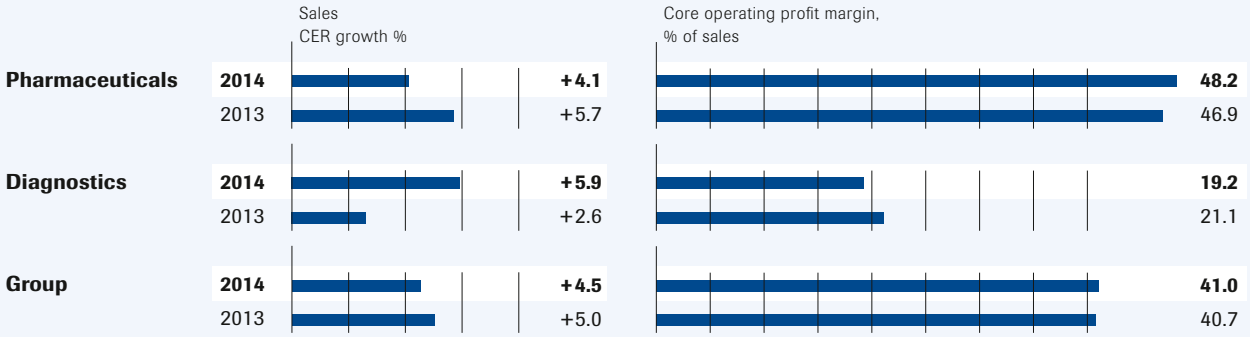
Half-Year Report

2014

Finance in brief

Key interim results



	Six months ended 30 June 2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)	% of sales 2014	% of sales 2013
IFRS results						
Sales	22,974	23,295	–1	+5		
Operating profit	8,152	8,594	–5	+3	35.5	36.9
Net income	5,641	6,047	–7	+2	24.6	26.0
Net income attributable to Roche shareholders	5,533	5,941	–7	+2	24.1	25.5
EPS (CHF) – Diluted	6.41	6.88	–7	+1		
Core results						
Research and development	4,204	4,143	+1	+5	18.3	17.8
Core operating profit	9,410	9,488	–1	+7	41.0	40.7
Core EPS (CHF) – Diluted	7.57	7.58	0	+7		
Free cash flow						
Operating free cash flow	7,869	7,445	+6	+11	34.3	32.0
Free cash flow	(1,026)	(1,392)	–26	–41		

	30 June 2014 (mCHF)	31 December 2013 (mCHF)	% change (CHF)	% change (CER)
Net debt	(8,785)	(6,708)	+31	+30
Capitalisation	38,548	39,884	–3	–4
– Debt	19,064	18,643	+2	+2
– Equity	19,484	21,241	–8	–9

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconsolidating both the 2014 and 2013 results at constant exchange rates (the average rates for the year ended 31 December 2013).

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows a transparent assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 75–78 and reconciliations between the IFRS and Core results are given there.

2014

HALF-YEAR HIGHLIGHTS

Group sales up 5% at constant exchange rates[1], –1% in Swiss francs

Core earnings per share up 7% at constant exchange rates, 0% in Swiss francs

Cancer medicine sales growing well; in particular HER2 breast cancer medicines, Herceptin, Perjeta and Kadcyla

Diagnostics Division showing good growth, especially in the Professional Diagnostics business

FDA Breakthrough Therapy Designation for cancer immunotherapy candidate anti-PDL1

Panel recommends EU approval for Gazyvaro to treat chronic lymphocytic leukemia

Full-year outlook confirmed

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BUSINESS REVIEW

Business Review

Group Results

Key figures January–June 2014

	In millions of CHF		% changes	
	2014	2013	CER[1]	CHF
Group sales	22,974	23,295	+5	–1
— Pharmaceuticals Division	17,834	18,162	+4	–2
— Diagnostics Division	5,140	5,133	+6	0
Core operating profit	9,410	9,488	+7	–1
Operating free cash flow	7,869	7,445	+11	+6
IFRS net income[2]	5,641	6,047	+2	–7
Core earnings per share — diluted	7.57	7.58	+7	0

1 Unless otherwise stated, all growth rates in this document are in constant exchange rates CER (average full-year 2013).
2 IFRS: International Financial Reporting Standards.

