Roche Holdings, Inc.

Interim Financial Statements 2013

Roche Holdings, Inc. Interim Consolidated Financial Statements

Contents

Management Report

1. Review of the first six months ended June 30, 2013

RHI Group Results

The Roche Holdings, Inc. (RHI)'s results for the first half of 2013 showed growth in its operating activities, with sales up by 9.5% and operating profit up by 82%. The strong operating results are also shown in the cash flow from operating activities of $3.5 billion or 35% of sales.

Sales in the Pharmaceuticals Division rose by 11.5%. The leading products were the oncology medicines Herceptin, Kadcyla, Perjeta, and Rituxan. Of the other products, the main growth drivers were Tamiflu due to a severe flu season in North America, Lucentis, Activase/TNKase, Tarceva and Actemra. In Diagnostics Division, sales were slightly down as growth in Professional Diagnostics and Molecular Diagnostics was more than offset by a decline in Diabetes Care.

The RHI Group's operating profit increased by 82%, to $4.9 billion, with the operating profit margin improving by 19.5 percentage points to 48.8% of sales. The increase in operating profit was driven by strong operating performance and significantly lower restructuring expenses.

During 2013 the RHI Group has continued the implementation of a number of major restructuring initiatives to position the business for the future, notably in the Pharmaceuticals Division's research and development organization with the closure of the Nutley site in New Jersey announced in 2012. The Diagnostics Division continued the implementation of various initiatives in Diabetes Care and Applied Science businesses, which include increasing the efficiency of marketing and distribution operations and research and development activities. The cost of these restructuring activities in the comparative period of 2012, together with the growth of the underlying business and lower financing costs, resulted in an increase in profit before taxes of 162%.

Pharmaceuticals Division

Pharmaceuticals Division sales increased by 11.5% to $8.5 billion, with growth driven by the oncology portfolio, which grew in both established and newly launched products and higher sales of Tamiflu, Lucentis, Activase/TNKase, Tarceva and Actemra. These offset lower sales of Pegasys in virology and the expected further decline in Boniva.

Sales growth was primarily driven by six products: Tamiflu, Herceptin, Kadcyla, Perjeta, Rituxan, and Lucentis. These products represent 48% of the portfolio (2012: 46%) and together generated $0.6 billion of additional sales in the first half of 2013.

In oncology the established products grew significantly with their use expanded into treatment of additional indications. Additionally, the HER2 franchise was strengthened by the approval of Kadcyla and by increased usage of Herceptin in breast and gastric cancer. Sales in inflammation/autoimmune/transplantation increased mainly due to strong growth of Actemra, reflecting the superiority of Actemra as a monotherapy treatment. There was continued growth in ophthalmology as Lucentis sales increased driven by increasing patient share in the DME indication and approval of a less frequent dosing regimen in wet AMD. Pegasys sales decreased by 35%, due to strong sales in the comparative period 2012 following the launch of Pegasys in triple-combination therapy and delays in treatment in anticipation of future interferon-free medicines.

Royalties and other operating income increased by 30% to $2.2 billion due to higher income from out-licensing agreements and royalties. The increase in out-licensing income was mainly due to the recognition of previously deferred income from related-parties under research and development cost-sharing agreements. The increase in royalty income was due to higher royalty bearing sales for Eylea and Humira.

Cost of sales increased by 14% to $2.5 billion, mainly due to the impact of higher sales on both manufacturing cost of goods sold and royalty expenses. As a percentage of sales, cost of sales were stable at 30% (2012: 29%). Manufacturing cost of goods sold and period costs increased as a percentage of sales due to unfavorable product-mix.

Royalty expenses were 17% higher mainly driven by higher sales of Tamiflu and Rituxan. Expenses from collaboration and profit-sharing agreements increased driven by higher co-promotion expenses due to higher sales of Rituxan and Tarceva.

Marketing and distribution costs decreased by 8% to $1.0 billion. Sales and marketing efforts focused on supporting continuing growth in the existing oncology portfolio and the newly launched products, such as Perjeta and Erivedge.

Research and development costs decreased by 12% to $2.0 billion, with the decrease mainly driven by the higher restructuring costs for the Nutley site closure recorded in the comparative period of 2012. There was lower spending in ophthalmology and inflammation, with the discontinuation of inflammation research in Nutley. These were partially offset by increased investments in the oncology therapeutic area, where activities were focused on new indications for recently launched products and other developments, such as PD-L1 targeted therapy. In addition the Pharmaceuticals Division spent $130 million on the in-licensing of pipeline compounds and technologies, which are capitalized as intangible assets. The 2013 impairments of intangible assets include $215 million following a portfolio reassessment within the hepatitis C virus (HCV) franchise and a further $24 million in respect of projects in collaboration with alliance partners. Global restructuring costs of $43 million were recorded, consisting mainly of employee-related costs and outside services for the closure of the Nutley site. The termination of the aleglitazar trials announced on July 10, 2013 had no impact on the RHI's interim results and financial position at June 30, 2013.

General and administration costs decreased by 47% to $322 million, with the decrease mainly driven by the higher restructuring costs for the Nutley site closure recorded in the comparative period of 2012, partially offset by the increase in costs for the US Branded Pharmaceutical Product Fee ("Excise Tax") of $96 million (2012: $80 million). Global restructuring costs mainly consist of employee-related costs, property taxes and outside services for the closure of the Nutley site.

In the interim period of 2013, operating profit increased by 56% to $4.8 billion, driven by the strong operating performance, with an 11.5% increase in sales and a decrease in marketing and distribution and research and development spend as a percentage of sales. Royalties and other operating income increased mainly due to the recognition of previously deferred income from related-parties under research and development cost-sharing agreements. General and administration costs decreased mainly due to significantly lower restructuring expenses for the Nutley site closure.

Diagnostics Division

Sales in the Diagnostics Division were down slightly to $1.5 billion as the growth in Professional Diagnostics, Tissue Diagnostics and Molecular Diagnostics was more than offset by a decline in Diabetes Care. Professional Diagnostics, with 2.6% sales growth, was the main growth contributor led by its Immunodiagnostics business. Tissue Diagnostics sales grew by 2.4% driven by the primary staining franchise. Diabetes Care sales decreased by 9.5% mainly due to the Medicare reimbursements cut and volume decline. Sales in Molecular Diagnostics increased by 1.7%, as growth in the underlying molecular businesses of 7% was mostly offset by a decline in the genome sequencing business.

