Roche Holdings, Inc.

Interim Financial Statements 2012

Roche Holdings, Inc. Interim Consolidated Financial Statements

Contents

Management Report

1. Review of the first six months ended June 30, 2012

Important events

In the first half of 2012, Roche Holdings, Inc. (RHI) Group showed sales growth in both divisions and achieved strong operating cash flow. While sales volume increases more than offset pricing pressure, a number of major restructuring initiatives and other one-time items resulted in a decrease in operating profit to $2.7 billion and in net income to $894 million.

During 2012 the RHI Group initiated a number of major restructuring plans to position the business for the future, notably in the Pharmaceuticals Division's research and development organization with the announcement of the closure of the Nutley site in New Jersey. This site will be closed by the end of 2013, with a reduction in the workforce of approximately 1,000 people. The research and development activities currently undertaken at Nutley will be consolidated at existing Roche Group sites in Switzerland and Germany and at the planned Translational Clinical Research Center in the US. Costs of $810 million were incurred during the interim period, based on initial estimates of the cost of this reorganization, including provisions for severance payments and other employee-related costs, net of estimated pension curtailment gains, impairments of property, plant and equipment at the Nutley site, as well as environmental costs estimated for remediation activities that may be needed before the Nutley site can be sold. In addition, impairment charges to intangible assets of $31 million were recorded as a result of portfolio prioritization decisions linked to this reorganization.

In Diagnostics, the division initiated major restructuring programs in the Applied Science and Diabetes Care business areas to address long-term profitability by focusing on fewer businesses and products and consolidating operations. These initiatives include streamlining the product portfolio and increasing the efficiency of marketing and distribution operations and research and development activities. In total, costs of $26 million were incurred in the first half of 2012, which relate to employee termination and site closure costs. In addition, goodwill impairment charges of $200 million were incurred for the full write-off of the goodwill from the 2007 NimbleGen acquisition, resulting from the decision to exit the microarray business as part of the reorganization of the Applied Science business area.

Financial performance

RHI Group Results

Sales increased by 5% to $9.1 billion as the underlying growth of both the Pharmaceuticals and Diagnostics Division compensated for the continued regulatory and price pressure. Sales in the Pharmaceuticals Division rose by 5% led by 8% growth in the oncology portfolio with half yearly sales of over $4.5 billion. The key growth drivers were Rituxan, Xeloda, Zelboraf, Herceptin, and Tarceva in oncology and Pegasys in virology. Diagnostics sales grew by 5%. The major growth areas were Professional Diagnostics and Tissue Diagnostics, however sales in Diabetes Care and Applied Science both declined.

Operating profit fell by 26%, with the Pharmaceuticals Division decreasing to $3.1 billion while Diagnostics showed operating losses of $92 million. The decline in operating profit was driven by various one-off costs from the global restructuring plans, such as site closures and impairments of property, plant and equipment and intangible assets as well as employee-related and environmental costs. Both divisions showed increases in marketing and distribution costs mainly in support of new product launches and as a result of field force restructuring in the Pharmaceuticals Division. The profitability in Pharmaceuticals benefited from a decrease in cost of sales from productivity improvements but was impacted by higher administration and research and development related to the Nutley site closure. In Diagnostics, profitability in the interim 2012 results was affected by the continued price pressure and impairment of goodwill resulting from the Applied Science restructuring initiative.

The combined cost of the restructuring activities, together with a number of other one-time items resulted in a decrease in net income of 39%, to $894 million.

Pharmaceuticals Division

Sales in the Pharmaceuticals Division increased by 5% to $7.6 billion. There was strong growth for Pegasys in virology and in the key oncology products, especially Rituxan, Xeloda, Herceptin, and Tarceva. The recently launched Zelboraf was also a significant growth contributor. These positive results were partly offset by the continued decline of Boniva due to generic erosion post-patent expiry, as well as the expected decline of Tamiflu.

Cost of sales decreased by 5% in comparison to the first six months of 2011, primarily as a result of lower manufacturing costs and royalty expense. As a percentage of sales, cost of sales declined to 29% (2011: 32%). Manufacturing cost of goods sold and period costs decreased by 2% mainly due to productivity improvements and decrease in start-up activities for product launches. Royalty expenses were 45% lower mainly driven by the 2011 back royalty expenses related to the Rituxan arbitration and lower royalty expenses related to sales of Boniva and Tamiflu. Expenses from collaboration and profit-sharing agreements increased by 18% mainly driven by higher co-promotion activities following higher sales of Rituxan, Tarceva and Xolair. Impairments of intangible assets were related to a project acquired as part of the Marcadia acquisition.

Marketing and distribution costs increased by 15%. Sales and marketing efforts focused on supporting continuing growth in the existing oncology portfolio as well as on the newly launched products Erivedge, Zelboraf and Perjeta. Costs were also incurred for the continued support of Actemra, Lucentis, and Pegasys. Restructuring costs of $40 million were recorded, primarily due to sales force restructuring initiatives.

