



Roche Holdings, Inc.
Half-Year Report 2011

Roche Holdings, Inc. Interim Consolidated Financial Statements

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Management Report

1. Review of the first six months ended June 30, 2011

Important events

In the first half of 2011 the Roche Holdings, Inc. (RHI) Group achieved a solid underlying operating performance and a strong operating cash flow. While the Pharmaceuticals Division incurred further costs related to the Operational Excellence program announced in November 2010, impacting operating profit, the Diagnostics Division increased its operating results. Lower financing costs and lower income taxes compensated in part resulting in an overall decrease in net income of \$45 million to \$1.5 billion.

Sales increased by 1% to \$8.7 billion as the underlying growth of both the Pharmaceuticals and Diagnostics Division compensated for the continued regulatory and external pressure. The effect of the U.S. healthcare reforms on the Pharmaceuticals Division in the first half of 2011 was a reduction in sales of \$144 million, compared to \$122 million in the first half of 2010.

Operating costs, excluding restructuring expenses recorded in 2011, decreased primarily as a result of the Operational Excellence program announced in November 2010. The implementation of the program is on track. The respective restructuring measures led to initial charges of \$0.4 billion in the 2010 results. In the first half of 2011, additional restructuring costs of \$0.2 billion were incurred almost entirely in the Pharmaceuticals Division for site disposals and other reorganization costs. Effective June 13, 2011 the site at Palo Alto was divested for a net gain of \$49 million, while the imminent divestment of the site at Boulder, Colorado resulted in impairment charges of \$130 million. The RHI Group has announced that it will not divest the chemical production facility in Florence, South Carolina, given the unfavorable market for chemical production assets and the Roche Group's expected future capacity requirements for small molecules. Further disclosures are made in Note 6 to the Interim Financial Statements.

As previously described in the 2009 and 2010 financial statements, effective March 26, 2009 the RHI Group obtained full ownership of Genentech, Inc. and the related integration and restructuring activities were completed by the end of 2010. In the first half of 2011, the RHI Group continued to pay down the debt which had been issued to finance the Genentech transaction. A total of \$3.5 billion of bonds and notes were repaid, which includes the redemption on the due date in the first quarter of 2011 of the \$931 million floating rate notes, the early redemption of \$1.0 billion of fixed rate notes and the partial repurchase of nominal 962 million euros of the euro-denominated fixed rate notes originally due in 2013, which was completed on June 28, 2011.

Effective April 29, 2011 the Diagnostics Division acquired the U.S. company PVT Lab Systems, LLC based in Atlanta, Georgia, which provides customized automation and workflow solutions for in-vitro diagnostic testing in large commercial and hospital laboratories. The total purchase consideration of this acquisition was \$5 million. Further disclosures are made in Note 5 to the Interim Financial Statements.

Effective March 31, 2011 Dr Erich Hunziker, formerly Vice-Chairman of the Board of Directors of Roche Holdings, Inc., resigned from the Board. On April 1, 2011 the Board of Directors appointed Dr Alan Hippe to succeed Dr Hunziker as Vice-Chairman of the Board.

Presentational changes

As described in the Annual Financial Statements, during 2010 the RHI Group made certain presentational changes to the income statement. The term 'exceptional items' is no longer used in the financial statements. Therefore, the term 'Operating profit before exceptional items' is deleted and income and expenses previously shown separately as 'Major legal cases' and 'Changes in RHI Group organization' are included as part of 'General and administration'. Likewise 'Exceptional financing costs' are included as part of 'Financial income' or 'Financing costs', as appropriate and 'Income taxes on exceptional items' are included as part of 'Income taxes'. The income statement for the six-month period ended June 30, 2010 has been restated following the above changes as set out in the table presented in Note 1 to the Interim Financial Statements.

Financial performance

In the first half of 2011 the RHI Group's total sales increased by 1% to \$8.7 billion, with the Pharmaceuticals Division representing 83% of total sales and the Diagnostics Division contributing 17%. Sales in the Pharmaceuticals Division increased by 1% to \$7.2 billion. There was strong growth for Lucentis in ophthalmology and in the key oncology products, especially MabThera/Rituxan and Herceptin as well as Actemra/RoActemra in rheumatoid arthritis. These increased sales were partly offset by various factors. Sales of Avastin were lower due to the regulatory and reimbursement uncertainty regarding the metastatic breast cancer indication. In addition, sales of CellCept in transplantation continued to decline due to the generic erosion post-patent expiry. Furthermore, the U.S. healthcare reforms resulted in a reduction in sales of \$144 million through increased rebates on prescription drugs in the first half of 2011 compared to \$122 million in the first half of 2010. The Diagnostics Division sales increased by 3% to \$1.5 billion in the first half of 2011, with the major growth area being Professional Diagnostics.