On April 23, 2013 it was announced that the Applied Science business area's portfolio of products will be integrated within the other Diagnostics business areas. The polymerase chain reaction technology (PCR), the nucleic acid product (NAP) and biochemical reagents lines will be managed by Molecular Diagnostics. The Custom Biotech portfolio will move to Professional Diagnostics. A dedicated unit will be established to focus solely on sequencing. Sales information has been reclassified retrospectively, and the sales of the sequencing business are reported as part of the results for Molecular Diagnostics. Total divisional sales are unchanged.

Costs of sales decreased by 2.3% to $961 million, mainly driven by a decrease in manufacturing cost of goods sold and period costs of 1.3% as a result of product mix effects. Overall, the decrease in costs was slightly higher than the sales decrease resulting in an improvement of the cost of sales ratio to 55.7% compared to 56.1% in the first half of 2012.

Marketing and distribution costs decreased by 3.4% to $364 million, mainly due to lower spending in Diabetes Care and the former Applied Science business area as a result of the restructuring initiatives to improve the efficiency of marketing and distribution activities as well as marginally lower bad debt expenses. Overall, marketing and distribution costs as a percentage of sales improved slightly to 24.1% compared to 24.8% in 2012.

Research and development costs decreased by 26.1% to $112 million. This was driven mainly by the higher income from related parties under research and development cost-sharing agreements. In addition, in the former Applied Science business area expenses declined significantly as a result of restructuring and cost containment programs initiated in 2012. As a percentage of sales, research and development costs decreased to 7.4% from 10.0% in 2012. Global restructuring costs of $10 million were mainly related to the reorganization in the Diabetes Care and Applied Science business.

General and administration costs decreased by 60.2% to $104 million, primarily due to lower goodwill impairment charges in comparison to 2012. The 2013 goodwill impairment charges of $33 million were incurred for the full write-off of the goodwill from the 454 Life Sciences acquisition (2012: $200 million impairment of the goodwill from the NimbleGen acquisition). Business taxes increased due to the new medical device tax with costs of $13 million.

<u>Corporate operating results</u>

General and administration costs decreased to $19 million mainly due to a shift of headcount to the Pharmaceuticals Division. Total corporate costs decreased to $38 million mainly due to the comparative period of 2012 including expenses of $259 million for environmental remediation activities in Nutley, New Jersey.

<u>Treasury and taxation results</u>

The RHI Group financed the Genentech transaction in 2009 by a combination of own funds, bonds, notes and commercial paper raising net proceeds of $40.3 billion through a series of debt offerings. All debt issued in 2009 is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group.

During the six months ended June 30, 2013 there were debt redemptions of $6.1 billion and a loss on early redemption of $85 million.

In 2009, the RHI Group entered into derivative contracts to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than U.S. dollars. The gains on these derivative contracts are offset by foreign exchange losses on the bonds and notes issued in currencies other than U.S. dollars. Interest expense was lower in 2013 reflecting the continued repayment of the debt. Further disclosures are made in Notes 3, 10 and 13 to the Interim Financial Statements.

In the interim period of 2013, the RHI Group's effective tax rate decreased by 9.4 percentage points to 32.4%. The main reasons for the decrease of the effective tax rate were the non-deductible goodwill impairment in 2012 and the retrospective re-enactment of the 2012 US research and development tax credits in January 2013.

<u>Net Income</u>

Net income increased by 205% to $2.6 billion, driven by the strong operating performance, the significantly lower restructuring expenses, the positive tax rate impact described above and the lower financing costs resulting from the repayment of debt.

<u>Cash flow</u>

The cash inflows from operating activities increased by $0.1 billion to $3.5 billion in the first half of 2013. This was mainly due to higher cash generated from operations partly offset by higher related parties working capital outflows and higher income tax payments which increased by $0.5 billion to $1.2 billion. The cash outflows from investing activities remained stable at $0.3 billion. The cash outflows from financing activities of $3.2 billion were mainly due to the repayments of $6.1 billion of notes, dividend payments to related parties of $1.0 billion and $0.9 billion of interest payments partly offset by an increase in commercial paper of $2.1 billion and an increase in the cash pool balance with related parties.

Financial position

Total assets decreased by $4.2 billion to $24.3 billion at June 30, 2013 mainly due to a decrease in related party receivables. Total liabilities decreased by $6.6 billion to $46.7 billion at June 30, 2013 mainly due to the repayment of debt. At June 30, 2013 the carrying value of debt was $35.1 billion (December 31, 2012: $39.3 billion).

In 2009 the Genentech transaction was accounted for in full as an equity transaction and as a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced. In the first half of 2013, the negative equity situation improved by $2.4 billion to minus $22.4 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds, notes and commercial paper with a carrying value of $15.7 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Merger and Acquisitions

On July 1, 2013 the RHI Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI will be reported in the Diagnostics operating segment. The purchase consideration is $220 million in cash and up to $255 million from a contingent consideration arrangement. The initial accounting for the transaction was not complete at the date these Interim Financial Statements were approved for issue by the Board of Directors on July 29, 2013 and therefore various disclosures, including the fair value of the net assets acquired, cannot be made.

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of the RHI Group's counterparties. The RHI Group's financial risk management is described in Note 28 to the RHI Annual Financial Statements for the year ended December 31, 2012.

Uncertainties

As well as being the holding company for the Roche Group's U.S. operations, a further activity of Roche Holdings, Inc. is to provide financing to other members of the RHI Group and refinancing on the bond or loan markets.

The RHI Group's provisions and contingent liabilities are described in Note 23 to the Annual Financial Statements for the year ended December 31, 2012 and these are updated, where appropriate, in Note 9 to the Interim Financial Statements. Key assumptions and sources of estimation uncertainty in the preparation of the financial statements are described in Note 1 to the Interim Financial Statements.

The difficulties in the financial markets and the economy have had a limited impact on the RHI Group's businesses so far. However, the developments are being closely monitored, including the credit risk from the three major U.S. wholesalers.

Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the future results, financial situation development or performance of the RHI Group and the historical results given in the Management Report and the Interim Financial Statements for the six months ended June 30, 2013.

3. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge as of the date of their approval of the interim consolidated financial statements as at July 29, 2013:

- the interim consolidated financial statements as at June 30, 2013 which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole and that
- the management report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Franz B. Humer Chairman of the Board	Alan Hippe Vice Chairman of the Board	Severin Schwan Member of the Board

Roger Brown Member of the Board	Frederick C. Kentz III Member of the Board	David P. McDede Member of the Board	Bruce Resnick Member of the Board

Roche Holdings, Inc. Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditors and their review report is presented on page 27.

Roche Holdings, Inc. consolidated income statement *in millions of USD*

	Six months ended June 30,	
	2013	2012
Sales [2]	**10,004**	9,137
Royalties and other operating income [2]	**2,340**	1,844
Cost of sales	**(3,506)**	(3,225)
Marketing and distribution	**(1,392)**	(1,493)
Research and development	**(2,101)**	(2,418)
General and administration	**(464)**	(1,169)
Operating profit [2]	**4,881**	2,676
Financing costs [3]	**(631)**	(760)
Financing costs – related parties [13]	**(410)**	(451)
Other financial income (expense) [3]	**97**	(41)
Other financial income (expense) – related parties [13]	**(64)**	52
Profit before taxes	**3,873**	1,476
Income taxes [4]	**(1,256)**	(617)
Net income	**2,617**	859

As disclosed in Note 1, the consolidated income statement for the six month ended June 30, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published consolidated income statement is provided in Note 1.

Roche Holdings, Inc. consolidated statement of comprehensive income *in millions of USD*

	Six months ended June 30,	
	2013	2012
Net income recognized in income statement	**2,617**	859
Other comprehensive income		
Remeasurements of defined benefits plans	**296**	(16)
Items that will not be reclassified to the income statement	**296**	(16)
Available-for-sale investments	**7**	21
Cash flow hedges	**5**	(27)
Items that may be reclassified subsequently to the income statement	**12**	(6)
Other comprehensive income, net of tax	**308**	(22)
Total comprehensive income	**2,925**	837

As disclosed in Note 1, the consolidated statement of comprehensive income for the six month ended June 30, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published consolidated statement of comprehensive income is provided in Note 1.

Roche Holdings, Inc. consolidated condensed balance sheet *in millions of USD*

	June 30, 2013	December 31, 2012
Non-current assets	**16,633**	16,775
Current assets	**7,638**	11,709
Total assets	**24,271**	28,484
Non-current liabilities	**(30,943)**	(36,067)
Current liabilities	**(15,772)**	(17,202)
Total liabilities	**(46,715)**	(53,269)
Total net assets (liabilities)	**(22,444)**	(24,785)
Equity 11		
Capital and reserves	**(22,444)**	(24,785)
Total equity	**(22,444)**	(24,785)

As disclosed in Note 1, the consolidated condensed balance sheet at December 31, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published consolidated condensed balance sheet is provided in Note 1.

Roche Holdings, Inc. consolidated condensed statement of cash flows *in millions of USD*

	Six months ended June 30,	
	2013	2012
Cash flows from operating activities, before income taxes paid	**4,693**	4,090
Income taxes paid	**(1,205)**	(713)
Cash flows from operating activities	**3,488**	3,377
Cash flows from investing activities	**(325)**	(266)
Cash flows from financing activities	**(3,170)**	(3,086)
Increase (decrease) in cash and cash equivalents	**(7)**	25
Cash and cash equivalents at beginning of period	**(110)**	(106)
Cash and cash equivalents at end of period [a]	**(117)**	(81)

[a] Cash overdrafts of $117 million (2012: $81 million) are included within current liabilities in the balance sheet.

Roche Holdings, Inc. consolidated statement of changes in equity *in millions of USD*

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total equity
Six months ended June 30, 2012					
At January 1, 2012	**1**	**(26,077)**	**91**	**(20)**	**(26,005)**
Net income recognized in income statement	-	859	-	-	859
Available-for-sale investments	-	-	21	-	21
Cash flow hedges	-	-	-	(27)	(27)
Remeasurements of defined benefit plans	-	(16)	-	-	(16)
Total comprehensive income	-	843	21	(27)	837
Dividends [11]	-	-	-	-	-
Equity compensation plans	-	(80)	-	-	(80)
At June 30, 2012	**1**	**(25,314)**	**112**	**(47)**	**(25,248)**
Six months ended June 30, 2013					
At January 1, 2013	**1**	**(24,929)**	**90**	**53**	**(24,785)**
Net income recognized in income statement	**-**	**2,617**	**-**	**-**	**2,617**
Available-for-sale investments	**-**	**-**	**7**	**-**	**7**
Cash flow hedges	**-**	**-**	**-**	**5**	**5**
Remeasurements of defined benefit plans	**-**	**296**	**-**	**-**	**296**
Total comprehensive income	**-**	**2,913**	**7**	**5**	**2,925**
Dividends [11]	**-**	**-**	**-**	**-**	**-**
Equity compensation plans	**-**	**(584)**	**-**	**-**	**(584)**
At June 30, 2013	**1**	**(22,600)**	**97**	**58**	**(22,444)**

As disclosed in Note 1, the consolidated statement of changes in equity for the six month ended June 30, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published consolidated statement of changes in equity is provided in Note 1.

Notes to the Roche Holdings, Inc. Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries (hereafter 'RHI' or 'the RHI Group') for the six-month period ended June 30, 2013 (hereafter 'the interim period'). RHI is 100% indirectly owned by Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group. Roche Holdings, Inc. and its subsidiaries are therefore members of the Roche Group. These interim financial statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2012 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on July 29, 2013.

Statement of compliance

The Interim Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the RHI Group since the Annual Financial Statements.

Management judgments and estimates

The preparation of the Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and related disclosures. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The significant judgments made by management in applying the RHI Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Annual Financial Statements.

Going concern

Effective March 26, 2009, the purchase of the non-controlling interest in Genentech was completed. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced by approximately $47 billion and, at June 30, 2013 the RHI Group had a negative equity of $22.4 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds, notes and commercial paper with a carrying value of $15.7 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. Accordingly, management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In the interim period of 2013 the RHI Group generated an operating profit of $4.9 billion and a positive operating cash flow of $3.5 billion.