Higher sales in both divisions

Group sales rose to 22,974 million Swiss francs (+5%) with strong growth from HER2-positive breast cancer medicines, Herceptin, Perjeta and Kadcyla; other oncology medicines Avastin and MabThera/Rituxan; and Actemra/RoActemra for rheumatoid arthritis. Sales of Xeloda, a chemotherapy drug which is no longer patent-protected, were lower as a result of generic competition in a number of markets. In Diagnostics, demand for Professional Diagnostics' products for clinical laboratories remained strong, whilst Diabetes Care sales were unchanged.

Reported sales in Swiss francs were 1 percent lower than the first half of 2013, as the US dollar, along with a number of Latin American currencies and the Japanese yen, have weakened against the Swiss franc.

Core operating profit and cash flow increased

Group core operating profit increased 7% in the first half as a result of the strong operating performance, as well as cost containment in both divisions. Core earnings per share also increased by 7% to 7.57 Swiss francs. Operating free cash flow was 7,869 million Swiss francs, up 11% in the first half. Cash generation in both divisions was strong, despite the increase in net working capital and capital investments in site development and manufacturing expansion. Net working capital was higher as a result of increased inventory levels to ensure supply to patients. IFRS net income, which included impairment charges of 414 million Swiss francs related to intangible assets in Tissue Diagnostics, was 5,641 million Swiss francs, an increase of 2% at constant exchange rates over the first half of 2013.

Significant pipeline progress

The pipeline currently has 66 new molecular entities in clinical development, of which 12 are in late-stage development.

Using the immune system to fight cancer

At the 50th American Society of Clinical Oncology meeting in June, Roche presented data on 27 different medicines, most notably the results of a Phase I study that showed that the investigational cancer immunotherapy, anti-PDL1, shrank tumours in advanced bladder cancer. Immunotherapy is a new approach to fighting cancer, which works by overcoming certain mechanisms that interfere with the body's ability to destroy tumour cells. This type of treatment could transform the way cancer is treated. This medicine has now been granted Breakthrough Therapy Designation by the FDA. Anti-PDL1 moved into Phase III for lung cancer earlier in the year and a broad programme of development in a number of other indications and combinations is ongoing.

Developing existing medicines

There were approvals for new formulations of two key medicines during the first half, with both the subcutaneous formulations of MabThera/Rituxan for blood cancer and Actemra/RoActemra for rheumatoid arthritis approved in the EU.

The EU's committee on medicinal products (CHMP) also recommended that Gazyvaro (known as Gazyva outside the EU), be approved for the treatment of chronic lymphocytic leukemia and Avastin be approved for platinum-resistant recurrent ovarian cancer. In the United States, the FDA has given Avastin filings priority review in treatment for cervical cancer, as well as platinum-resistant ovarian cancer. The FDA has also approved a new indication for Xolair, which can now be used to treat chronic idiopathic urticaria, a form of chronic skin hives. This is in addition to its current use in allergic asthma.

There were also positive top line results in advanced melanoma treatment for another investigational medicine, cobimetinib, when used in combination with skin cancer medicine Zelboraf. More data on this study will be presented later in the year.

Promising new treatments

In Japan, Alecensa (alectinib) was approved for the treatment of ALK-positive non-small cell lung cancer in July after a Japanese trial. The FDA has granted Breakthrough Therapy Designation for alectinib and further global studies are ongoing.

Phase II data for lebrikizumab, an experimental medicine for severe asthma, showed good results for a sub-group of patients who can be identified using a companion diagnostic test. The FDA granted fast track designation for LptD a new antibiotic currently in Phase II trials, which showed encouraging data.

In July, Roche announced an agreement to buy a US private company, Seragon Pharmaceuticals, which has a portfolio of next-generation selective estrogen receptor degraders (SERDs). Up to 60% of breast cancers depend on the estrogen hormone to grow and spread, and current treatments are often ineffective in the long term. Seragon's lead product candidate, ARN-810, is a next-generation SERD that is currently in Phase I clinical trials.