Research and development costs increased by 32%, to $2.3 billion, with the increase being heavily influenced by restructuring and other one-time costs. There were increased investments in oncology and central nervous system, mostly due to increased phase II activities. These were partially offset by lower life cycle investments in metabolism mainly due to the transfer of dalcetrapib studies from US to Europe prior to the decision to stop further development activities on dalcetrapib. Impairment charges of intangible assets under research and development were $334 million. Details of these matters are given in Notes 8 to the Interim Financial Statements. Global restructuring costs include $119 million of employee-related costs and $79 million of property plant and equipment impairments related to the closure of the Nutley site.

General and administration costs increased by 45% to $605 million. The increase is mainly driven by restructuring costs for the Nutley site closure, mainly impairments of property, plant and equipment, whereas the 2011 results included net costs of $117 million for divestments of Boulder and Palo Alto. The release of the remaining provision for contingent consideration from the Marcadia acquisition resulted in a net income of $48 million for alliance and business combination costs.

In the interim period of 2012, operating profit decreased by 12% to $3.1 billion. This was driven primarily by the global restructuring programs costs.

Diagnostics Division

Sales in Diagnostics Division increased by 5% to $1.5 billion, consolidating its leading IVD market position. Major growth areas were Professional Diagnostics, which grew 14% to $476 million. Tissue Diagnostics showed growth of 11%, while Diabetes Care sales decreased by 6% and Applied Science by 3%.

In the interim period of 2012, Diagnostics showed operating losses of $92 million due mainly to the goodwill impairment charges of $200 million which resulted from the reorganization of the Applied Science business area.

Cost of sales increased by 9% primarily due to an increase in manufacturing cost of goods sold and period costs of 11%. Overall, the cost growth was above sales growth resulting in a higher cost of sales ratio of 65% (2011: 62%).

Marketing and distribution costs increase by 5% but as percentage of sales it remained stable, at 25%.

Research and development costs increased by 62% to $152 million. This was driven mainly by the lower income from related parties under research and development cost-sharing agreements and by the focused development of NewGen instrument in Molecular Diagnostics. As a percentage of sales, research and development costs increased to 10% from 6% in 2011.

General and administration costs increased mainly due to the goodwill impairment charges of $200 million as part of the reorganization of the Applied Science business area, as explained above.

Corporate operating results

Corporate administrations costs increased to $33 million as a result of the shift of certain functions from the Pharmaceuticals and Diagnostics Divisions to Corporate and increased informatics costs from various initiatives. Total corporate costs grew to $301 million due to increased environmental provisions of $259 million as an initial estimate of the remediation costs needed at the Nutley site prior to it being sold. Further details of these matters are given in Notes 6 and 9 to the Interim Financial Statements.

Treasury and taxation results

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. There were further debt repayments in 2012, namely redemptions on due date of Swiss franc-denominated notes and partial early redemptions of euro -denominated notes with a total cash outflow of $3.5 billion and a loss on early redemption of $51 million, including derivatives. Along with the bonds and notes issuances in 2009, the RHI Group entered into derivative contracts at that time 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 than in 2011 reflecting the continued repayment of the debt. Further disclosures are made in Notes 3, 10 and 12 to the Interim Financial Statements. In the interim period of 2012, the RHI Group's effective tax rate increased by 4.1 percentage points to 41.6%. The main reasons for the increase of the effective tax rate were the non-deductible goodwill impairment and the non-renewal of the U.S. research and development tax credit rules so far in 2012.

Net Income

Overall net income decreased by 39% to $894 million. This was primarily due to the restructuring costs and other one-off or non-recurring factors as well as negative tax rate impact from the non-deductible goodwill impairment, partially offset by lower financing costs resulting from continuous repayment of debt.

Cash flow

The cash flow from operating activities increased by $0.3 billion to $3.4 billion, or 37% of sales, in the first half of 2012 compared to the first half of 2011. This was mainly due to higher cash generated from operations and less cash outflows for the utilization of provisions related to the Operational Excellence program. It was partly offset by higher net working capital outflows caused mainly by the settlement of accruals and increased inventories. There were as well higher income tax payments which increased by $0.1 billion to $0.7 billion. The cash flow from investing activities decreased to a cash outflow of $0.3 billion from a cash inflow of $0.1 billion in 2011. This was mainly due to the non-recurrence of large disposals of property, plant and equipment last year and to higher investments in intangible assets this year. The cash outflow from financing activities of $3.1 billion was mainly due to the repayment of $3.5 billion of notes as well as $1.1 billion of interest payments for the debt issued, partly offset by an increase in related party debt.

Financial position

The decrease in total assets compared to the start of the year mainly results from the decrease in related party receivables and from the impairments of property, plant and equipment, intangible assets and goodwill coming from the major restructuring plans initiated in the interim period of 2012. The carrying value of debt, mainly from the financing of the Genentech transaction, was $39.6 billion compared to $42.7 billion at the end of 2011. The lower debt balance is mainly due to the redemption and repurchase of bonds and notes of $3.5 billion as explained above. This was partially offset as the related party borrowings increased by a net of $0.8 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 2012, the negative equity situation improved by $0.8 billion to minus $25.3 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 $20.9 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

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 Consolidated Financial Statements for the year ended December 31, 2011.

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 finance to other members of the RHI Group and to refinance this on the bond or loan markets.