Seasonality

The RHI Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. The following changes in accounting policies will be reflected in the RHI Group's Consolidated Financial Statements for the year ending December 31, 2013.

Changes in accounting policies

The RHI Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2013.

- IAS 19 (revised) 'Employee Benefits'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- Annual Improvements to IFRS 2009 – 2011 Cycle

With the exception of the revisions to IAS 19, these do not have a material impact on the RHI Group's overall results and financial position. The nature and the effects of the changes most relevant to the RHI Group's financial statements are explained below.

Pensions and other post-employment benefits

As a result of IAS 19 (revised) the RHI Group amended its accounting policy with respect to the basis for determining the income or expense related to defined benefit plans and restated the 2012 results retrospectively. The main changes are as follows:

- The revised standard eliminated the option to defer the recognition of actuarial gains and losses from defined benefit plans, known as the 'corridor method'. The RHI Group did not apply this option, but rather uses the option to recognize such gains and losses directly in other comprehensive income. The option currently applied by the RHI Group is the requirement under the revised standard and therefore this change had no impact on the RHI Group's financial statements.
- Net interest on the net defined benefit liability comprises of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the limit on the recognition of pension assets. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking account of any changes from contribution or benefit payments. Previously, expected income on plan assets was based on the estimated long-term rate of the underlying assets in the various plans. The impact on the restated 2012 results was a reduction in net financial income of $110 million for the year ended December 31, 2012 and a reduction of $55 million for the six months ended June 30, 2012. The on-going impact for 2013 and beyond is expected to be of a similar magnitude. There was no impact on the RHI Group's operating income or net assets from this change.
- Past service costs are now recognized immediately in the income statement in the period of a plan amendment. Previously, past service costs had the portion related to unvested benefits deferred on the balance sheet, which was then progressively released. The impact of this change was an increase in the RHI Group's net assets by $7 million at December 31, 2012 and an increase of $7 million at June 30, 2012.

Following the revision to IAS19 disclosed above the RHI Group has also made a presentational change to the income statement, which was renamed 'Financial income' to 'Other financial income (expense)' and moved this caption below 'Financing costs'.

The reconciliations between the results published previously in 2012 (using the previous accounting policy) and the restated amounts which are reported as comparatives in 2013 (using the revised accounting policy) are presented below.

Restated RHI Group consolidated income statement *in millions of USD*

	Year ended December 31, 2012			Six months ended June 30, 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Operating profit	**6,654**	**-**	**6,654**	**2,676**	**-**	**2,676**
Financing costs	(1,802)	131	(1,671)	(826)	66	(760)
Financing costs-related parties	(868)	-	(868)	(451)	-	(451)
Other financial income (expense)	157	(241)	(84)	80	(121)	(41)
Other financial income (expense)-related parties	122	-	122	52	-	52
Profit before taxes	**4,263**	**(110)**	**4,153**	**1,531**	**(55)**	**1,476**
Income taxes	(1,484)	39	(1,445)	(637)	20	(617)
Net income	**2,779**	**(71)**	**2,708**	**894**	**(35)**	**859**

Restated RHI Group consolidated statement of comprehensive income ***in millions of USD***

	Year ended December 31, 2012			Six months ended June 30, 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Net income recognized in the income statement	2,779	(71)	2,708	894	(35)	859
Other comprehensive income, net of tax	(154)	71	(83)	(57)	35	(22)
Total comprehensive income	**2,625**	**-**	**2,625**	**837**	**-**	**837**

Restated RHI Group consolidated balance sheet (selected items) ***in millions of USD***

	Year ended December 31, 2012			Six months ended June 30, 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Deferred tax assets	3,139	(4)	3,135	2,583	(4)	2,579
Post-employment benefit assets	156	-	156	146	-	146
Deferred tax liabilities	(437)	-	(437)	(482)	-	(482)
Post-employment benefit liabilities	(2,155)	11	(2,144)	(1,896)	11	(1,885)
Other net assets	(25,495)	-	(25,495)	(25,606)	-	(25,606)
Net assets	**(24,792)**	**7**	**(24,785)**	**(25,255)**	**7**	**(25,248)**
Capital and reserves attributable to RHI shareholders	(24,792)	7	(24,785)	(25,255)	7	(25,248)
Total equity	**(24,792)**	**7**	**(24,785)**	**(25,255)**	**7**	**(25,248)**

Restated RHI Group consolidated equity at January 1, 2012 ***in millions of USD***

	As originally published	Application of IAS 19 (revised)	Restated
Capital and reserves attributable to RHI shareholders	(26,012)	7	(26,005)
Total equity	**(26,012)**	**7**	**(26,005)**

Consolidation policy

As a result of IFRS 10, the RHI Group has amended its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. The RHI Group controls an entity when the RHI Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This change had no impact on the RHI Group's financial statements.

Fair values

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. See Note 12 for additional disclosures. In accordance with the transitional provisions of IFRS 13, the RHI Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. The change had no impact on the measurements of the RHI Group's assets and liabilities.

Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the RHI Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that may be reclassified to the income statement in the future from those that would not. The 2012 comparative information has been restated for this change. The change had no impact on the RHI Group's overall results and financial position.

Future new and revised standards

The RHI Group is currently assessing the potential impacts of new and revised standards and interpretations that will be effective from January 1, 2014 and beyond. Based on the analysis to date the RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position.

2. Operating segment information

The RHI Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenues from the sale or licensing of products or technology to third parties. Certain corporate activities that cannot be reasonably allocated to the other reportable business segments based on RHI's management and organizational structure are reported as 'Corporate'.