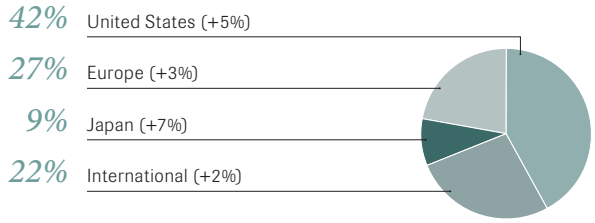
There were also some disappointments in the first half. The phase III onartuzumab trial, for lung cancer, and five of the six phase III bitopertin studies, for schizophrenia, are being discontinued after not meeting their primary endpoints. The sixth phase III study for bitopertin (NightLyte) met its primary endpoint in one of two dose groups and Roche is reviewing the totality of data to determine the next steps.

Full-year outlook confirmed

For the full year 2014, Roche expects low- to mid-single digit growth in Group sales at constant exchange rates. Core EPS is targeted to grow ahead of sales. Roche expects to further increase its dividend.

Pharmaceuticals Division

Pharmaceuticals sales by region
January–June 2014 (CER)

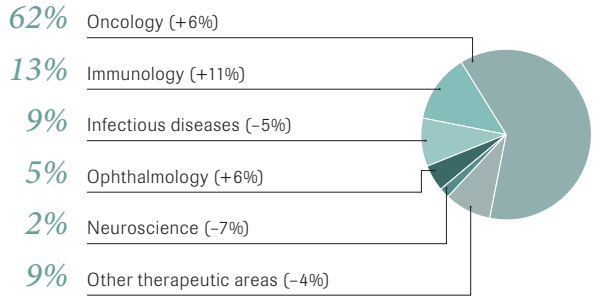


Sales in the Pharmaceuticals Division rose by 4%. In the United States, growth was driven by sales of medicines for HER2-positive breast cancer, which were 30% higher and Avastin for treatment of colorectal and lung cancer. Sales of Xolair, which was approved for a new indication to treat chronic skin hives, were also higher; as were sales of eye medicine Lucentis. Sales of Xeloda, a chemotherapy drug, were lower as it is no longer patent-protected in the United States and has generic competition.

In Europe, sales were also driven by HER2 breast cancer medicines; as well as cancer medicines MabThera/Rituxan and Avastin; and Tamiflu in the United Kingdom.

In Japan, higher sales reflected strong growth of HER2 breast-cancer medicines, as well as increased demand for Avastin in breast and lung cancer and Actemra/RoActemra for rheumatoid arthritis.

Pharmaceuticals sales by therapeutic area
January–June 2014 (CER)



In the International Region, sales growth was driven by Latin America (+11%), in particular in Brazil, Argentina and Venezuela, however political unrest had a negative impact on sales in the Middle East. Sales in China fell by 1%, as a result of lower sales of Tamiflu. Sales of HER2 breast cancer medicines, as well as MabThera/Rituxan, Avastin and Actemra/RoActemra remained solid in China.

Demand for oncology medicines continues to increase

The oncology portfolio continued to drive growth in all regions. Sales of HER2 breast cancer medicines (+20%) were higher, with strong demand for new products Perjeta and Kadcyla, as well as for Herceptin in combination with Perjeta. Avastin (+6%) also showed good growth across the regions, in particular for treatment of colorectal and ovarian cancers. MabThera/Rituxan (+4%), which is now available in a subcutaneous formulation in Europe, delivered solid growth in most regions.

Immunology and ophthalmology performing well

Sales of Actemra/RoActemra (+22%) a medicine for rheumatoid arthritis, increased significantly in all major markets. There was good uptake of the new subcutaneous formulation of the medicine in the United States and this formulation has now also been approved in Europe. Sales of eye medicine, Lucentis (+6%), which Roche sells in the United States, continued to grow with increased adoption in the treatment of diabetic macular edema.