The RHI Group's operating profit decreased by \$231 million to \$3.6 billion while revenues increased by 2% to \$10.5 billion. The decline in operating profit is driven by various one-off costs from the Operational Excellence program, such as site disposals and impairments of property, plant and equipment. In addition, in 2010 the RHI Group received a one-time reimbursement of \$286 million of marketing costs from related parties. Excluding these factors, the increase in profitability was driven by the Operational Excellence cost savings, further productivity improvements and resource prioritization. The Operational Excellence program led to a decline in research and development costs. Further efficiency improvements in general and administration costs were more than offset by \$89 million of expenses for the new Branded Pharmaceutical Product Fee, which is part of the U.S. healthcare reforms.

In the Pharmaceuticals Division the operating profit decreased by \$0.2 billion to \$3.5 billion, driven primarily by the Operational Excellence program costs. Other positive factors were higher income from royalties and out-licensing agreements, further productivity improvements and resource prioritization. Cost of sales increased in comparison to the first six months of 2010, as a result of unfavorable product mix effects and start-up activities for product launches, partially compensated by productivity improvements. Higher royalty expenses were driven by back royalty expenses related to the Rituxan arbitration (see Note 8 to the Interim Financial Statements), partially offset by lower royalty expenses related to sales of Avastin and Bonviva/Boniva. Expenses for collaboration and profit-sharing agreements were lower due to expected reimbursement of part of the costs for the above mentioned Rituxan arbitration. Marketing and distribution expenses increased as the reduction achieved through tight cost management and the savings from the Operational Excellence program did not fully compensate for the non-recurring marketing cost sharing reimbursements from related parties in the comparative period. Sales and marketing efforts focused on the oncology portfolio with the rollout of additional approved indications of Avastin and Herceptin and continued rollouts of Actemra/RoActemra in rheumatoid arthritis. Costs were also incurred for the continued support of Pegasys and Bonviva/Boniva. Research and development costs were further reduced by 4% due to resource prioritization and the savings from the Operational Excellence program. Research and development costs as a percentage of sales were 24% compared to 25% in the first six months of 2010. Increased investments in central nervous system (CNS) and virology were offset by lower life cycle investments in oncology, inflammation and metabolism. In addition, \$48 million of costs were recorded for Operational Excellence. General and administration costs in the Pharmaceuticals Division increased by 18%, mainly due to the new Branded Pharmaceutical Product Fee of \$89 million. In addition, costs for the Operational Excellence program were \$166 million, which primarily consisted of impairment charges of \$130 million for the imminent divestment of the site at Boulder and other site closure costs. These were in part compensated by a gain from the sale of the Palo Alto site of \$49 million. Total impairments of intangible assets recorded in the Pharmaceuticals Division were \$67 million versus \$31 million in the comparative period.

The operating profit of the Diagnostics Division increased by 11% to \$168 million. The operating profit margin improvement of 0.8 percentage points was driven primarily by higher sales while lower cost of sales resulted from previous cost reduction initiatives. These were compensated in part by higher marketing and distribution as well as research and development costs. Marketing and distribution costs increased reflecting costs for key product launches in the first half of 2011, while research and development costs increased driven by focused development in Tissue Diagnostics and Applied Science. There were lower favorable impacts from cost-sharing agreements with related parties compared to the first six months of 2010.

Overall this led to a decrease of the RHI Group's operating profit of 6% to \$3.6 billion compared to the same period of 2010.

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 newly issued debt is

senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group. Following repayments in both 2009 and 2010 there were further repayments in the first six months of 2011, namely the redemption on due date of the \$931 million floating rate notes and the early redemption of \$1.0 billion fixed rate notes. In addition, on June 28, 2011 the RHI Group completed a tender offer for a nominal amount of 962 million euros of the euro-denominated 4.625% fixed rate notes due March 4, 2013 with a total principal amount of 5.25 billion euros. The cash outflow for debt redemption was \$3.5 billion and the loss on early redemption was \$65 million. 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. Despite a lower balance of bonds and notes, interest expense slightly increased in the reporting period of 2011, which is due to foreign exchange rate impacts. At the same time, a \$102 million decrease in interest expense with related parties is due to the net interest result on the currency swaps and this offsets the foreign exchange rate impacts in financing cost with third parties. Further disclosures are made in Notes 3, 9 and 11 to the Interim Financial Statements. The RHI Group's effective tax rate decreased to 37.5% from 38.1% in the comparative period, mainly due to the U.S. research and development tax credit rules that were only enacted in the second half of 2010.