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
Six months ended June 30,	2013	2012	2013	2012	2013	2012	2013	2012
Revenues from external customers and related parties								
Sales	**8,492**	7,615	**1,512**	1,522	**-**	-	**10,004**	9,137
Royalties and other operating income	**2,179**	1,682	**161**	162	**-**	-	**2,340**	1,844
Total	**10,671**	9,297	**1,673**	1,684	**-**	-	**12,344**	10,981
Segment results								
Operating profit	**4,787**	3,069	**132**	(92)	**(38)**	(301)	**4,881**	2,676

Net operating assets *in millions of USD*

	Assets		Liabilities		Net assets	
	June 30 2013	December 31 2012	June 30 2013	December 31 2012	June 30 2013	December 31 2012
Pharmaceuticals	**11,709**	12,081	**(4,568)**	(5,708)	**7,141**	6,373
Diagnostics	**6,951**	6,998	**(829)**	(886)	**6,122**	6,112
Corporate	**27**	8	**(399)**	(299)	**(372)**	(291)
Total operating	**18,687**	19,087	**(5,796)**	(6,893)	**12,891**	12,194
Non-operating	**5,584**	9,397	**(40,919)**	(46,376)	**(35,335)**	(36,979)
RHI Group	**24,271**	28,484	**(46,715)**	(53,269)	**(22,444)**	(24,785)

As disclosed in Note 1, the non-operating net assets at December 31, 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheet is provided in Note 1.

3. Net financial expense

Financing costs *in millions of USD*

	Six months ended June 30,	
	2013	2012
Interest expense	**(496)**	(655)
Gains (losses) on redemption and repurchase of bonds and notes, net [10]	**(85)**	(43)
Interest cost of defined benefit plans	**(34)**	(42)
Other financing costs	**(16)**	(20)
Total financing costs	**(631)**	(760)

Other financial income (expense) *in millions of USD*

	Six months ended June 30,	
	2013	2012
Net income from equity securities	**24**	7
Net interest income and income from debt securities	**-**	-
Net foreign exchange gains (losses)	**69**	(47)
Net other financial income (expense)	**4**	(1)
Total other financial income (expense)	**97**	(41)

Net foreign exchange gains of $69 million (six months ended June 30, 2012: loss of $47 million) were largely offset by a net loss of $67 million (six months ended June 30, 2012: gain of $46 million) made mainly on foreign exchange forward contracts with related parties (see Note 13).

Interest expense decreased by $159 million mainly due to the lower level of debt with third parties following debt repayments during the six months ended June 30, 2013.

Net financial expense *in millions of USD*

	Six months ended June 30,	
	2013	2012
Financing costs	**(631)**	(760)
Other financial income (expense)	**97**	(41)
Net financial expense	**(534)**	(801)
Financial result from Treasury management	**(500)**	(755)
Financial result from Pension management	**(34)**	(46)
Net financial expense	**(534)**	(801)

As disclosed in Note 1, the net financial expense for the six months ended June 30, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net financial expense is provided in Note 1.

4. Income taxes

Income tax expense is recognized based upon management's best estimate of the weighted average income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended June 30, 2013.

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2013	2012
Current income taxes	**(1,480)**	(938)
Adjustments recognized for current tax of prior periods	**193**	-
Deferred income taxes	**31**	321
Total income tax (expense)	**(1,256)**	(617)

As disclosed in Note 1, the income tax expense for the six months ended June 30, 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income tax expense is provided in Note 1.

The RHI Group's effective tax rate for the six months ended June 30, 2013 decreased to 32.4% (six months ended June 30, 2012: 41.8%). The main reasons for the decrease were the non-deductible goodwill impairment in 2012 and the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 half year results include a whole year of tax credits in respect of 2012 as well as six months of tax credits for 2013. The increased income tax benefit on equity compensation plans, which was driven by the increase in the price of the underlying equity, also contributed to the decrease of the effective tax rate.

5. Business combinations

Future acquisitions – 2013

Constitution Medical Investors, Inc. On July 1, 2013 the RHI Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI will be reported in the Diagnostics operating segment. The purchase consideration is $220 million in cash and up to $255 million from a contingent consideration arrangement. The initial accounting for the transaction was not complete at the date these Interim Financial Statements were approved for issue by the Board of Directors on July 29, 2013 and therefore various disclosures, including the fair value of the net assets acquired, cannot be made.

Acquisitions – 2012

There were no acquisitions in the six months ended June 30, 2012.

6. Global restructuring plans

During the six months ended June 30, 2013 the RHI Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the reorganization of research and development in the Pharmaceuticals Division and programs to address the long-term profitability in the Diabetes Care and Applied Science businesses in Diagnostics.

Global restructuring plans: costs incurred *in millions of USD*

	Diagnostics [a]	Pharma R&D [b]	Other Plans [c]	**Total**
Six months ended June 30, 2013				
Global restructuring costs				
- Employee related costs	**8**	**28**	**11**	**47**
- Site closure costs	**3**	**-**	**1**	**4**
- Other reorganization expenses	**4**	**34**	**-**	**38**
Total global restructuring costs	**15**	**62**	**12**	**89**
Additional costs				
- Impairment of goodwill	**33**	**-**	**-**	**33**
- Impairment of intangible assets	**-**	**-**	**-**	**-**
- Legal and environmental costs	**-**	**-**	**-**	**-**
Total costs	**48**	**62**	**12**	**122**
Six months ended June 30, 2012				
Global restructuring costs				
- Employee related costs	13	150	62	225
- Site closure costs	10	394	57	461
- Other reorganization expenses	3	7	22	32
Total global restructuring costs	26	551	141	718
Additional costs				
- Impairment of goodwill	200	-	-	200
- Impairment of intangible assets	5	31	49	85
- Legal and environmental costs	-	259	-	259
Total costs	231	841	190	1,262

a) Includes restructuring of the Diabetes Care and former Applied Science business areas.

b) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.

c) Includes Operational Excellence (Pharmaceuticals and Diagnostics) and in 2012 Dalcetrapib (Pharmaceuticals).

Diagnostics Division – Diabetes Care and Applied Science restructuring

Various initiatives were announced in 2012 for the Diabetes Care and Applied Science businesses, which include increasing the efficiency of marketing and distribution operations and research and development activities. On April 23, 2013 it was announced that the Applied Science business area’s portfolio of products will be integrated within the other Diagnostics business areas. This will streamline decision-making and enhance technology flow from research use to the clinical setting.

During the six months ended June 30, 2013 total costs of $15 million (six months ended June 30, 2012: $26 million) were incurred related to employee termination and site closure costs. In addition, goodwill impairment charges of $33 million were incurred for the full write-off of the goodwill from the 454 Life Sciences acquisition in the former Applied Science business area. During the six months ended June 30, 2012 a goodwill impairment charge of $200 million was incurred for the full write-off of the goodwill from the NimbleGen acquisition and intangible asset impairment charges of $5 million were incurred.

