Pacific Pte. Ltd.	Singapore	SGD	3.4	100
	Roche Singapore Pte. Ltd.	Singapore	SGD	4.0	100
Slovakia	Roche Slovensko, S.R.O.	Bratislava	SKK	10.0	100
South Africa	Roche Products (Proprietary) Limited	Johannesburg	ZAR	5.0	100
South Korea	Roche Diagnostics Korea Co., Ltd.	Seoul	KRW	19,000.0	100
	Roche Korea Company Ltd.	Seoul	KRW	13,375.0	100
Spain	Andreu Roche S.A.	Madrid	EUR	0.1	100
	Roche Diagnostics S.L.	Barcelona	EUR	18.0	100
	Roche Farma S.A.	Madrid	EUR	54.1	100
	Syntex Roche S.A.	Madrid	EUR	0.1	100
Sweden	Roche AB	Stockholm	SEK	20.0	100
	Roche Diagnostics Scandinavia AB	Bromma	SEK	9.0	100
Switzerland	Disetronic Handels AG	Burgdorf	CHF	0.1	100
	Disetronic Holding AG	Burgdorf	CHF	9.7	100
	Disetronic Licensing AG	Burgdorf	CHF	0.1	100
	Disetronic Medical Systems AG	Burgdorf	CHF	0.9	100
	F. Hoffmann-La Roche Ltd	Basel	CHF	150.0	100
	IMIB Insitute for Medical Informatics and Biostatistics Ltd.	Basel	CHF	0.1	100
	Pharmexbio Ltd.	Zug	CHF	0.1	100
	Rabbit-Air Ltd.	Zurich-Kloten	CHF	3.0	100
	Roche Diagnostics (Schweiz) Ltd.	Rotkreuz	CHF	1.0	100
	Roche Diagnostics International Ltd.	Steinhausen	CHF	20.0	100
	Roche Finance Ltd.	Basel	CHF	409.2	100
	Roche Instrument Center Ltd.	Rotkreuz	CHF	5.0	100
	Roche Kapitalmarkt AG	Basel	CHF	1.0	100
	Roche Pharma (Switzerland) Ltd.	Reinach	CHF	2.0	100
	Syntex Corporation	Basel	CHF	0.2	100
Taiwan	Roche Diagnostics Ltd.	Taipei	TWD	80.0	100
	Roche Products Ltd.	Taipei	TWD	100.0	100

Country	Company	City	Share capital (in mill.)		Equity interest (in %)
Thailand	Roche Diagnostics (Thailand) Limited	Bangkok	THB	103.0	100
	Roche Thailand Limited	Bangkok	THB	12.0	100
Turkey	Roche Diagnostik Sistemleri Ticaret A.S.	Istanbul	TRY	0.5	100
	Roche Müstahzarlari Sanayi Anonim Sirketi	Istanbul	TRY	121.0	100
Uruguay	Roche International Ltd.	Montevideo	UYU	(–)	100
	Sapac Corporation Ltd.	Montevideo	UYU	(–)	100
USA	American Roche International Inc.	Little Falls	CAD	0.1	100
	Disetronic Medical Systems Inc.	St. Paul	USD	0.1	100
	Hoffmann-La Roche Inc.	Nutley	USD	3.0	100
	Igen International Inc.	Wilmington	USD	(–)	100
	Roche Carolina Inc.	Florence	USD	(–)	100
	Roche Colorado Corporation	Boulder	USD	0.1	100
	Roche Diagnostics Corporation	Indianapolis	USD	(–)	100
	Roche Holdings Inc.	Wilmington	USD	1.0	100
	Roche Laboratories Inc.	Nutley	USD	(–)	100
	Roche Molecular Systems Inc.	Pleasanton	USD	(–)	100
	Roche Palo Alto LLC	Palo Alto	USD	(–)	100
Venezuela	Productos Roche S.A.	Caracas	VEB	200.0	100

(–) = share capital of less than 100,000 local currency units.