Overall net income decreased by 3% to \$1.5 billion. This decrease primarily results from restructuring costs and other one-off or non-recurring factors, while a solid underlying operating performance, lower financing costs and a lower tax rate were achieved.

The cash flow from operating activities increased by \$0.5 billion to \$3.1 billion in the first half of 2011 compared to the first half of 2010. This was mainly due to the non-recurrence of the large net working capital increases in 2010 caused by payments of certain large year-end 2009 accruals and lower income tax payments, which decreased by \$0.2 billion to \$0.6 billion. This positive effect was partly offset by cash outflows for the utilization of provisions related to the Operational Excellence program. The cash flow from investing activities increased to a cash inflow of \$0.1 billion from a cash outflow of \$0.2 billion in 2010. This was mainly due to lower investments in property, plant and equipment than in the comparative period and cash inflows from disposals, including the divestment of the site at Palo Alto. The cash outflow from financing activities of \$3.2 billion was mainly due to the repayment of \$3.5 billion of notes as well as \$1.3 billion of interest payments for the debt issued, partly offset by an increase in commercial paper and related party debt. In 2011, the total decrease in cash was \$36 million.

Financial position

The increase in total assets mainly results from an increase in related party receivables compared to December 31, 2010. This was partly offset by a decrease in property, plant and equipment due to the divestment of the Palo Alto site and impairment of the Boulder site. The carrying value of debt, mainly from the financing of the Genentech transaction, at June 30, 2011 was \$45.4 billion compared to \$45.2 billion at the end of 2010. As mentioned above, \$3.5 billion bonds and notes were redeemed, while the carrying value of the outstanding bonds denominated in Swiss francs, euros and pounds sterling, increased by \$1.5 billion due to the strengthening of these foreign currencies against the U.S. dollar. Furthermore commercial paper debt increased by \$0.9 billion and related party borrowings by a net of \$1.1 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 2011, the negative equity situation improved by \$1.4 billion to minus \$26.8 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 and notes with a carrying value of \$26.2 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 30 to the Consolidated Financial Statements for the year ended December 31, 2010.

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 24 to the Consolidated Financial Statements for the year ended December 31, 2010. 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. The effect of the U.S. healthcare reforms in the Pharmaceuticals Division in 2011 was \$144 million, reducing sales, and \$89 million for the newly imposed Branded Pharmaceutical Product Fee recorded in general and administration expenses. However, the developments are being closely monitored, including credit risk from three major U.S. wholesalers. As outlined above, the Operational Excellence program announced on November 17, 2010 is on track, which further aims 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, 2011.

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 20, 2011:

- the interim consolidated financial statements as at June 30, 2011, 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

Frank J. D'Angelo
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,	
	2011	2010
Sales ²	8,706	8,601
Royalties and other operating income ²	1,830	1,697
Cost of sales	(3,258)	(3,121)
Marketing and distribution	(1,333)	(1,084)
Research and development	(1,816)	(1,821)
General and administration	(491)	(403)
Operating profit ²	3,638	3,869
Associates	-	-
Financial income ³	(291)	465
Financial income – related parties ¹¹	446	(285)
Financing costs ³	(1,003)	(1,058)
Financing costs – related parties ¹¹	(425)	(533)
Profit before taxes	2,365	2,458
Income taxes ⁴	(888)	(936)
Net income	1,477	1,522

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

	Six months ended June 30,	
	2011	2010
Net income recognized in income statement	1,477	1,522
Other comprehensive income		
Available-for-sale investments	35	(41)
Cash flow hedges	(124)	(134)
Defined benefit post-employment plans	20	(35)
Other comprehensive income, net of tax	(69)	(210)
Total comprehensive income	1,408	1,312

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

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 26.

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

	June 30, 2011	December 31, 2010
Non-current assets	17,581	18,136
Current assets	10,434	8,984
Total assets	28,015	27,120
Non-current liabilities	(38,683)	(40,449)
Current liabilities	(16,108)	(14,817)
Total liabilities	(54,791)	(55,266)
Total net assets / (liabilities)	(26,776)	(28,146)
Equity ¹⁰		
Capital and reserves	(26,776)	(28,146)
Total equity	(26,776)	(28,146)