Pharmaceutical Division -Research and Development reorganization

On June 26, 2012 the RHI Group announced a streamlining of the research and development activities within the Pharmaceuticals Division. The planned operational closure of the Nutley site in New Jersey, by the end of 2013 is on schedule. The first results of the environmental investigations are expected in early 2014.

During the six months ended June 30, 2013 total costs of $62 million were incurred, mainly for employee-related costs, property taxes and outside services. During the six months ended June 30, 2012 total costs of $551 million were incurred mainly for severance, other employee-related costs and property, plant and equipment impairments at the Nutley site. In addition there were environmental remediation costs at the Nutley site of $259 million and intangible asset impairment charges of $31 million as a result of portfolio prioritization decisions linked to the reorganization.

Other global restructuring plans

During the six months ended June 30, 2013 costs of $12 million (six months ended June 30, 2012: $137 million) were incurred for the previously announced Operational Excellence program, mainly for employee-related costs in the Pharmaceuticals Division. The six months ended June 30, 2012 also include $4 million of restructuring costs and intangible asset impairment charges of $49 million in respect to the termination of the dalcetrapib dal-OUTCOMES trial and all the studies in the dal-HEART program.

Global restructuring plans: summary of costs incurred *in millions of USD*

	Six months ended June 30,	
	2013	2012
Employee-related costs		
- Termination costs	**43**	306
- Pensions and other defined benefit plans	**-**	(89)
- Other employee-related costs	**4**	8
Total employee-related costs	**47**	225
Site closure costs		
- Impairment of property, plant and equipment	**3**	429
- Accelerated depreciation of property, plant and equipment	**1**	13
- (Gains) losses on disposal of property, plant and equipment	**-**	-
- Other site closure costs	**-**	19
Total site closure costs	**4**	461
Other reorganization expenses	**38**	32
Total global restructuring costs	**89**	718
Additional costs		
- Impairment of goodwill [7]	**33**	200
- Impairment of intangible assets	**-**	85
- Legal and environmental costs	**-**	259
Total costs	**122**	1,262

Global restructuring plans: classification of costs *in millions of USD*

	Six months ended June 30, 2013			Six months ended June 30, 2012		
	Depreciation, amortization and impairment	Other costs	Total	Depreciation, amortization and impairment	Other costs	Total
Cost of sales						
- Pharmaceuticals	**-**	**1**	**1**	6	4	10
- Diagnostics	**-**	**2**	**2**	7	4	11
Marketing and distribution						
- Pharmaceuticals	**-**	**-**	**-**	-	40	40
- Diagnostics	**-**	**4**	**4**	3	9	12
Research and development						
- Pharmaceuticals	**-**	**43**	**43**	195	159	354
- Diagnostics	**3**	**7**	**10**	2	3	5
General and administration						
- Pharmaceuticals	**-**	**26**	**26**	314	50	364
- Diagnostics	**33**	**2**	**35**	200	4	204
- Corporate	**-**	**1**	**1**	-	262	262
Total	**36**	**86**	**122**	727	535	1,262
Total by operating segment						
- Pharmaceuticals	**-**	**70**	**70**	515	253	768
- Diagnostics	**36**	**15**	**51**	212	20	232
- Corporate	**-**	**1**	**1**	-	262	262
Total	**36**	**86**	**122**	727	535	1,262

7. Goodwill

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

Cost	
At January 1, 2013	**5,758**
Business combinations [5]	**-**
Balance at June 30, 2013	**5,758**
Impairment losses	
At January 1, 2013	**(200)**
Impairment charge	**(33)**
Balance at June 30, 2013	**(233)**
Net book value	
At January 1, 2013	**5,558**
Balance at June 30, 2013	**5,525**
Allocation by operating segment	
- Roche Pharmaceuticals	**1,960**
- Diagnostics	**3,565**
Total Group	**5,525**

On April 23, 2013 the reorganization of the Applied Science business area was announced (see Note 6). A goodwill impairment charge of $33 million was incurred in the six months ended June 30, 2013 for the full write-off of the goodwill from the 454 Life Sciences acquisition in 2007 in the former Applied Science business area.

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Six months ended June 30, 2013					
At January 1, 2013	**1,253**	**1,306**	**-**	**27**	**2,586**
Business combinations [5]	**-**	**-**	**-**	**-**	**-**
Additions	**55**	**75**	**-**	**-**	**130**
Disposals	**(4)**	**-**	**-**	**-**	**(4)**
Transfers	**14**	**(14)**	**-**	**-**	**-**
Amortization charge	**(134)**	**-**	**-**	**(2)**	**(136)**
Impairment charge	**(20)**	**(219)**	**-**	**-**	**(239)**
At June 30, 2013	**1,164**	**1,148**	**-**	**25**	**2,337**
Allocation by operating segment					
- Pharmaceuticals	**503**	**632**	**-**	**23**	**1,158**
- Diagnostics	**661**	**516**	**-**	**2**	**1,179**
Total RHI Group	**1,164**	**1,148**	**-**	**25**	**2,337**

Intangible asset impairment charges – 2013

Pharmaceuticals Division: Impairment charges totaling $239 million were recorded which relate to:

- A portfolio reassessment within the hepatitis C virus (HCV) franchise ($215 million). The assets concerned, which were not yet being amortized, were written down to their recoverable value of $63 million.
- A decision to stop two projects in collaboration with alliance partners ($20 million). The assets concerned, which were being amortized, were fully written down; and
- A decision to stop development of one compound with an alliance partner ($4 million). The asset concerned, which was not yet being amortized, was fully written down.

Diagnostics Division: No impairment charges were recorded.

Intangible asset impairment charges – 2012

Pharmaceuticals Division: Impairment charges totaling $348 million were recorded which related to:

- A clinical data assessment of a project acquired as part of the Marcadia acquisition ($172 million);
- Various global restructuring initiatives ($80 million) mainly relating to the termination of dalcetrapib trials (see Note 6);
- Portfolio prioritization decision ($52 million) related to the return of the monoclonal antibody RG 7334 anti—PLGF MAb to the alliance partners;
- A clinical data assessment of a project in collaboration with an alliance partner ($30 million); and
- A decision to stop development of one compound with an alliance partner ($14 million).