The RHI Group's provisions and contingent liabilities are described in Note 23 to the Consolidated Financial Statements for the year ended December 31, 2011, and these are updated, where appropriate, in Note 9 to the Interim Financial Statements. In addition, 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 credit risk from three major U.S. wholesalers. As outlined above, the global restructuring programs announced in the interim period of 2012 further aim at facing proactively and effectively external pressures.

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 Financial Statements for the six months ended June 30, 2012.

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 23, 2012:

- the interim consolidated financial statements as at June 30, 2012, 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

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

	Six months ended June 30, 2012	2011
Sales [2]	**9,137**	8,706
Royalties and other operating income [2]	**1,844**	1,830
Cost of sales	**(3,225)**	(3,258)
Marketing and distribution	**(1,493)**	(1,333)
Research and development	**(2,418)**	(1,816)
General and administration	**(1,169)**	(491)
Operating profit [2]	**2,676**	3,638
Financial income [3]	**80**	(291)
Financial income – related parties [12]	**52**	446
Financing costs [3]	**(826)**	(1,003)
Financing costs – related parties [12]	**(451)**	(425)
Profit before taxes	**1,531**	2,365
Income taxes [4]	**(637)**	(888)
Net income	**894**	1,477

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

	Six months ended June 30, 2012	2011
Net income recognized in income statement	**894**	1,477
Other comprehensive income		
Available-for-sale investments	**21**	35
Cash flow hedges	**(27)**	(124)
Defined benefit post-employment plans	**(51)**	20
Other comprehensive income, net of tax	**(57)**	(69)
Total comprehensive income	**837**	1,408

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditors and their review report is presented on page 23.

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

	June 30, 2012	December 31, 2011
Non-current assets	**16,650**	17,568
Current assets	**9,236**	9,828
Total assets	**25,886**	27,396
Non-current liabilities	**(36,292)**	(41,230)
Current liabilities	**(14,849)**	(12,178)
Total liabilities	**(51,141)**	(53,408)
Total net assets / (liabilities)	**(25,255)**	(26,012)
Equity [11]		
Capital and reserves	**(25,255)**	(26,012)
Total equity	**(25,255)**	(26,012)

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

	Six months ended June 30, 2012	2011
Cash flows from operating activities, before income taxes paid	**4,090**	3,653
Income taxes paid	**(713)**	(576)
Cash flows from operating activities	**3,377**	3,077
Cash flows from investing activities	**(266)**	67
Cash flows from financing activities	**(3,086)**	(3,180)
Increase (decrease) in cash and cash equivalents	**25**	(36)
Cash and cash equivalents at beginning of period	**(106)**	(88)
Cash and cash equivalents at end of period [a)]	**(81)**	(124)

a) Cash overdrafts of $81 million (2011: $124 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, 2011					
At January 1, 2011	1	(28,185)	137	(99)	(28,146)
Net income recognized in income statement	-	1,477	-	-	1,477
Available-for-sale investments	-	-	35	-	35
Cash flow hedges	-	-	-	(124)	(124)
Defined benefit post-employment plans	-	20	-	-	20
Total comprehensive income	-	1,497	35	(124)	1,408
	-				
Dividends [11]	-	-	-	-	-
Equity compensation plans	-	(38)	-	-	(38)
At June 30, 2011	1	(26,726)	172	(223)	(26,776)
Six months ended June 30, 2012					
At January 1, 2012	**1**	**(26,084)**	**91**	**(20)**	**(26,012)**
Net income recognized in income statement	**-**	**894**	**-**	**-**	**894**
Available-for-sale investments	**-**	**-**	**21**	**-**	**21**
Cash flow hedges	**-**	**-**	**-**	**(27)**	**(27)**
Defined benefit post-employment plans	**-**	**(51)**	**-**	**-**	**(51)**
Total comprehensive income	**-**	**843**	**21**	**(27)**	**837**
Dividends [11]	**-**	**-**	**-**	**-**	**-**
Equity compensation plans	**-**	**(80)**	**-**	**-**	**(80)**
At June 30, 2012	**1**	**(25,321)**	**112**	**(47)**	**(25,255)**

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

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditors and their review report is presented on page 23.

1. Accounting policies

Basis of preparation of financial statements

These financial statements are the unaudited interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche 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, 2012 (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.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. They should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2011 (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 23, 2012.

The Interim Financial Statements have been prepared in accordance with the accounting policies and methods of computation set out in the Annual Financial Statements, except for the accounting policy changes described below made after the date of the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements, except where noted below. Where necessary, comparative information has been reclassified or expanded from the previously reported Interim Financial Statements to take into account any presentational changes made in the Annual Financial Statements or in these Interim Financial Statements.

The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgments 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.

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, 2012, the RHI Group had a negative equity of $25.3 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 $20.9 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 2012, the RHI Group generated an operating profit of $2.7 billion and a positive operating cash flow of $3.4 billion.

The RHI Group operates in industries where significant seasonal or cyclical variations in total sales are not experienced during the financial year. Income tax expense is recognized based upon the best estimate of the weighted average income tax rate expected for the full financial year.

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 revenue from the sale or licensing of products or technology to third parties. Residual operating activities from divested business and certain headquarter activities are reported as 'Corporate'.