Major clinical and regulatory news flow to 24 July 2014

Compound	Indication	Milestone	
MabThera (subcutaneous formulation)	NHL (follicular lymphoma and diffuse large B-cell lymphoma)	EU approval	Q1 ✓
Xolair	chronic idiopathic urticaria	FDA approval	Q1 ✓
Bitopertin	negative symptoms of schizophrenia	Phase III	Q1 ×
Lebrikizumab	severe uncontrolled asthma	Phase IIb study results (LUTE, VERSE)	Q1 ✓
Onartuzumab and Tarceva	non-small cell lung cancer	Phase III study results (MetLung)	Q1 ×
RoActemra (subcutaneous formulation)	rheumatoid arthritis	EU approval	Q2 ✓
Anti-PDL1	metastatic bladder cancer	Phase I study results led to FDA Breakthrough Therapy Designation	Q2 ✓
Gazyvaro	chronic lymphocytic leukemia (CLL)	CHMP recommendation for EU approval	Q2 ✓
Avastin	platinum-resistant recurrent ovarian cancer	CHMP recommendation for EU approval FDA priority review	Q2 ✓
Avastin	cervical cancer	FDA priority review	Q2 ✓
LptD	antibiotic	FDA fast track designation	Q2 ✓
Alectinib	non-small cell lung cancer	Japanese approval	Q3 ✓

Upcoming clinical news flow

Compound	Indication	Milestone
Gazyvaro	chronic lymphocytic leukemia (first line)	EU approval
Cobimetinib and Zelboraf	BRAF V600 mutation-positive metastatic melanoma	Phase III study results (co-BRIM)
Kadcyla with Perjeta	metastatic HER2-positive breast cancer (first line)	Phase III study results (MARIANNE)
Anti-PDL1	multiple solid tumours	Update from Phase II programme
Perjeta	metastatic HER2-positive breast cancer (first line)	Final overall survival data from Phase III (CLEOPATRA)

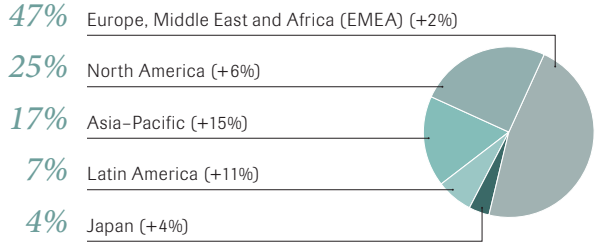
Diagnostics Division

Professional Diagnostics the main growth driver

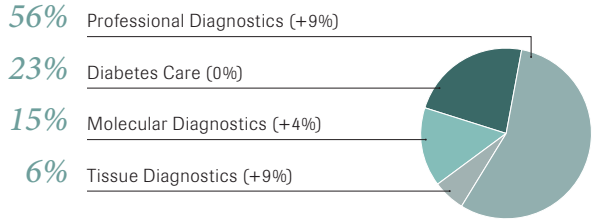
The Diagnostics Division continued to increase sales with growth of 6% at constant exchange rates to 5.1 billion Swiss francs. Professional Diagnostics was the main contributor; whilst sales in Molecular Diagnostics and Tissue Diagnostics increased; and Diabetes Care sales were stable.

Sales growth was driven by the Asia–Pacific and North America regions. Increasing sales in China were a key growth factor in Asia–Pacific. The EMEA region, the division's largest market, Latin America and Japan reported good sales increases.

Diagnostics sales by region
January–June 2014 (CER)



Diagnostics sales by business area
January–June 2014 (CER)



In the first six months of the year, Roche Diagnostics launched six key products and received approvals in Canada and the United States for the cobas HPV Test to be used in primary screening for human papilloma virus (HPV), which causes more than 99% of cervical cancer.

Professional Diagnostics grew faster than its market and was the major contributor to divisional performance in all regions. This growth was primarily driven by the immunodiagnostics business (+12%). Sales growth was also supported by the clinical chemistry business (+9%). In particular, Asia–Pacific (+17%) and North America (+9%) contributed to the business area's growth. The cobas 6500 urine analyser series, a fully automated solution on a modular platform for laboratories, was introduced to the markets and the new Elecsys Syphilis test was launched.

Sales of Diabetes Care were stable in a challenging market environment. Sales of the premium product, Accu-Chek Mobile, grew by 22% and Accu-Chek Aviva/Performa were up 2%. Declining sales for products approaching the late stage of their lifecycle impacted on the overall development. Sales of insulin delivery systems grew 6% and Roche launched the Accu-Chek Insight system, its next-generation insulin pump and pump remote control in Europe.