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

	Six months ended June 30,	
	2011	2010
Cash flows from operating activities, before income taxes paid	3,653	3,401
Income taxes paid	(576)	(823)
Cash flows from operating activities	3,077	2,578
Cash flows from investing activities	67	(224)
Cash flows from financing activities	(3,180)	(2,416)
Increase (decrease) in cash and cash equivalents	(36)	(62)
Cash and cash equivalents at beginning of period	(88)	10
Cash and cash equivalents at end of period ^{a)}	(124)	(52)

a) Cash overdrafts of \$124 million (2010: \$52 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, 2010					
At January 1, 2010	1	(30,449)	88	63	(30,297)
Net income recognized in income statement	-	1,522	-	-	1,522
Available-for-sale investments	-	-	(41)	-	(41)
Cash flow hedges	-	-	-	(134)	(134)
Defined benefit post-employment plans	-	(35)	-	-	(35)
Total comprehensive income	-	1,487	(41)	(134)	1,312
Dividends ¹⁰	-	-	-	-	-
Equity compensation plans	-	126	-	-	126
Other movements	-	(75)	53	22	-
At June 30, 2010	1	(28,911)	100	(49)	(28,859)
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 ¹⁰	-	-	-	-	-
Equity compensation plans	-	(38)	-	-	(38)
At June 30, 2011	1	(26,726)	172	(223)	(26,776)

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 26.

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

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

The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best 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 interests 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, 2011 the RHI Group had a negative equity of \$26.8 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 \$26.2 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 2011, the RHI Group generated an operating profit of \$3.6 billion and a positive operating cash flow of \$3.1 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. Certain headquarter activities are reported as 'Corporate'.

Changes in accounting policies

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

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

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

Restated consolidated income statement for the six months ended June 30, 2010 in millions of USD

	As originally published	Reclassifications	Restated
Sales	8,601	-	8,601
Royalties and other operating income	1,697	-	1,697
Cost of sales	(3,121)	-	(3,121)
Marketing and distribution	(1,084)	-	(1,084)
Research and development	(1,821)	-	(1,821)
General and administration	(212)	(191)	(403)
Changes in RHI Group organization	(191)	191	-
Operating profit	3,869	-	3,869
Associates	-	-	-
Financial income	465	-	465
Financing costs	(1,058)	-	(1,058)
Financial income – related parties	(285)	-	(285)
Financing costs – related parties	(533)	-	(533)
Exceptional financing costs	-	-	-
Profit before taxes	2,458	-	2,458
Income taxes	(1,009)	73	(936)
Income taxes on exceptional items	73	(73)	-
Net income	1,522	-	1,522

Other changes implemented in 2011: 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: During 2011 the following new standards were issued, which should be implemented at the latest by 2013:

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

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

2. Operating segment information

Divisional information *in millions of USD*

Six months ended June 30,	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenues from external customers and related parties	8,954	8,750	1,582	1,548	-	-	10,536	10,298
Segment results								
Operating profit	3,490	3,722	168	152	(20)	(5)	3,638	3,869
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,	
	2011	2010
Net income from equity securities	72	72
Net interest income and income from debt securities	4	-
Expected return on plan assets of defined benefit plans	113	104
Net foreign exchange gains (losses)	(478)	286
Net other financial income (expense)	(2)	3
Total financial income	(291)	465

Net foreign exchange losses of \$478 million (2010: gains of \$286 million) were largely offset by a net gain of \$442 million (2010: net loss of \$289 million) made on foreign exchange forward contracts with related parties (see Note 11). Of the net loss of \$36 million in the interim period, \$33 million relates to the loss on the interest rate component of the related party derivatives upon termination of the currency swaps that were used to hedge the foreign currency risk on the 962 million euro notes redeemed on 28 June (see note 9). The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside the RHI Group has entered with third party financial institutions.

Financing costs *in millions of USD*

	Six months ended June 30,	
	2011	2010
Interest expense	(806)	(786)
Gains (losses) on redemption and repurchase of bonds and notes, net ⁹	(65)	(133)
Interest cost of defined benefit plans	(109)	(111)
Other financing costs	(23)	(28)
Total financing costs	(1,003)	(1,058)

The increase in interest expense of \$20m, despite a lower balance of bonds and notes with third parties, is 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 weaker U.S. dollar in 2011 compared to 2010, lower interest expenses on local currencies were translated into higher 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 income of \$19 million (expense of \$83 million in the interim period 2010), offsetting the higher interest expense with third parties. This net interest is included in 'financing costs – related parties' (see note 11).