Changes in accounting policies

Changes in IFRS implemented in 2012: The RHI Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position.

New and revised standards: The following new standards were issued by the International Accounting Standards Board (IASB). These should be implemented at the latest by 2013:

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

The RHI Group is currently assessing the potential impacts of these and other new and revised standards and interpretations that will be effective from January 1, 2013 and beyond, and which the RHI Group has not early adopted. Except as noted below, 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.

Amongst other matters, the revised version of IAS 19 'Employee Benefits' includes the following changes to the existing standard:

- Eliminating the option to defer the recognition of actuarial gains and losses from defined benefit post-employment plans, known as the 'corridor method'. The RHI Group does not currently 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 will henceforth be a requirement under the revised standard and therefore this change will have no impact on the RHI Group's financial statements.
- The current method of including the expected income from plan assets at an estimated asset return would be replaced by using the discount rate that is used to discount the defined benefit obligation. Based on an initial review the RHI Group estimates that, had this method been applied to the 2011 Annual Financial Statements, net financial income for that year would have been approximately $71 million lower than that published. Operating profit would not have been materially affected.

2. Operating segment information

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
Six months ended June 30,	2012	2011	2012	2011	2012	2011	2012	2011
Revenues from external customers and related parties	**9,297**	8,954	**1,684**	1,582	**-**	-	**10,981**	10,536
Segment results								
Operating profit	**3,069**	3,490	**(92)**	168	**(301)**	(20)	**2,676**	3,638
Impairment of net assets-held-for-sale	**-**	130	**-**	-	**-**	-	**-**	130

3. Financial income and financing costs

Financial income *in millions of USD*

	Six months ended June 30,	
	2012	2011
Net income from equity securities	**7**	72
Net interest income and income from debt securities	**-**	4
Expected return on plan assets of defined benefit plans	**117**	113
Net foreign exchange gains (losses)	**(47)**	(478)
Net other financial income (expense)	**3**	(2)
Total financial income	**80**	(291)

Net foreign exchange losses of $47 million (2011: $478 million) were largely offset by a net gain of $46 million (2011: $442 million) made mainly on foreign exchange forward contracts with related parties (see Note 12).

Financing costs *in millions of USD*

	Six months ended June 30,	
	2012	2011
Interest expense	**(655)**	(806)
Gains (losses) on redemption and repurchase of bonds and notes, net [10]	**(43)**	(65)
Interest cost of defined benefit plans	**(108)**	(109)
Other financing costs	**(20)**	(23)
Total financing costs	**(826)**	(1,003)

The decrease in interest expense of $151 million is due to both a lower balance of bonds and notes with third parties as well as due to foreign exchange rate impacts. Large parts of the bonds and notes issued by Roche Holdings, Inc., are denominated in euro and pound sterling. Interest expense is recorded at the exchange rate of these currencies against U.S. dollar on the day of payment. Due to a stronger U.S. dollar in 2012 compared to 2011, interest expenses in local currencies were translated into lower U.S. dollar amounts. The non-U.S. dollar bonds and notes are mostly hedged with currency swaps entered with related parties. The net interest result on the currency swaps during the interim period was an expense of $36 million (2011: income of $19 million), offsetting the lower interest expense with third parties. This net interest is included in 'financing costs – related parties' (see Note 12).

Net financial income *in millions of USD*

	Six months ended June 30,	
	2012	2011
Financial income	**80**	(291)
Financing costs	**(826)**	(1,003)
Net financial income	**(746)**	(1,294)
Financial result from Treasury management	**(755)**	(1,298)
Financial result from Pension management	**9**	4
Net financial income	**(746)**	(1,294)

4. Income taxes

Income tax expenses *in millions of USD*		
	Six months ended June 30,	
	2012	2011
Current income taxes	**(938)**	(965)
Adjustments recognized for current tax of prior periods	**-**	-
Deferred income taxes	**301**	77
Total income tax (expense) benefit	**(637)**	(888)

The RHI Group's effective tax rate increased by 4.1 percentage points to 41.6% in the first six months of 2012 (2011: 37.5%). The main reasons for the increase of the effective tax rate were the non-deductible goodwill impairment and the non-renewal of the U.S. research and development tax credit rules so far in 2012.

5. Business combinations

Acquisitions - 2012

There were no acquisitions in the interim period of 2012.

Illumina: As described in Note 5 to the RHI Annual Financial Statements, on January 25, 2012, Roche Group announced that it had made an offer to acquire all outstanding shares of Illumina for approximately $5.7 billion in cash. Subsequently, Roche increased its offer to approximately $6.7 billion. As Roche proposals have been rejected by the Illumina Board of Directors and shareholders, Roche Group announced that it would not extend the last offer, which then expired on April 20, 2012. Illumina is a publicly owned U.S. company listed on the NASDAQ under the symbol 'ILMN'.

Acquisitions - 2011

PVT Lab Systems, LLC: Effective April 29, 2011, the RHI Group acquired a 100% controlling interest in the privately owned company PVT Lab Systems, LLC based in Atlanta, Georgia in the United States. The total purchase consideration was $5 million, which was paid in cash. The transaction is fully described in Note 5 of the Annual Financial Statements.