Molecular Diagnostics continued its growth in the underlying molecular businesses (+6%, excluding the genome sequencing business). Major contributions came from sales of tests for viral infections (+5%), the blood screening business (+7%) and the cobas HPV test for cervical cancer screening (+59%). Further growth came from reagents for nucleic acid purification (NAP)/real-time PCR (qPCR) (+4%). This growth was partially offset by a sales decline in the genome sequencing business. The business area launched three new diagnostic tests for the identification of HSV (*Herpes simplex* virus), MRSA/SA (methicillin-resistant *Staphylococcus aureus* and *Staphylococcus aureus)* and *Clostridium difficile.*

Sales of Tissue Diagnostics were driven by 8% growth in advanced staining; CINtec Histology and CINtec PLUS Cytology tests for cervical cancer screening reported sales increases of 11% and 31% respectively. Regionally, main contributors to growth were the EMEA (+14%), North America (+5%) and Asia–Pacific regions (+24%). In North America sales were adversely impacted by reimbursement changes.

Product and pipeline update

There were a number of developments in the Diagnostics Division's innovation during the first half and the division launched two new instruments and four new tests.

Efficiency-increasing instruments launched

The launch of the new cobas 6500 is a major technological advance. It is a fully automated urine testing system that consists of two modular analysers combining urine strip testing and digital urinary microscopy and it increases laboratory productivity and efficiency.

The Accu-Chek Insight system, Roche's next-generation insulin pump and pump remote control, was also launched in the first half in Europe.

New diagnostic tests for infectious diseases

Infections with MRSA/SA, methicillin-resistant *Staphylococcus aureus* and *Staphylococcus aureus,* are the leading causes of hospital-acquired infections worldwide, *Clostridium difficile* contributes to this problem. Roche's new tests provide accurate information to assist clinicians in making timely treatment decisions and preventing further infection in healthcare settings.

The new cobas HSV test (*Herpes simplex* virus) provides laboratories with the capability to report results faster with a simplified workflow for sample handling in the laboratory.

The division also launched a new syphilis test to support the detection of infections with the bacterium *Treponema pallidum,* which causes syphilis in about 12 million people worldwide. Early diagnosis is important because this infection can be treated successfully in its early stages.

Most significantly in the first half, the FDA approved the Roche cobas HPV Test for use as a first-line primary screening test for cervical cancer in women 25 and older. This makes the cobas HPV test the first and only HPV test in the United States approved for first-line primary screening, as it provides physicians with a proven, better tool for preventing cervical cancer. Healthcare authorities in Canada also approved this test.

Roche Personalised Healthcare

Roche Diagnostics has more than 250 internal collaborations with Roche Pharmaceuticals supporting the development of innovative targeted medicines. Out of these, 15 projects are ongoing to develop companion tests helping to identify patients with a high likelihood of benefiting from targeted care. Additional collaboration agreements with external partners for the development of companion tests were signed in Europe, adding to more than 40 existing partnerships; revenues from these partnerships showed continued good growth. Sales of companion tests, for Roche as well as external pharmaceutical companies' targeted medicines, grew strongly, e.g. genomics and oncology companion tests were up 28%.

Fully automated instruments for molecular testing planned

Roche is preparing for the launch of the innovative cobas 6800 and cobas 8800 systems, fully automated instruments for high throughput molecular testing, which will be launched in the second half of the year. The systems are designed to increase testing efficiency, provide high-medical value diagnostic tests, and accommodate the evolving needs of the laboratory in the future.

The automation of routine tasks in both systems will significantly reduce the time laboratory staff spend operating them. First results will be available after approximately three hours. Their rapid availability supports fast treatment decisions and the reliable screening of the blood supply for up to six viruses and high accuracy quantification of viral load. The next generation of molecular assays for these instruments will offer differential medical advantages and significant increase in sensitivity for the detection of viral pathogens in the blood supply.

Acquisitions

Roche closed the acquisition of IQuum, Inc., United States, which is focused on developing point-of-care products for the molecular diagnostics market. The acquisition provides Roche with access to IQuum's Laboratory-in-a-tube (Liat™) system, which enables healthcare workers to perform rapid molecular diagnostic testing in a point-of-care setting, closer to patients and with minimal training.

Roche also acquired Genia Technologies, Inc. (Genia), United States, in the first half. Genia is developing a potentially disruptive next-generation sequencing technology.