Diagnostics Division: Impairment charges totaling $5 million were recorded.

9. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2013	December 31, 2012
Current portion	**1,619**	1,687
Non-current portion	**442**	462
Total provisions	**2,061**	2,149

In total $310 million of provision were utilised during the six months ended June 30, 2013 (six months ended June 30, 2012: $233 million), mainly related to the utilization of restructuring provisions.

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

Rituxan arbitration (Sanofi/Hoechst): In the arbitration between Hoechst GmbH and Genentech described in Note 23 to the Annual Financial Statements on February 25, 2013 the arbitrator issued a final decision and awarded damages to Hoechst (an affiliate of Sanofi). On May 10, 2013 the US Court of Appeals for the Federal Circuit affirmed the US District Court's decision denying Genentech's motion for an injunction to prevent Sanofi and Hoechst from pursuing the arbitration award. Subsequently, Hoechst initiated proceedings in the US, France and Germany seeking to enforce the arbitration award which proceedings are ongoing. At June 30, 2013 the RHI Group recorded a back royalty expense of $45 million, net of the assumed reimbursement of a portion of the RHI Group's obligation by its co-promotion partner in the US, and a corresponding amount in accrued liabilities. Genentech continues to appeal against the arbitrator's final decision and award of damages and to defend against the enforcement actions that Hoechst initiated.

There have been certain procedural developments in the other significant litigation matters described in Note 23 to the Annual Financial Statements. These do not significantly affect the assessment of the RHI Group's management concerning the adequacy of the total provisions recorded for legal matters.

10. Debt

Debt: movements in carrying value of recognized liabilities *in millions of USD*

Six months ended June 30, 2013	
At January 1, 2013	**39,316**
Proceeds from issue of bonds and notes	**-**
Redemption and repurchase of bonds and notes	**(6,136)**
Increase (decrease) in commercial paper	**2,064**
Increase (decrease) in amounts due to related parties	**-**
Increase (decrease) in other debt	**(8)**
(Gains) losses on redemption and repurchase of bonds and notes, net [3]	**85**
Amortization of debt discount	**10**
Foreign exchange (gains) losses, net	**(215)**
At June 30, 2013	**35,116**
Consisting of	
- Bonds and notes	**14,806**
- Commercial paper	**2,419**
- Amounts due to related parties	**17,680**
- Amounts due to banks and other financial institutions	**-**
- Finance lease obligations	**211**
Total debt	**35,116**
Reported as	
- Long-term debt	**28,147**
- Short-term debt	**6,969**
Total debt	**35,116**

Foreign currency transaction gains of $215 million are mainly related to the stronger US dollar compared to the euro and occurred in Roche Holdings, Inc., which is the issuer of most of the outstanding bonds and notes. These gains were recorded in the income statement, where they have been partially offset by losses on the hedging derivatives.

Currency swaps: The proceeds of all of the European Medium term Note program and all Swiss franc-denominated bonds were swapped into US dollars by entering into derivative contracts with related parties. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside of the RHI Group has entered with third party financial institutions. As a result, in these financial statements, the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

Issuance of bonds and notes – 2012 and 2013

The RHI Group did not issue any bonds or notes during the six months ended June 30, 2013 or the six months ended June 30, 2012.

Redemption and repurchase of bonds and notes – 2013

Redemption of euro-denominated notes: On the due date of March 4, 2013 RHI Group redeemed the 4.625% fixed rate notes with a principal of 3.313 billion euros. The cash outflow was $4,314 million, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 5.53%.

Redemption of US dollar-denominated notes. On December 20, 2012 the RHI Group resolved to exercise its option to call for redemption of the entire outstanding US dollar-denominated 5.0% fixed rate notes due March 1, 2014. On March 21, 2013 the RHI Group redeemed the remaining outstanding principal of $1.75 billion at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $1,822 million, plus accrued interest and there was an additional $1 million loss recorded on redemption. The effective interest rate of these notes was 4.85%.

Early partial redemption of US dollar-denominated notes in August 2013. On June 28, 2013 the RHI Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due March 1, 2019. The RHI Group will redeem an outstanding principal of $400 million on August 29, 2013 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker. A cash outflow of approximately $479 million, plus accrued interest, is expected on redemption. The RHI Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The increase in carrying value of $84 million is recorded within financing costs (see Note 3) as a loss on redemption. The effective interest rate of these notes is 6.37%.

Redemption and repurchase of bonds and notes – 2012

During the six months ended June 30, 2012 the RHI Group redeemed 2.2 billion Swiss francs ($2.4 billion) of bonds on their due date and completed a tender offer to repurchase 0.8 billion euros ($1.1 billion) of notes.

Cash outflows from redemption and repurchase of bonds and notes *in millions of USD*

	Six months ended June 30,	
	2013	2012
European Medium Term Note program euro-denominated notes	**(4,314)**	(1,074)
US dollar-denominated notes	**(1,822)**	-
Swiss franc-denominated bonds	**-**	(2,406)
Total	**(6,136)**	(3,480)

Interest rate hedging

During the six months ended June 30, 2013 the RHI Group entered into interest rate swap contracts for a combined notional principal of $2.0 billion. These swapped the fixed interest rate of 6.0% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 4.74%. The maturity of the swaps is 1 March 2019.

Commercial paper

Roche Holdings, Inc. commercial paper program: In March 2009 RHI established a commercial paper program under which it can issue up to $7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2013 unsecured commercial paper notes with a principal amount of $2.4 billion and an average interest rate of 0.12% were outstanding.

Movements in obligations under commercial paper programs *in millions of USD*

Six months ended June 30, 2013	
At January 1, 2013	**355**
Cash proceeds (payments), net	**2,064**
At June 30, 2013	**2,419**

Recognized liabilities due to related parties

The movements of the amounts due to related parties are shown in the table below:

Recognized liabilities due to related parties *in millions of USD*

Six months ended June 30, 2013	
At January 1, 2013	**17,680**
Cash inflows from related parties	**-**
Cash outflows to related parties	**-**
At June 30, 2013	**17,680**

Issues from related parties: Issues of new term notes from related parties are shown in the table below:

Cash inflows from related parties *in millions of USD*

	Six months ended June 30,	
	2013	2012
Term note 1.53% issued January 10, 2012	-	35
Term note 1.47% issued February 6, 2012	-	250
Term note 1.47% issued February 22, 2012	-	20
Term note 1.39% issued June 14, 2012	-	500
Total	-	805

Payments to related parties: Payments of term notes to related parties are shown in the table below:

Cash outflows to related party issues *in millions of USD*

	Six months ended June 30,	
	2013	2012
Term note 0.48% due January 10, 2012, principal $20 million	-	20
Total	-	20

11. Equity

RHI Group completed the purchase of the non-controlling interest in Genentech effective March 26, 2009. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced in the interim period of 2009 by $46.6 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interest. This accounting effect significantly impacts the RHI Group's net equity, but has no effect on the RHI Group's business. At the six months ended June 30, 2013 the RHI Group had a negative equity of $22.4 billion.