Acquisitions – 2011: net cash outflow *in millions of USD*	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(4)	1	(3)

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from previous business combination arrangements. At June 30, 2012, the remaining Marcadia acquisition related provision of $48 million was released.

6. Global restructuring plans

During the interim period of 2012, RHI Group initiated several major global restructuring plans. The costs incurred for the various plans are summarized in the table below and details of the main elements of the plans are disclosed in the following text.

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

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

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

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

c) Includes Operational Excellence (Pharmaceuticals and Diagnostics), Dalcetrapib (Pharmaceuticals) and Global informatics (Pharmaceuticals).

Pharmaceutical Division -Research and Development reorganization

On June 26, 2012, RHI Group announced details of a restructuring plan to streamline the research and development activities within the Pharmaceuticals Division. As part of this plan, the US site in Nutley, New Jersey will be closed by the end of 2013, with a reduction in the workforce of approximately 1,000 people. The research and development activities currently undertaken at Nutley will be consolidated at existing sites in Switzerland and Germany, which will focus on oncology, virology, metabolism and neuroscience, and at the newly established Translational Clinical Research Center in the US. The resulting savings from the global site consolidation and related infrastructure cost, the bundling of support functions as well as shifts in the portfolio allow reallocation of resources to the growing number of clinical programs. RHI Group will continue research and development activities in the United States through its Genentech organization, which is based in South San Francisco and will not be affected by this reorganization. Research and development activities in the Diagnostics Division are also not affected.

During the interim period, costs of $551 million were incurred, based on initial estimates of the cost of the reorganization. Of this amount, $150 million were provisions for severance payments and other employee-related costs, net of estimated curtailment gains from pension and other post-employment benefit plans. An impairment charge of $394 million was recorded for property, plant and equipment at the Nutley site. This reduces the carrying value of the site to a preliminary estimate of the expected sales proceeds less costs of disposal. Other restructuring costs totaled $7 million.

In addition, environmental remediation costs of $259 million were recorded based on the initial estimates of the costs of additional remediation activities that may be needed before the Nutley site can be sold. An additional $31 million were expensed for the write-off of a previously acquired intangible asset as a result of portfolio prioritization decision (see Note 8).

Diagnostics Division –Applied Science and Diabetes Care restructuring

In the Diagnostics Division several global restructuring initiatives were announced in 2012. These are focused on the Applied Science and Diabetes Care business areas and include streamlining the product portfolio and increasing the efficiency of marketing and distribution operations and research and development activities. In total, costs of $26 million were incurred in the first half of 2012, which relate to employee termination and site closure costs. An additional $200 million was expensed for the impairment of goodwill (see Note 7) and $5 million for the write-off of previously acquired intangible assets (see Note 8).

Other global restructuring plans

On November 17, 2010, the Roche Group announced details concerning the Operational Excellence global restructuring plan. Full details of the plan are described in Note 7 to the Annual Financial Statements. During the interim period costs of $132 million were incurred mainly in the Pharmaceutical Division, for employee-related costs for sales force restructuring initiatives. Costs incurred in the interim period of 2011 mainly related to the closure of the US sites at Palo Alto, California and Boulder, Colorado.

In the second quarter of 2012, the Pharmaceuticals Division initiated a detailed review following the announcement of the results of the second interim analysis of the dalcetrapib dal-OUTCOMES Phase III trial and the subsequent termination of the dal-OUTCOMES trial and all the studies in the dal-HEART programme. Restructuring costs of $4 million were incurred, which consist of write-offs of property, plant and equipment. Additionally, $49 million were expensed for the write-off of previously acquired intangible assets (see Note 8).

In the first half of 2012, the Pharmaceuticals Division announced a reorganization of the global informatics function within the division. Restructuring costs of $5 million were incurred, which consisted of provisions for severance payments and other employee-related costs.

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

	Six months ended June 30, 2012	2011
Employee-related costs		
- Termination costs	**306**	25
- Pensions and other post-employment benefits	**(89)**	-
- Other employee-related costs	**8**	2
Total employee-related costs	**225**	27
Site closure costs		
- Impairment of property, plant and equipment	**429**	32
- Accelerated depreciation of property, plant and equipment	**13**	11
- (Gains) losses on disposal of property, plant and equipment	**-**	(49)
- Other site closure costs	**19**	3
Total site closure costs	**461**	(3)
Divestment of products and businesses		
- Impairment of net assets-held-for-sale	**-**	130
- (Gains) losses on divestment of businesses	**-**	-
Total costs on divestment of products and businesses	**-**	130
Other reorganization expenses	**32**	90
Total global restructuring costs	**718**	244
Additional costs		
- Impairment of goodwill[7]	**200**	-
- Impairment of intangible assets	**85**	-
- Legal and environmental costs[9]	**259**	-
Total costs	**1,262**	244