Report of the Group Auditors

Report of the Group Auditors to the General Meeting of Roche Holding Ltd, Basel

As group auditors, we have audited the consolidated financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement and notes on pages 76 to 138) of Roche Holding Ltd for the year ended 31 December 2004. The prior year corresponding figures were audited by other group auditors.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG

KPMG Klynveld Peat Marwick Goerdeler SA

John A. Morris

Erik F.J. Willems

Basel, 27 January 2005

Multi-Year Overview

Statistics, as reported

	1995	1996	1997[b]
Statement of income *in millions of CHF*			
Sales	14,722	15,966	18,767
EBITDA	4,176	4,629	5,076
Operating profit	3,057	3,420	3,590
Net income	3,372	3,899	(2,031)
Research and development	2,290	2,446	2,903
Balance sheet *in millions of CHF*			
Long-term assets	12,632	15,487	32,453
Current assets	22,932	24,289	22,323
Total assets	35,564	39,776	54,776
Equity	17,554	20,780	18,250
Minority interests	799	835	1,187
Non-current liabilities	11,554	12,727	21,181
Current liabilities	5,657	5,434	14,158
Additions to property, plant and equipment	1,490	1,624	1,802
Personnel			
Number of employees at end of year	50,497	48,972	51,643
Key ratios			
Net income as % of sales	23	24	–11
Net income as % of equity	19	19	–11
Research and development as % of sales	16	15	15
Current ratio %	405	447	158
Equity and minority interests as % of total assets	51	54	36
Sales per employee in thousands of CHF	292	326	363
Data on shares and non-voting equity securities			
Number of shares	1,600,000	1,600,000	1,600,000
Number of non-voting equity securities *(Genussscheine)*	7,025,627	7,025,627	7,025,627
Total shares and non-voting equity securities	8,625,627	8,625,627	8,625,627
Total dividend in millions of CHF	552	647	716
Earnings per share and non-voting equity security (diluted) in CHF	391	452	(235)
Dividend per share and non-voting equity security in CHF	64[a]	75	83
Cash and warrants in addition to dividend (adjusted) in CHF	–	36	–
Cash and warrants in addition to dividend (unadjusted) in CHF	–	36	–

Information in this table is stated as reported. Changes in accounting policy arising from changes in International Financial Reporting Standards and the 100 for 1 stock split in 2001 are not applied retrospectively.

a) In addition to the normal dividend, the shareholders approved for each share and each non-voting equity security a special RO 100 centenary warrant worth CHF 36 on date of issue or, at the holder's option, a cash equivalent of CHF 36.

b) 1997 net income and related key ratios are shown after special charges of 6,308 million Swiss francs, net of tax, incurred following the Corange acquisition and include Corange only in respect of balance sheet data.

1998	1999	2000	2001	2002	2003	2004
24,662	27,567	28,672	29,163	29,453	31,220	31,273
6,423	8,874	11,126	6,438	7,993	8,609	9,566
4,350	6,421	7,131	3,247	1,335	5,592	8,979
4,392	5,764	8,647	3,697	(4,026)	3,069	6,641
3,408	3,782	3,950	3,893	4,257	4,766	5,093
27,952	35,800	34,798	36,411	33,143	29,820	28,670
27,927	34,631	34,737	38,875	30,852	29,666	29,406
55,879	70,431	69,535	75,286	63,995	59,486	58,076
21,666	26,954	27,608	28,973	20,810	23,570	28,223
1,149	3,047	4,428	4,894	4,963	5,594	5,070
21,416	25,574	23,642	25,772	22,850	18,658	14,882
11,648	14,856	13,857	15,647	15,372	11,664	9,901
1,883	2,150	2,183	1,931	2,044	2,265	2,357
66,707	67,695	64,758	63,717	69,659	65,357	64,703
18	21	30	13	–14	10	21
20	21	31	13	–19	13	24
14	14	14	13	14	15	16
240	233	251	248	201	254	297
41	43	46	45	40	49	57
370	407	443	458	427	482	483
1,600,000	1,600,000	1,600,000	160,000,000	160,000,000	160,000,000	160,000,000
7,025,627	7,025,627	7,025,627	702,562,700	702,562,700	702,562,700	702,562,700
8,625,627	8,625,627	8,625,627	862,562,700	862,562,700	862,562,700	862,562,700
750	863[d]	992	1,121	1,251	1,423	1,725[e]
509	668	1,024	4.37	(4.80)	3.61	7.81
87	100[d]	115	1.30	1.45	1.65	2.00[e]
190[c]	–	–	–	–	–	–
190[c]	–	–	–	–	–	–

c) If 1996 warrants held to final exercise date.