Key launches in the first half of 2014

Area	Product name	Description	Market
Laboratories	cobas 6500	automated urinalysis work area	EU
Diabetes Care	Accu-Chek Insight	next-generation insulin pump and blood glucose monitoring system	EU
Tests/assays			
Microbiology	HSV	*Herpes simplex* virus detection on cobas 4800	EU
	Syphilis	*Treponema pallidum* detection (immunoassay)	EU
	MRSA/SA	next-generation assay on cobas 4800	EU
	C-difficile	diagnosis of infections and associated diarrhea on cobas 4800	EU

Key launches planned for the second half of 2014

Area	Product name	Description	Market
Laboratories	cobas 6800/8800	next-generation molecular (PCR) system	WW*
	cobas m511	fully integrated/automated hematology system	EU
	Ventana Connect (formerly Connect-V)	middleware providing connectivity to laboratory information systems	WW*
	Accu-Chek Connect	blood glucose meter with connectivity to smartphones, mobile applications and cloud	EU
Tests/assays			
Blood screening/ infectious diseases	MPX 2.0	next-generation blood screening multiplex test	US
	MPX (HIV, HCV, HBV), HEV, DPX[1], WNV[2]	full NAT blood screening menu for cobas 6800/8800	WW*
	HIV, HCV, HBV	virology tests for cobas 6800/8800	WW*
Women's health	AMH	assessment of ovarian reserve for fertility	EU
	PE Prognosis	short-term prediction of pre-eclampsia in pregnancy (claim extension)	EU

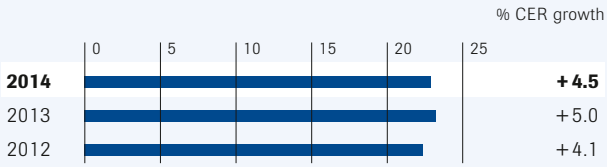
1 Parvovirus B19 and hepatitis A virus.
2 West Nile virus.
* Excluding the United States.

FINANCE

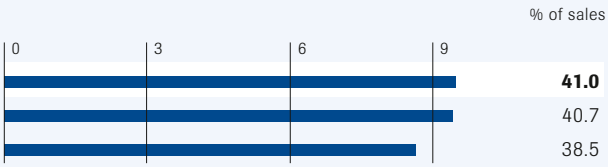
Financial Review

Group results

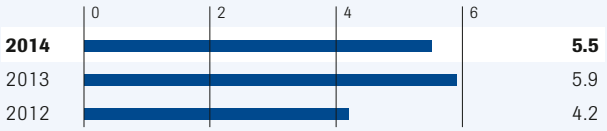
Sales in billions of CHF



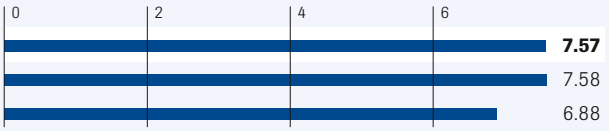
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



The Roche Group's results for the first half of 2014 showed growth in its core operating activities, with sales up by 5% and core operating profit up by 7% at constant exchange rates. Sales increased driven by the oncology portfolio, especially the medicines for HER2-positive breast cancer, and by the Professional Diagnostics business. Core operating profit grew at a higher rate than sales due to cost containment while maintaining investments in research and development. This strong operating performance, combined with lower financing costs, is responsible for an increase in Core EPS of 7% at constant exchange rates. Cash generation also remained high, with an increase of 11% in operating free cash flow to 7.9 billion Swiss francs or 34.3% of sales.

Sales in the Pharmaceuticals Division rose by 4% to 17.8 billion Swiss francs. This was driven by the oncology portfolio, especially by the HER2 franchise which grew by 20%. There was also strong demand for Actemra/RoActemra, with sales increasing by 22%. The key growth products were Perjeta, Avastin, Herceptin, Kadcyla, MabThera/Rituxan and Actemra/RoActemra. Sales of Xeloda were lower as it is now off-patent in the US and Europe. Regional growth was most significant in the US, Europe and Latin America. Diagnostics sales grew at 6%, consolidating the division's leading market position. The major growth area was Professional Diagnostics, while sales in Diabetes Care were stable.