Net financial income *in millions of USD*

	Six months ended June 30,	
	2011	2010
Financial income	(291)	465
Financing costs	(1,003)	(1,058)
Net financial income	(1,294)	(593)
Financial result from Treasury management	(1,298)	(586)
Financial result from Pension management	4	(7)
Net financial income	(1,294)	(593)

4. Income taxes

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2011	2010
Current income taxes	(965)	(546)
Adjustments recognized for current tax of prior periods	-	2
Deferred income taxes	77	(392)
Total income tax (expense) benefit	(888)	(936)

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

The RHI Group's effective tax rate decreased by 0.6 percentage points to 37.5% in the first six months of 2011 (2010: 38.1%). The main reason for the decrease of the effective tax rate was the U.S. research and development tax credit rules, which were only enacted in the second half of 2010.

5. Business combinations

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. PVT Lab Systems, LLC provides customized automation and workflow solutions for in-vitro diagnostic testing in large commercial and hospital laboratories. PVT Lab Systems, LLC is now reported as part of the Diagnostics operating segment. The acquisition complements and strengthens the RHI Group's portfolio in the clinical diagnostics market. The total purchase consideration was \$5 million, of which \$4 million was cash and the remaining amount of \$1 million will be paid in the second half of 2011.

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

PVT Lab Systems, LLC acquisition - 2011: net assets acquired in millions of USD

	Carrying value prior to acquisition	Fair value adjustments	Carrying value upon acquisition
Intangible assets			
- Marketing intangibles	-	4	4
Inventories	3	-	3
Deferred income taxes	-	(2)	(2)
Cash	1	-	1
Other net assets (liabilities)	(2)	1	(1)
Net identifiable assets (liabilities)	2	3	5
Goodwill			-
Purchase consideration			5

The fair value of other net assets (liabilities) includes receivables with a fair value of \$2 million.

Acquisitions - 2011: impact on results in millions of USD

	Revenues from external customers	Inventory fair value adjustment	Amortization of intangible assets	Operating profit	Net income
Impact on reported results					
PVT Lab Systems, LLC	1	-	-	-	-
Estimated impact on results if acquisition assumed effective 1 January 2011					
PVT Lab Systems, LLC	5	-	(1)	2	1

Directly attributable transaction costs, directly attributable acquisition and integration costs were not material.

Acquisitions - 2011: net cash outflow in millions of USD

	Cash consideration paid	Cash in acquired company	Net cash outflow
Acquisitions	(4)	1	(3)

Acquisitions - 2010

There were no acquisitions in the first half of 2010.

The accounting for the Marcadia acquisition, which was provisional at the end of 2010, was finalized during the first half of 2011. There were no adjustments made in 2011 to the provisional acquisition accounting reported in Note 6 to the Annual Financial Statements.

6. Global restructuring plans

Operational Excellence

On November 17, 2010 the Roche Group announced details concerning the Operational Excellence global restructuring plan. The plan is aimed at adapting cost structures to an increasingly challenging market environment and achieving significant efficiency and productivity gains. The planned measures will enable sustained investment in research and product development and thus strengthen the Roche Group's long-term innovation capability. Full details of the plan are described in Note 7 to the Annual Financial Statements.

Effective June 13, 2011 the RHI Group completed the sale of the Palo Alto site to a third party. The consideration was \$225 million in cash, of which \$10 million will be paid in the second half of 2011 or early 2012. As a result a gain of \$49 million was recorded in the first half of 2011 within general and administration expenses. The closure or transfer of the research and development activities to other Roche sites from Palo Alto was completed by the end of 2010.

As at June 30, 2011 the RHI Group was in the final stages of negotiations with a potential buyer for the manufacturing site at Boulder, Colorado, and a sale was considered by management as being highly probable at that time. As of the date of approval of these financial statements, the transaction is expected to be completed during the third quarter of 2011. In the RHI Group's consolidated balance sheet at June 30, 2011, the net assets being sold at Boulder are considered a disposal group and they have been written down to their fair value less costs to sell. As a result an impairment charge of \$130 million was recorded in the results for the first half of 2011 within general and administration expenses, of which \$110 million relates to property, plant and equipment, and a majority of the residual to inventories. The consideration under discussion would consist of certain contingent consideration arrangements based on the future performance of the site. Taking into account the impairment and the contingent consideration arrangements in the transaction, the disposal group has been fully written down.