d) Dividend 1999 does not include the special dividend relating to the spin-off of the Fragrances and Flavours Division.

e) Dividend 2004 as proposed by the Board of Directors.

Sales by division *in millions of CHF*

	2000	2001	2002	2003	2004
Pharmaceuticals	15,992	17,062	17,294	19,781	21,695
Diagnostics	6,252	6,900	7,194	7,409	7,827
Consumer Health (OTC)	1,694	1,661	1,578	1,770	1,751
Vitamins and Fine Chemicals	3,571	3,540	3,387	2,260	–
Fragrances and Flavours	1,163	–	–	–	–
Total	28,672	29,163	29,453	31,220	31,273

Sales by geographical area *in millions of CHF*

Switzerland	509	513	529	529	442
European Union	9,012	9,000	9,011	9,681	10,563
Rest of Europe	1,266	1,282	1,439	1,520	993
Europe	10,787	10,795	10,979	11,730	11,998
North America	10,636	11,264	11,102	10,789	11,025
Latin America	2,928	2,827	2,376	2,076	1,825
Japan	1,580	1,589	2,243	3,948	3,875
Rest of Asia	1,814	1,829	1,804	1,697	1,553
Asia	3,394	3,418	4,047	5,645	5,428
Africa, Australia and Oceania	927	859	949	980	997
Total	28,672	29,163	29,453	31,220	31,273

Additions to property, plant and equipment by division *in millions of CHF*

Pharmaceuticals	1,117	1,043	1,040	1,315	1,572
Diagnostics	603	558	666	764	778
Consumer Health (OTC)	15	8	7	13	6
Vitamins and Fine Chemicals	372	284	298	172	–
Fragrances and Flavours	68	–	–	–	–
Others	8	38	33	1	1
Total	2,183	1,931	2,044	2,265	2,357

Additions to property, plant and equipment by geographical area *in millions of CHF*

Switzerland	361	272	298	262	232
European Union	731	613	598	747	808
Rest of Europe	31	51	79	54	17
Europe	1,123	936	975	1,063	1,057
North America	610	717	783	835	1,030
Latin America	229	138	115	69	74
Japan	53	45	81	220	128
Rest of Asia	120	67	62	50	46
Asia	173	112	143	270	174
Africa, Australia and Oceania	48	28	28	28	22
Total	2,183	1,931	2,044	2,265	2,357

Supplementary Net Income and EPS Information

The Group's basic and diluted earnings per share information is given in Note 35 to the Consolidated Financial Statements on pages 129–130. Supplementary EPS information is given below on net income before exceptional items and also on core net income, which additionally excludes amortisation of intangible assets and the related impacts on income taxes and minority interests.