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

						Six months ended June 30,
			2012			2011
	Depreciation, amortization and impairment	Other costs	Total	Depreciation, amortization and impairment	Other costs	Total
Cost of sales						
- Pharmaceuticals	**6**	**4**	**10**	3	20	23
- Diagnostics	**7**	**4**	**11**	-	-	-
Marketing and distribution						
- Pharmaceuticals	**-**	**40**	**40**	-	4	4
- Diagnostics	**3**	**9**	**12**	-	-	-
Research and development						
- Pharmaceuticals	**195**	**159**	**354**	33	15	48
- Diagnostics	**2**	**3**	**5**	-	-	-
General and administration						
- Pharmaceuticals	**314**	**50**	**364**	137	29	166
- Diagnostics	**200**	**4**	**204**	-	3	3
- Corporate	**-**	**262**	**262**	-	-	
Total	**727**	**535**	**1,262**	173	71	244
Total by operating segment						
- Pharmaceuticals	**515**	**253**	**768**	173	68	241
- Diagnostics	**212**	**20**	**232**	-	3	3
- Corporate	**-**	**262**	**262**	-	-	-
Total	**727**	**535**	**1,262**	173	71	244

7. Goodwill

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

Six months ended June 30, 2012	
At January 1, 2012	**5,758**
Business combinations [5]	**-**
Impairment charge	**(200)**
At June 30, 2012	**5,558**

In the Diagnostics Division, several global restructuring initiatives were announced in 2012, as disclosed in Note 6. As part of the plan for streamlining the product portfolio in the Applied Science business, the division will exit the microarray business that was acquired in 2007 through the acquisition of NimbleGen.

This decision was considered a trigger to test goodwill for impairment and, moreover, consequent from this decision, the microarray business is no longer considered to be part of the Applied Science business area cash generating unit for assessing any impairment. Given the division's plans to fully exit the microarray business, the goodwill that arose from the NimbleGen acquisition was considered to be fully impaired and a charge of $200 million was recorded. The remaining goodwill in the Applied Science business area, which totals $33 million, is supported by the value in use of the ongoing business.

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, 2012					
At January 1, 2012	**1,432**	**1,733**	**3**	**7**	**3,175**
Business combinations [5]	**-**	**-**	**-**	**-**	**-**
Additions	**72**	**60**	**-**	**24**	**156**
Disposals	**(2)**	**(30)**	**-**	**-**	**(32)**
Transfers	**19**	**(19)**	**-**	**-**	**-**
Amortization charge	**(127)**	**-**	**(1)**	**(2)**	**(130)**
Impairment charge	**(19)**	**(334)**	**-**	**-**	**(353)**
At June 30, 2012	**1,375**	**1,410**	**2**	**29**	**2,816**
Allocation by operating segment					
- Pharmaceuticals	**548**	**894**	**-**	**26**	**1,468**
- Diagnostics	**827**	**516**	**2**	**3**	**1,348**
Total RHI Group	**1,375**	**1,410**	**2**	**29**	**2,816**

Impairment of intangible assets – 2012

Total impairment charges in the interim period were $353 million, of which $348 million were in the Pharmaceuticals operating segment and $5 million in the Diagnostics operating segment.

Pharmaceuticals Division: Impairment charges totaling $80 million arose from the various global restructuring initiatives disclosed in Note 6. Following the recent dalcetrapib trial results, impairment charges of $49 million were incurred in respect of previously acquired intangible assets. Additionally, impairment charges of $31 million were recorded following a portfolio prioritization decision as part of the reorganization of research and development in the Pharmaceuticals Division. The assets concerned, which were not yet being amortized, were fully written down.

Further impairment charges of $52 million were recorded following a portfolio prioritization decision by the Pharmaceuticals Division. This relates to a decision to return the global rights to the monoclonal antibody RG 7334 anti-PLGF MAb to the alliance partners. The assets concerned, which were not yet being amortized, were fully written off by these charges.

Impairment charges of $172 million were recorded, following the latest clinical data assessment of a project acquired as part of the Marcadia acquisition. The assets concerned, which were not yet being amortized, were written down to their recoverable value of $34 million.

Following recent clinical data, further impairment charges of $30 million were recorded in respect of a project in collaboration with an alliance partner. The assets concerned, which were not yet being amortized, were fully written off by these charges. In addition, impairment charges of $14 million were recorded, which relate to a decision to stop development of one compound with an alliance partner. The assets concerned, which were being amortized, were fully written off by these charges.

Diagnostics Division: Impairment charges of $5 million were recorded. The assets concerned, which had been partly amortized, were written down to their recoverable value of approximately $1 million.

9. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2012	December 31, 2011
Current portion	**1,682**	1,314
Non-current portion	**525**	406
Total provisions	**2,207**	1,720

Expenses for legal and environmental settlements during the interim period totaled $276 million (2011: income of $4 million). As disclosed above in Note 6, the restructuring plan to streamline the research and development activities within the Pharmaceuticals Division includes the closure of the US site in Nutley, New Jersey. Costs of $259 million were recorded based on the initial estimates of the costs of additional remediation activities that may be needed before the Nutley site can be sold. The remaining $17 million reflects recent developments in various legal and environmental matters.

Payments in the interim period from previously recorded provisions totaled $233 million (2011: $390 million).