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

Operational Excellence: restructuring costs *in millions of USD*

	Six months ended June 30,	
	2011	2010
Employee-related costs		
- Termination costs	25	-
- Pensions and other post-employment benefits	-	-
- Other employee-related costs	2	-
Total employee-related costs	27	-
Site closure costs		
- Impairment of property, plant and equipment	32	-
- Accelerated depreciation of property, plant and equipment	11	-
- (Gains) losses on disposal of property, plant and equipment	(49)	-
- Environmental remediation costs	-	-
- Other site closure costs	3	-
Total site closure costs	(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	-
Impairment of intangible assets	-	-
Other reorganization expenses	90	-
Total	244	-

Classification of Operational Excellence restructuring costs *in millions of USD*

	Depreciation, amortization and impairment	Other costs	Total
Six months ended June 30, 2011			
Cost of sales			
- Pharmaceuticals	3	20	23
Marketing and distribution			
- Pharmaceuticals	-	4	4
Research and development			
- Pharmaceuticals	33	15	48
General and administration			
- Pharmaceuticals	137	29	166
- Diagnostics	-	3	3
Total	173	71	244
Total by operating segment			
- Pharmaceuticals	173	68	241
- Diagnostics	-	3	3
Total	173	71	244

Genentech transaction: restructuring and integration

On July 21, 2008 the Roche Group announced an offer to purchase all outstanding shares of Genentech. Following the closing of a transaction, Genentech's South San Francisco site would become the headquarters of the RHI Group's combined pharmaceuticals operations in the United States. On July 21, 2008 the Roche Group also announced that the Roche's pharmaceuticals business in the U.S. would close manufacturing operations at its site in Nutley, New Jersey, and commercial operations would be moved to Genentech. The research site at Palo Alto, California, would be closed with the research activities being transferred to Nutley and to Genentech. Subsequent to these announcements, initial restructuring activities started at the Nutley and Palo Alto sites in 2008. The Genentech transaction was completed effective March 26, 2009. Following this the Pharmaceuticals Division initiated a detailed integration program to align the Genentech business and the rest of Roche's pharmaceuticals business, as described in Note 7 to the Annual Financial Statements. These restructuring activities were completed by the end of 2010.

Genentech transaction: restructuring and integration costs *in millions of USD*

	Six months ended June 30,	
	2011	2010
Employee-related costs		
- Termination costs	-	29
- Other retention plans and other employee benefits	-	5
- Other employee-related costs	-	44
Total employee-related costs	-	78
Site closure costs		
- Impairment of property, plant and equipment	-	1
- Accelerated depreciation of property, plant and equipment	-	25
- Other site closure costs	-	9
Total site closure costs	-	35
Other reorganization expenses	-	78
Total reported in General and administration expense	-	191

7. Goodwill

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

Six months ended June 30, 2011

At January 1, 2011	5,730
Business combinations ⁵	-
Impairment charge	-
At June 30, 2011	5,730

There are no accumulated impairment losses in goodwill.

8. Provisions and contingent liabilities

<i>Provisions in millions of USD</i>		
	June 30, 2011	December 31, 2010
Current portion	1,361	1,580
Non-current portion	432	388
Total provisions	1,793	1,968

Payments in the interim period from previously recorded provisions totaled \$390 million (2010: \$267 million).

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.

Litigation: As described in Note 24 to the Annual Financial Statements, on October 27, 2008 Genentech and Biogen Idec Inc. filed a complaint against Sanofi-Aventis Deutschland GmbH ('Sanofi'), Sanofi-Aventis U.S. LLC and Sanofi-Aventis U.S. Inc. in the Northern District of California seeking a declaratory judgment that certain Genentech products, including Rituxan, do not infringe Sanofi's U.S. Patents 5,849,522 and 6,218,140 and a declaratory judgment that the '522 and '140 patents are invalid. Also on October 27, 2008 Sanofi filed suit against Genentech and Biogen Idec in the Eastern District of Texas, Lufkin Division, claiming that Rituxan and at least eight other Genentech products infringe the '522 and '140 patents. Sanofi brought claims for preliminary and permanent injunctions, compensatory and exemplary damages, and other relief. Genentech challenged the venue of the Texas case and, after an opinion by the Federal Circuit Court of Appeals, the Texas and California cases were consolidated in the Northern District of California. The District Court issued a claim construction order on June 23, 2010. Sanofi filed a motion for reconsideration that was denied. Genentech and Biogen Idec filed motions for summary judgment that Sanofi opposed. The Court heard these motions on November 12, 2010, and on March 7, 2011 ruled that as a matter of law Genentech and Biogen Idec do not infringe any of the asserted patent claims. On May 18, 2011 Sanofi filed a notice of appeal of the Court's non-infringement rulings and its claim construction order. The appeal is pending.