Net income before exceptional items and core net income *in millions of CHF*

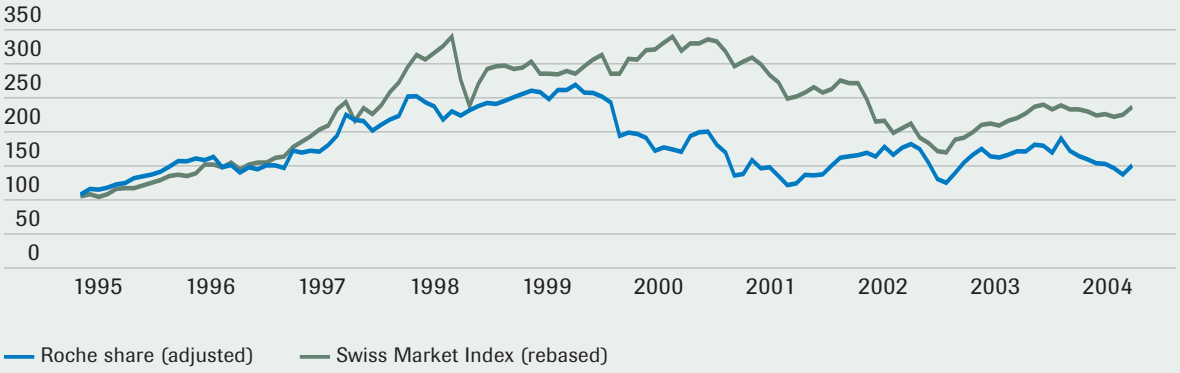
		2004		2003
Net income (continuing businesses)		4,339		3,074
Goodwill amortisation	572		489	
– income tax	–		–	
– minority interests	(116)		(117)	
		456		372
Major legal cases	–		(216)	
– income tax	–		87	
– minority interests	–		54	
		–		(75)
Changes in Group organisation	199		–	
– income tax	(33)		–	
– minority interests	–		–	
		166		–
Exceptional financial income	(908)		–	
– income tax	290		–	
– minority interests	–		–	
		(618)		–
Net income before exceptional items (continuing businesses)		4,343		3,371
Amortisation of intangible assets	1,000		986	
– income tax	(358)		(356)	
– minority interests	(78)		(80)	
		564		550
Core net income		4,907		3,921

EPS before exceptional items and Core EPS

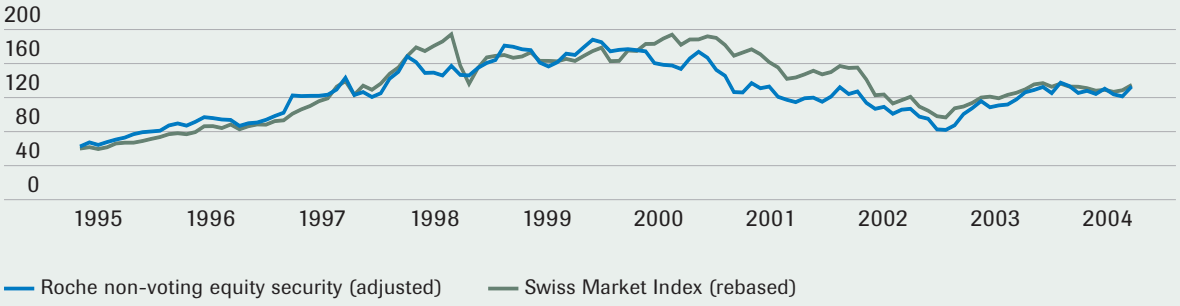
	EPS before exceptional items		Core EPS	
	2004	2003	2004	2003
Net income (millions of CHF)	4,343	3,371	4,907	3,921
Elimination of interest expense, net of tax, of convertible debt instruments, where dilutive	50	60	50	60
Increase in minority share of Group net income, net of tax, assuming all outstanding Genentech stock options exercised	(31)	(26)	(31)	(26)
Net income used to calculate diluted earnings per share	4,362	3,405	4,926	3,955
Per share information (millions of shares and non-voting equity securities)				
Weighted average number of shares and non-voting equity securities in issue	841	839	841	839
Adjustment for assumed conversion of convertible debt instruments, where dilutive	19	20	19	20
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	860	859	860	859
Earnings per share (diluted) (CHF)	5.07	3.97	5.73	4.61