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

Litigation: As described in Note 23 to the Annual Financial Statements, on May 11, 2010, Genentech filed a patent lawsuit against the University of Pennsylvania in the US District Court for the Northern District of California. The lawsuit relates to United States Patent No. 6,733,752 and seeks a declaratory judgment of patent non-infringement and invalidity with regard to that patent. On July 12, 2010, the University counterclaimed against Genentech for infringement of the '752 patent, seeking unspecified damages based on the sales of Herceptin. Genentech filed its answer on August 2, 2010. On May 9, 2011, the Court issued a claim construction order, construing certain terms used in claims of the '752 patent. On December 29, 2011, the University filed a motion for summary adjudication of certain facts. By order dated January 4, 2012, the Court set April 19, 2012 as the hearing date for that motion. Genentech filed its own motion for summary judgment of non-infringement and invalidity, which was also heard on April 19, 2012. The Court denied both motions by order dated May 14, 2012. On June 7, 2012, the parties entered into a binding term sheet to settle the litigation and the parties dismissed the case by stipulation.

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 proceedings.

10. Debt

Debt: movements in carrying value of recognized liabilities *in millions of USD*	
Six months ended June 30, 2012	
At January 1, 2012	**42,675**
Proceeds from issue of bonds and notes	**-**
Redemption and repurchase of bonds and notes	**(3,480)**
Increase (decrease) in commercial paper	**(86)**
Increase (decrease) in amounts due to related parties	**785**
Increase (decrease) in other debt	**(9)**
(Gains) losses on redemption and repurchase of bonds and notes, net [3]	**43**
Amortization of debt discount	**15**
Foreign exchange (gains) losses, net	**(322)**
At June 30, 2012	**39,621**
Consisting of	
- Bonds and notes	**21,405**
- Commercial paper	**1,001**
- Amounts due to related parties	**16,985**
- Amounts due to banks and other financial institutions	**-**
- Finance lease obligations	**230**
Total debt	**39,621**
Reported as	
- Long-term debt	**33,096**
- Short-term debt	**6,525**
Total debt	**39,621**

Foreign currency transaction gains of $322 million are mainly related to the stronger U.S. 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 offset by losses on the hedging derivatives.

Issuance of bonds and notes – 2012 and 2011

RHI Group did not issue any bonds or notes during the interim periods of 2012 and 2011.

Currency swaps: Subsequent to the debt issuances in 2009 to finance the Genentech transaction, the proceeds of all of the European Medium term Note programme and all Swiss franc-denominated bonds were swapped into U.S. 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 U.S. dollar-denominated bonds and notes.

Redemption and repurchase of bonds and notes – 2012

Redemption of Swiss franc-denominated notes: On the due date of March 23, 2012, RHI Group redeemed notes with a principal amount outstanding of 2,198 million Swiss francs at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 2.88%. The cash outflow was $2,406 million and there was no gain or loss recorded on the redemption.

Partial repurchase of euro-denominated notes: On March 23, 2012, RHI Group completed a tender offer for a nominal amount of 782 million euros of the 4.625% fixed rate notes due March 4, 2013 with a total principal amount outstanding of 4,288 million euros. The cash outflow was $1,074 million, plus accrued interest. The loss on repurchase of the notes was $43 million was included in financing cost (see Note 3). In addition, RHI Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created an additional loss of $8 million, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. This loss is recorded within financial income with related parties (see Note 12). The effective interest rate of the notes repurchased was 5.53%.

Redemption and repurchase of bonds and notes – 2011

Redemption of U.S. dollar-denominated notes: On the due date of February 25, 2011, RHI Group redeemed notes with a principal of $931 million at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these notes was 3 months LIBOR plus 2.10%. The cash outflow was $931 million and there was no gain or loss recorded on the redemption.

Partial early redemption of U.S. dollar-denominated notes: On December 28, 2010, RHI Group resolved to exercise its option to call for redemption of a portion of the U.S. dollar-denominated 5.00% fixed rate notes due March 1, 2014. RHI Group redeemed $1.0 billion of the total principal amount of $2.75 billion of these notes on March 24, 2011, at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $1,099 million, plus accrued interest. As at December 31, 2010, RHI Group had already revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flow. The increase in carrying value of $103 million was recorded within financing costs in 2010. An additional loss of $2 million was incurred in 2011 upon final settlement of the notes (see Note 3). The effective interest rate of these notes was 5.31%.

Partial repurchase of euro-denominated notes: On June 28, 2011, RHI Group completed a tender offer for a nominal amount of 962 million euros of the 4.625% fixed rate notes due March 4, 2013 with a total principal amount of 5.25 billion euros. The cash outflow was $1,433 million, plus accrued interest. The loss on repurchase of $63 million was recorded within financing costs (see Note 3). The effective interest rate of these notes was 5.53%.

In addition, RHI Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes. This created a loss of $33 million, reflecting the change in fair value of the hedging derivatives due to changes in interest rates. This loss is recorded within financial income with related parties (see Note 12).

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

	Six months ended June 30,	
	2012	2011
U.S. dollar-denominated notes	-	2,030
European Medium Term Note programme euro-denominated notes	**1,074**	1,433
Swiss franc-denominated bonds	**2,406**	-
Total	**3,480**	3,463

Commercial paper

Roche Holdings, Inc. commercial paper program: In March 2009, RHI Group 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. As at June 30, 2012, unsecured commercial paper notes with a principal amount of $1,001 million and an average interest rate of 0.14% were outstanding.