In addition on October 24, 2008 Hoechst GmbH filed with the ICC International Court of Arbitration (Paris) a request for arbitration with Genentech, relating to a terminated agreement between one of Hoechst's predecessors and Genentech that pertained to the above patents and related patents outside the United States. Hoechst is seeking payments on royalties on sales of Genentech products, damages for breach of contract, and other relief. The ICC arbitration hearing was held on August 30, 2010 through September 3, 2010. In June 2011, the arbitrator issued an intermediate decision indicating that Rituxan is covered by the terminated agreement and ordering that Genentech produce certain Rituxan sales information from December 1998 to October 2008. The RHI Group expects the arbitrator will use this information to ascertain the amount of damages to be awarded to Hoechst. The RHI Group has recorded an expense of \$72 million in the interim results, net of the assumed reimbursement of a portion of the RHI Group's obligation by its co-promotion partner in the U.S., Biogen Idec. This has been recorded within 'Cost of sales' as a back royalty expense and as a corresponding increase in accrued liabilities on the balance sheet. The amount accrued represent management's best estimate of the compensatory damages, including interest, which may be awarded to Hoechst based on the financial terms of the terminated agreement. The final amount of the decision may vary from the amounts provided at June 30, 2011 if the nature and/or extent of the damages awarded to Hoechst differ from the RHI Group's estimate or if Genentech successfully challenges the arbitrator's decision. On July 11, 2011 Genentech filed a Declaration of Appeal with the Court of Appeal of Paris to initiate legal proceedings challenging the arbitrator's decision.

There have been certain procedural developments in the other significant litigation matters described in Note 24 to the Annual Financial Statements. However these do not significantly affect the assessment of the RHI Group's management concerning the adequacy of the total provisions recorded for legal proceedings.

9. Debt

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

Six months ended June 30, 2011

At January 1, 2011	45,212
Proceeds from issue of bonds and notes	-
Redemption and repurchase of bonds and notes	(3,463)
Increase (decrease) in commercial paper	933
Increase (decrease) in amounts due to related parties	1,135
Increase (decrease) in other debt	(7)
(Gains) losses on redemption and repurchase of bonds and notes, net ³	65
Amortization of debt discount	18
Foreign exchange (gains) losses, net	1,509
At June 30, 2011	45,402

Consisting of

- Bonds and notes	27,696
- Commercial paper	1,110
- Amounts due to related parties	16,350
- Amounts due to banks and other financial institutions	-
- Finance lease obligations	246

Total debt 45,402

Reported as

- Long-term debt	36,029
- Short-term debt	9,373

Total debt 45,402

Foreign currency losses of \$1.5 billion are related to the weaker U.S. dollar compared to euro, Swiss franc and pound sterling and occurred in Roche Holdings, Inc., which is the issuer of most of the outstanding bonds and notes. These losses were recorded in the income statement, where they have been offset by gains on the hedging derivatives.

Issuance of bonds and notes – 2011 and 2010

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

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 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 – 2011

Redemption of U.S. dollar-denominated notes: On the due date of February 25, 2011 the 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 the RHI Group resolved to exercise its option to call for redemption a portion of the U.S. dollar-denominated 5.00% fixed rate notes due March 1, 2014. The 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 the 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 the 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 the 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 11).

Redemption and repurchase of bonds and notes - 2010

Redemption of U.S. dollar-denominated notes: On the due date of February 25, 2010 the RHI Group redeemed notes with a principal of \$3 billion at the original issue amount plus accrued original issue discount ("OID"). The effective interest rate of these notes was 3 months LIBOR plus 1.13%. The cash outflow was \$3 billion and there was no gain or loss recorded on the redemption.

Redemption of euro-denominated notes: On the due date of March 4, 2010 the RHI Group redeemed notes with a principal of 1.5 billion euros at the original issue amount plus accrued original issue discount ("OID"). The effective interest rate of these notes was 3 months EURIBOR plus 1.05% (plus 0.92% including hedging). The cash outflow was \$2,055 million and there was no gain or loss recorded on the redemption.

Early redemption of U.S. dollar-denominated notes: On June 29, 2010 the RHI Group resolved to exercise its option to call for redemption the U.S. dollar-denominated 4.50% fixed rate notes due March 1, 2012 with a principal of \$2.5 billion. The RHI Group redeemed these notes on September 9, 2010. In the interim period of 2010 the RHI Group revised the carrying value of these notes to take into account the expected changes to the amounts and timings of the estimated cash flows and an increase in carrying value of \$133 million was recorded within financing costs (see Note 3) as a loss on redemption. An additional \$8 million was recorded within financing costs in the second half of 2010 based on the final calculations at the date of redemption.

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

	Six months ended June 30,	
	2011	2010
U.S. dollar-denominated notes	2,030	3,000
European Medium Term Note programme euro-denominated notes	1,433	2,055
Total	3,463	5,055

Commercial paper

Roche Holdings, Inc. commercial paper program: In March 2009 the 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. Committed credit lines of 2.5 billion euro and \$950 million are available as back-stop lines. Maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2011 unsecured commercial paper notes with a principal of \$1,110 million and an average interest rate of 0.13% were outstanding.