Roche Securities

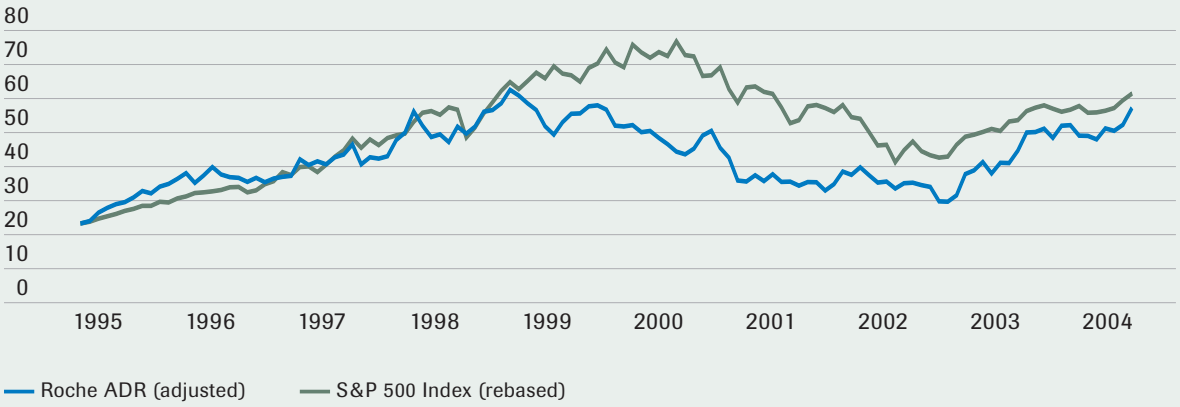
Share price performance *in CHF*



Non-voting equity security *(Genussschein)* price performance *in CHF*



American Depositary Receipt (ADR) price performance *in USD*



Two Roche American Depositary Receipts (ADRs) are equivalent to one non-voting equity security *(Genussschein)*. ADRs have been traded in the United States over-the-counter market since July 1992.

Information in these tables is restated for the 100 for 1 stock split of Roche shares and non-voting equity securities *(Genussscheine)* effective 4 May 2001 and the change in the ratio for the ADRs from 1:1 to 2:1 effective 24 January 2005.

Number of shares and non-voting equity securities[a]

	2000	2001	2002	2003	2004
Number of shares (nominal value 2000: CHF 100, 2001–2004: CHF 1.00)	1,600,000	160,000,000	160,000,000	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	7,025,627	702,562,700	702,562,700	702,562,700	702,562,700
Total	8,625,627	862,562,700	862,562,700	862,562,700	862,562,700

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

Net income		1,024	4.37	(4.80)	3.61	7.81
Equity		3,201	33.59	24.13	27.33	32.72
Dividend		115	1.30	1.45	1.65	2.00[c]
Stock price of share[b]	High	26,375	201.00	195.00	185.00	193.00
	Low	16,800	114.00	130.50	121.00	137.20
	Year-end	20,100	136.00	175.00	171.50	150.00
Stock price of non-voting equity security *(Genussschein)*[b]	High	18,755	165.35	132.75	125.25	140.25
	Low	14,900	95.10	92.00	75.15	118.75
	Year-end	16,510	118.50	96.35	124.75	130.90

Market capitalisation *in millions of CHF*

	Year-end	143,455	102,209	93,473	112,210	113,195

Key ratios (year-end)

Net income as % of equity	31	13	–19	13	24
Dividend yield of shares in %	0.6	1.0	0.8	1.0	1.3
Dividend yield of non-voting equity securities *(Genussscheine)* in %	0.7	1.1	1.5	1.3	1.5
Price/earnings of shares	20	31	–36	48	19
Price/earnings of non-voting equity securities *(Genussscheine)*	16	27	–20	35	17

a) 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.

b) All stock price data reflect daily closing prices.

c) 2004 dividend as proposed by the Board of Directors.

Ticker symbols

	Share	Non-voting equity security	American Depositary Receipt
Reuters	RO.S	ROG.VX	RHHBY.PK
Bloomberg	RO SW	ROG VX	RHHBY US
SWX Swiss Exchange	RO	ROG	–

Roche Holding Ltd, Basel

Financial Statements

Income statement *in millions of CHF*

	2004	2003
Income		
Income from participations	1,750	3,397
Interest income from loans to Group companies	53	36
Interest and investment income	4	8
Gain on disposal of participations	75	–
Other income from Group companies	100	–
Other income	47	155
Total income	2,029	3,596
Expenses		
Financial expenses	(14)	(41)
Administration expenses	(22)	(23)
Loss on disposal of participations	–	(1,006)
Depreciation on participations	–	(810)
Other expenses	(166)	(148)
Total expenses	(202)	(2,028)
Profit for the year before taxes	1,827	1,568
Taxes	(12)	(6)
Net profit for the year	1,815	1,562