Movements in commercial paper programs *in millions of USD*

Six months ended June 30, 2012	
At January 1, 2012	**1,087**
Cash proceeds (payments), net	**(86)**
At June 30, 2012	**1,001**

Debt - related parties

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

Movements in debt - related parties *in millions of USD*

Six months ended June 30, 2012	
At January 1, 2012	**16,200**
Cash inflows from debt issued by related parties	**805**
Cash outflows from debt repayments to related parties	**(20)**
At June 30, 2012	**16,985**

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

Cash inflows from debt issues from related parties *in millions of USD*

	Six months ended June 30, 2012	2011
Term note 3.04% issued February 01, 2011	**-**	1,000
Term note 0.59% issued February 23, 2011	**-**	200
Term note 0.70% issued March 03, 2011	**-**	1,300
Term note 0.72% issued April 06, 2011	**-**	1,250
Term note 0.60% issued June 03, 2011	**-**	1,400
Term note 0.60% issued June 24, 2011	**-**	320
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**	5,470

Debt - repayments to related parties: Repayments of term notes to related parties are shown in the table below:

Cash outflows from repayment of related party debt *in millions of USD*

	Six months ended June 30, 2012	2011
Term note 0.83% due January 31, 2011, principal $20 million	**-**	20
Term note 0.59% due March 03, 2011, principal $600 million	**-**	600
Term note 0.59% due March 03, 2011, principal $200 million	**-**	200
Term note 0.60% due March 09, 2011, principal $1,750 million	**-**	1,750
Term note 0.83% due March 15, 2011, principal $45 million	**-**	45
Term note 0.70% due June 3, 2011, principal $1,300 million	**-**	1,300
Term note 0.96% due June 24, 2011, principal $420 million	**-**	420
Term note 0.48% due January 10, 2012, principal $20 million	**20**	-
Total	**20**	4,335

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 June 30, 2012, the RHI Group had a negative equity of $25.3 billion.

Share capital

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 has not changed during the interim period. All shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

There were no dividend payments in the interim period (2011: none).

Own equity instruments

RHI holds none of its own equity shares.

Retained earnings

In addition to net income attributable to Roche shareholders of $894 million (2011: $1,477 million) retained earnings also includes actuarial losses on defined benefit post-employment plans of $51 million, after tax (2011: gains of $20 million). These were based on updated actuarial calculations for major plans and arose from a fall in discount rates since the end of 2011.

12. 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 U.S. business and the payment and receipt of royalties.

Related party transactions *in millions of USD*

	Six months ended June 30,	
	2012	2011
Sales	**550**	610
Royalty income	**1,053**	1,104
Contract revenue	**46**	66
Purchases of inventory and other materials	**(343)**	(260)
Reimbursements received under research and development cost sharing and collaboration agreements	**320**	325
Payments issued under research and development cost sharing and collaboration agreements	**(165)**	(157)
Other operating transactions, net	**(2)**	(5)
Financial income – related parties		
Gains (losses) on foreign currency derivatives, net	**46**	442
Other financial income	**6**	4
Total financial income – related parties	**52**	446

A net gain of $54 million (2011: $475 million) was made on foreign exchange forward contracts with related parties that were entered to hedge some of the foreign currency transaction exposure arising from bonds and notes issued in 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. No hedge accounting was applied on those foreign exchange forward contracts. The net foreign exchange revaluation loss (2011: net loss) on the hedged bonds and notes are included in financial income (see Note 3).

In addition, the RHI Group terminated some of the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes (see Note 10). Upon repurchase of 782 million euros of notes following a tender offer, this created a loss of $8 million (2011: $33 million), reflecting the change in fair value of the hedging derivatives due to changes in interest rates.

Financing costs – related parties		
Interest expense	**(357)**	(313)
Guarantee fees	**(94)**	(112)
Total financing costs – related parties	**(451)**	(425)

The increase in interest expense with related parties of $44 million is mainly due to foreign exchange rate impacts on the interest expense on the related party currency swaps. Interest expense is recorded at the exchange rate of euro and pound sterling against U.S. dollar on the day of payment. Due to a stronger U.S. dollar in 2012 compared to 2011, interest expense with related parties includes a net interest expense of $36 million on the currency swaps (2011: income of $19 million). The higher interest expense with related parties is offsetting the lower interest expense with third parties (see Note 3).

Related party balances *in millions of USD*

	June 30, 2012	December 31, 2011
Accounts and loans receivable	**4,428**	5,659
Accounts and loans payable	**(19,228)**	(17,748)

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 $3.0 billion are immediately available and bear variable interest referenced to one month LIBOR.

13. Subsidiaries and associates

2012

Divestment of subsidiaries

There were no divestments of subsidiaries in the interim period of 2012.

2011

Divestment of subsidiaries

Effective May 31, 2011, the RHI Group sold its wholly owned subsidiary Roche Vitamins, Inc. (RVI) to a third party for $5 million in cash. As a result of the sale RVI is no longer part of the RHI Group. A gain of $5 million was recognized from this disposal and is included in general and administration expenses in the Corporate operating segment.

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, 2012 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 6 to 22. 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, 2012 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 23, 2012