Movements in commercial paper programs in millions of USD

Six months ended June 30, 2011	
At January 1, 2011	177
Cash proceeds (payments), net	933
At June 30, 2011	1,110

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, 2011

At January 1, 2011	15,215
Cash inflows from debt issued by related parties	5,470
Cash outflows from debt repayments to related parties	(4,335)
At June 30, 2011	16,350

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,	
	2011	2010
Term note 0.94% issued February 25, 2010	-	500
Term note 5.79% issued February 25, 2010	-	1,500
Term note 0.83% issued March 04, 2010	-	1,000
Term note 0.83% issued March 15, 2010	-	100
Term note 0.83% issued March 15, 2010	-	20
Term note 0.83% issued March 15, 2010	-	45
Term note 0.87% issued April 29, 2010	-	500
Term note 0.96% issued June 25, 2010	-	420
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	-
Total	5,470	4,085

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,	
	2011	2010
Term note 2.25% due March 15, 2010, principal \$22 million	-	22
Term note 2.25% due March 15, 2010, principal \$10 million	-	10
Term note 2.25% due March 15, 2010, principal \$78 million	-	78
Term note 6.40% due June 25, 2010, principal \$525 million	-	525
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	-
Total	4,335	635

10. Equity

The RHI Group completed the purchase of the non-controlling interests 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 interests. This accounting effect significantly impacts the RHI Group's net equity, but has no effect on the RHI Group's business. At June 30, 2011 the RHI Group had a negative equity of \$26.8 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 the shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

There were no dividend payments in the interim period (2010: none).

Own equity instruments

RHI holds none of its own equity shares.

11. 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,	
	2011	2010
Sales	610	677
Royalty income	1,104	957
Contract revenue	66	65
Purchases of inventory and other materials	(260)	(388)
Reimbursements received under marketing and distribution cost sharing agreements	-	286
Reimbursements received under research and development cost sharing and collaboration agreements	325	448
Payments issued under research and development cost sharing and collaboration agreements	(157)	(263)
Other operating transactions, net	(5)	(7)
Financial income – related parties		
Gains (losses) on foreign currency derivatives, net	442	(289)
Other financial income	4	4
Total financial income – related parties	446	(285)

A net gain of \$475 million (2010: net loss of \$289 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 euro and Swiss francs. The related party derivatives mirror exactly the terms of derivative contracts that a Roche Group affiliate outside 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 (2010: net gain) on the hedged bonds and notes are included in financial income (see Note 3).

In addition the RHI Group terminated the currency swaps that were used to hedge the foreign currency risk on the euro-denominated notes (see Note 9). This created a loss of \$33 million, reflecting the change in fair value of the hedging derivatives due to changes in interest rates.

Financing costs – related parties

Interest expense	(313)	(405)
Guarantee fees	(112)	(128)
Total financing costs – related parties	(425)	(533)

The decrease in interest expense with related parties of \$92 million, despite a higher balance of borrowings with related parties, is mainly due to foreign exchange rate impacts on the 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 weaker U.S. dollar in 2011 compared to 2010, interest expense with related parties includes a net interest income of \$19 million on the currency swaps (expense of \$83 million in the interim period 2010). This better interest result with related parties is offsetting the higher interest expense with third parties (see note 3).

Related party balances *in millions of USD*

	June 30, 2011	December 31, 2010
Accounts and loans receivable	6,480	5,199
Accounts and loans payable	(17,431)	(16,293)

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 \$3.9 billion are immediately available and bear variable interest referenced to one month LIBOR.

Key management personnel

Change in Board of Directors of Roche Holdings, Inc.: Effective March 31, 2011 Dr Erich Hunziker, formerly Vice-Chairman of the Board of Directors of Roche Holdings, Inc., resigned from the Board. On April 1, 2011 the Board of Directors appointed Dr Alan Hippe to succeed Dr Hunziker as Vice-Chairman of the Board.

12. Subsidiaries and associates

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.

2010

Effective January 1, 2010 the Company's wholly-owned subsidiary, Roche Finance USA Inc., was merged into the Company, with the Company being the surviving entity. All the assets and liabilities of Roche Finance USA were assumed by the Company.

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, 2011 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 25. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

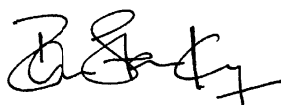
Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements as at June 30, 2011 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG AG



Ian Starkey



François Rouiller

Basel, July 20, 2011