Balance sheet at 31 December *in millions of CHF*

	2004	2003
Long-term assets		
Participations	4,510	5,029
Long-term loans to Group companies	845	526
Total long-term assets	5,355	5,555
Current assets		
Short-term loans to Group companies	2,102	–
Accounts receivable from Group companies	940	2,690
Other accounts receivable	3	5
Marketable securities	1,207	176
Liquid funds	40	616
Total current assets	4,292	3,487
Total assets	9,647	9,042
Equity		
Share capital	160	160
Non-voting equity securities *(Genussscheine)*	p.m.	p.m.
General legal reserve	300	300
Free reserve	4,324	4,184
Special reserve	2,152	2,152
Available earnings:		
– Balance brought forward from previous year	4	5
– Net profit for the year	1,815	1,562
Total equity	8,755	8,363
Non-current liabilities		
Provisions	35	36
Loans from Group companies	830	503
Total non-current liabilities	865	539
Current liabilities		
Accounts payable to Group companies	1	100
Other liabilities	26	40
Total current liabilities	27	140
Total liabilities	892	679
Total equity and liabilities	9,647	9,042

p.m. = pro memoria. Non-voting equity securities have no nominal value.

General

The financial statements of Roche Holding Ltd, Basel, are prepared in accordance with the provisions of Swiss law.

Valuation methods and translation of foreign currencies

In the balance sheet, assets and liabilities are disclosed at net realisable values. Exceptions to this rule are participations, which are shown at their acquisition values less appropriate write-downs, and marketable securities, which are shown at the lower of cost or market value. Unrealised foreign currency gains on balance sheet items are deferred. Expenses and income, as well as foreign currency transactions, are translated at exchange rates ruling at the relevant transaction dates.

Details to specific items

Taxes

The tax charge includes corporate income and capital taxes, withholding taxes and stamp duty.

Equity

Movement in recognised amounts *in millions of CHF*

	Share capital	General legal reserve	Free reserve	Special reserve	Available earnings	Total equity
As at 1 January 2002	160	300	3,559	2,152	1,455	7,626
– Net income	–	–	–	–	1,546	1,546
– Dividends paid	–	–	–	–	(1,121)	(1,121)
– Transfer to free reserve	–	–	330	–	(330)	–
As at 31 December 2002	160	300	3,889	2,152	1,550	8,051
– Net income	–	–	–	–	1,562	1,562
– Dividends paid	–	–	–	–	(1,250)	(1,250)
– Transfer to free reserve	–	–	295	–	(295)	–
As at 31 December 2003	160	300	4,184	2,152	1,567	8,363
– Net income	–	–	–	–	1,815	1,815
– Dividends paid	–	–	–	–	(1,423)	(1,423)
– Transfer to free reserve	–	–	140	–	(140)	–
As at 31 December 2004	160	300	4,324	2,152	1,819	8,755

Share capital

As in the previous year, share capital amounts to 160 million Swiss francs. The share capital consists of 160,000,000 bearer shares with a nominal value of 1 Swiss franc each. Included in equity are 702,562,700 non-voting equity securities *(Genussscheine).* They are not part of the share capital and confer no voting rights. However each non-voting equity security *(Genussschein)* does confer the same rights as any one of the shares to participate in the available earnings and in any remaining proceeds from liquidation following repayment of the share capital.

Guarantees

Within the framework of the European Medium Term Note (EMTN) programme the company has issued guarantees in favour of Group companies amounting to 2,808 million Swiss francs (previous year 1,707 million Swiss francs).

At the time of preparing the balance sheet no risks arising out of these contingent liabilities were discernible.

Convertibles and options
Reference is made to the Notes to the Consolidated Financial Statements.

Own equity instruments
Reference is made to the Notes to the Consolidated Financial Statements.