Share capital

At June 30, 2013 the share capital of Roche Holdings, Inc., which is the RHI Group's parent company, consisted of 1,000 shares with a nominal value of $1,000 each, as in the preceding year. All shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On December 20, 2012 the Board of Directors of RHI resolved to declare a dividend of $1 million per share to the RHI's sole stockholder, which has been paid in the first six months of 2013.

Own equity instruments

At June 30, 2013 the RHI Group holds none of its own equity shares.

Retained earnings

In addition to net income attributable to Roche shareholders of $2,617 million (six months ended June 30, 2012: $859 million) retained earnings also includes gains on remeasurements of defined benefit plans of $296 million, after tax (six months ended June 30, 2012: losses of $16 million). These were based on updated actuarial calculations for major plans and the gains were mainly due to an increase in the discount rate since the end of 2012.

12. Financial risk management

The RHI Group's financial risk management objectives and policies are consistent with those disclosed in Note 28 to the Annual Financial Statements.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2 – observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3 – unobservable inputs.

Fair value hierarchy of financial instruments at June 30, 2013 *in millions of USD*

	Level 1	Level 2	Level 3	Total
Financial assets recognized at fair value				
Marketable securities - shares	**362**	**-**	**-**	**362**
Derivative financial instruments – third and related parties	**-**	**208**	**-**	**208**
Available-for-sale investments	**-**	**29**	**-**	**29**
Total	**362**	**237**	**-**	**599**
Financial liabilities recognized at fair value				
Derivative financial instruments – third and related parties	**-**	**(205)**	**-**	**(205)**
Total	**-**	**(205)**	**-**	**(205)**

At June 30, 2013 Level 1 financial assets consist mainly of quoted shares. Level 2 financial assets consist primarily of derivative financial instruments and available-for-sale investments.

The RHI Group determines Level 2 fair values using the following valuation techniques:

- Marketable securities and derivative financial instruments are based on valuation models that use observable market data for interest rates, yield curves, foreign exchange rates and implied volatilities for similar instruments at the measurement date.
- Available-for-sale investments using a valuation model based on the most recently published financial data.

The RHI Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 and vice versa during the six months ended June 30, 2013.

Carrying value and fair value

At June 30, 2013 the carrying value of bonds and notes is $14.8 billion compared to a fair value of $17.7 billion and the carrying value of total capital market debt is $17.2 billion compared to a fair value of $20.1 billion. The carrying values of financial assets are a reasonable approximation of the fair values at June 30, 2013.

13. Related parties

Controlling shareholders

Roche Finance Ltd (Roche Finanz AG), a Swiss corporation, owns all of the issued and outstanding shares of Roche Holdings, Inc. Roche Finance Ltd is a wholly owned, direct subsidiary of Roche Holding Ltd, a public company in Switzerland.

As a member of the Roche Group, all of the RHI Group's related party transactions are with Roche Group affiliates. The transactions include purchases of inventory and other materials, sales of inventory and other materials, allocation of research and development costs under cost-sharing agreements and collaborations, allocation of marketing and distribution costs under cost-sharing agreements, allocation of other expenses attributable to the US business and the payment and receipt of royalties.

Related party transactions *in millions of USD*

	Six months ended June 30, 2013	2012
Sales	**697**	550
Royalty income	**1,104**	1,053
Contract revenue	**383**	46
Purchases of inventory and other materials	**(376)**	(343)
Reimbursements received under research and development cost sharing and collaboration agreements	**421**	320
Payments issued under research and development cost sharing and collaboration agreements	**(388)**	(165)
Other operating transactions, net	**-**	(2)
Financing costs – related parties		
Interest expense	**(346)**	(357)
Guarantee fees	**(64)**	(94)
Total	**(410)**	(451)
Other financial income (expense) – related parties		
Gains (losses) on foreign currency derivatives, net	**(67)**	46
Other financial income	**3**	6
Total	**(64)**	52

A net loss of $67 million (six months ended June 30, 2012: gain of $46 million) was mainly due to foreign exchange derivatives contracts with related parties that were entered to hedge the foreign currency transaction exposure arising from bonds and notes issued in euros, pound sterling and Swiss francs. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside of the RHI Group has entered with third party financial institutions.

Related party balances *in millions of USD*

	June 30, 2013	December 31, 2012
Accounts and loans receivable	**2,617**	6,743
Accounts and loans payable	**(20,252)**	(21,281)

The RHI Group deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited of $1.3 billion are immediately available and bear variable interest referenced to one month LIBOR.

14. Subsequent events

On July 10, 2013 the Roche Group announced that following the results of a regular safety review of the aleglitazar AleCardio phase III trial, the independent Data and Safety Monitoring Board (DSMB) has recommended to halt the trial due to safety signals and lack of efficacy. Based on this recommendation, the Roche Group has decided to terminate the AleCardio trial and all other trials involving aleglitazar. This termination had no impact on the RHI Group's overall results and financial position at June 30, 2013.

Review Report of the Independent Auditor

To the Board of Directors of
Roche Holdings, Inc., Wilmington, Delaware

Introduction

We have been engaged to review the accompanying consolidated condensed balance sheet of Roche Holdings, Inc., as at June 30, 2013 and the related consolidated statements of income and comprehensive income, condensed statement of cash flows and statement of changes in equity for the six-month period then ended, and selected explanatory notes (the interim consolidated financial statements) on pages 7 to 26. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements as at June 30, 2013 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

KPMG AG

Ian Starkey   François Rouiller

Basel, July 29, 2013