Pledged assets
Assets with a total book value of 2 million Swiss francs (previous year 8 million Swiss francs) have been pledged as security for the Company's own commitments.

Participations
The major participations are listed on pages 135 to 138.

Important shareholders
All shares in the Company are bearer shares, and for this reason the Company does not keep a register of shareholders. The following figures are based on information from shareholders, the shareholder validation check at the Annual General Meeting of 6 April 2004 and on other information available to the Company.

80,020,000 (previous year 80,020,000) shares: Shareholders' group with pooled voting rights, comprising Ms Vera Michalski-Hoffmann, Ms Maja Hoffmann, Mr André Hoffmann, Dr Andreas Oeri, Ms Sabine Duschmalé-Oeri, Ms Catherine Oeri, Ms Beatrice Oeri and Ms Maja Oeri.[a)]

53,332,863 (previous year 53,332,863) shares (participation below 33⅓%): Novartis International Ltd, Basel including affiliates thereof.[b)]

a) Information supplied by the shareholders. This figure of 80,020,000 shares does not include shares without pooled voting rights held outside the group by individual members of the group.
b) Figures as of 31 December 2004 supplied by Novartis International Ltd, Basel.

Appropriation of Available Earnings

Proposals to the General Meeting *in CHF*

	2004	2003
Available earnings		
Net profit for the year	1,815,438,499	1,562,360,279
Balance brought forward from previous year	3,622,789	4,490,965
Total available earnings	1,819,061,288	1,566,851,244
Appropriation of available earnings		
Distribution of an ordinary dividend of CHF 2.00 gross per share and non-voting equity security *(Genussschein)* as against CHF 1.65 last year	(1,725,125,400)	(1,423,228,455)
Transfer to free reserve	(90,000,000)	(140,000,000)
Total appropriation of available earnings	(1,815,125,400)	(1,563,228,455)
To be carried forward on this account	3,935,888	3,622,789

Report of the Statutory Auditors

to the General Meeting of Roche Holding Ltd, Basel

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 146 to 149) of Roche Holding Ltd for the year ended 31 December 2004. The prior year corresponding figures were audited by other auditors.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

KPMG

KPMG Klynveld Peat Marwick Goerdeler SA

John A. Morris

Erik F.J. Willems

Basel, 27 January 2005

Overview

Switzerland	Costa Rica	
Argentina	Czech Republic	
Australia	Denmark	
Austria	Dominican Republic	
Bangladesh	Ecuador	
Belgium	Egypt	
Bermuda	El Salvador	
Brazil	Finland	
Canada	France	
Chile	Germany	
China	Great Britain	
Colombia	Greece	

Roche – a Global Market Presence

Roche – a Global Market Presence

Research and development | Services, financing | Toll manufacturing by third parties

Guatemala	Morocco	Russia
Guernsey	The Netherlands	Singapore
Honduras	New Zealand	South Africa
Hungary	Nicaragua	South Korea
India	Norway	Spain
Indonesia	Pakistan	Sweden
Ireland	Panama	Taiwan
Italy	Peru	Thailand
Japan	Philippines	Turkey
Luxembourg	Poland	Uruguay
Malaysia	Portugal	USA
Mexico	Puerto Rico	Venezuela

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Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements. These forward-looking statements may be identified by words such as 'believes', 'expects', 'anticipates', 'projects', 'intends', 'should', 'seeks', 'estimates', 'future' or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions. Various factors may cause actual results to differ materially in the future from those reflected in forward-looking statements contained in this Annual Report, among others: (1) pricing and product initiatives of competitors; (2) legislative and regulatory developments and economic conditions; (3) delay or inability in obtaining regulatory approvals or bringing products to market; (4) fluctuations in currency exchange rates and general financial market conditions; (5) uncertainties in the discovery, development or marketing of new products or new uses of existing products; (6) increased government pricing pressures; (7) interruptions in production; (8) loss of or inability to obtain adequate protection for intellectual property rights; (9) litigation; (10) loss of key executives or other employees; and (11) adverse publicity and news coverage.

Next Annual General Meeting: 28 February 2005

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