Core operating profit increased by 7%, with the Pharmaceuticals Division growing at 9% and the Diagnostics Division being stable (0%). The profitability in Pharmaceuticals improved due to the sales growth while maintaining operating costs at the necessary level to develop the business. Marketing and distribution costs included continued investments in new products and emerging markets, as well as increasing patient access to medicines. In research and development there was increased investment in the oncology portfolio, in particular the PDL1 targeted therapy along with the recently approved alectinib. The neuroscience therapeutic area remained in focus, with the advancement of programmes for multiple sclerosis and Alzheimer's disease. There were some one-time impacts in the operating results which largely net-out, these being the divestment gain from the sale of the filgrastim franchise rights back to Amgen and the base effect of income from changes to the Group's pension plans in the 2013 results. In the Diagnostics Division profitability benefited from higher sales and cost containment in marketing and distribution. The development of Diagnostics profitability in 2014 was negatively affected by the 2013 pension base effect and also by the inclusion in cost of sales of the base effect of a VAT refund of 30 million Swiss francs in 2013. Excluding these factors the underlying Diagnostics Division core operating profit increased by 6%.

Operating free cash flow was 7.9 billion Swiss francs, 11% higher than in the first half of 2013. This reflects the cash generation of both divisions. Net working capital increased by a lower rate than in 2013 while there were higher capital investments in manufacturing facilities and other site development projects. Inventories increased to ensure patient supply given increasing demand, especially in emerging markets, and also to support newly launched products. The free cash flow shows an improvement of 0.4 billion Swiss francs to a net cash outflow of 1.0 billion Swiss francs. The strong operating free cash flow and lower interest and tax payments were more than absorbed by higher annual dividend payments.

During the first half of 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division. The total costs of the Group's restructuring activities in the first half of 2014 were 0.3 billion Swiss francs, a similar level as in the first six months of 2013. Impairment charges of 0.4 billion Swiss francs were recorded for goodwill and intangible assets in the Tissue Diagnostics business. Taken together with the growth of the underlying business, there was an increase in IFRS net income of 2% at constant exchange rates.

In the first half of 2014 compared to the first half of 2013, the Swiss franc was stronger against most currencies, in particular the US dollar, a number of Latin American currencies and the Japanese yen. The overall impact is strongly negative on the results expressed in Swiss francs compared to constant exchange rates, with a 6–8 percentage point impact on sales, Core operating profit and Core EPS. The exchange rates used and currency sensitivities are given on page 38.

Income statement

	Six months ended 30 June 2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	22,974	23,295	–1	+5
Royalties and other operating income	1,398	956	+46	+52
Cost of sales	(6,311)	(6,126)	+3	+8
Marketing and distribution	(3,922)	(4,109)	–5	+1
Research and development	(4,463)	(4,536)	–2	+2
General and administration	(1,524)	(886)	+72	+79
Operating profit	**8,152**	**8,594**	**–5**	**+3**
Financing costs	(695)	(777)	–11	–6
Other financial income (expense)	37	(61)	–	–
Profit before taxes	**7,494**	**7,756**	**–3**	**+5**
Income taxes	(1,853)	(1,709)	+8	+17
Net income	**5,641**	**6,047**	**–7**	**+2**
Attributable to				
– Roche shareholders	5,533	5,941	–7	+2
– Non-controlling interests	108	106	+2	+14
EPS (CHF) – Basic	6.52	7.00	–7	+1
EPS (CHF) – Diluted	6.41	6.88	–7	+1
Core results				
Sales	22,974	23,295	–1	+5
Royalties and other operating income	1,398	956	+46	+52
Cost of sales	(5,876)	(5,839)	+1	+5
Marketing and distribution	(3,873)	(4,024)	–4	+2
Research and development	(4,204)	(4,143)	+1	+5
General and administration	(1,009)	(757)	+33	+39
Operating profit	**9,410**	**9,488**	**–1**	**+7**
Financing costs	(695)	(777)	–11	–6
Other financial income (expense)	37	(61)	–	–
Profit before taxes	**8,752**	**8,650**	**+1**	**+9**
Income taxes	(2,111)	(2,001)	+5	+13
Net income	**6,641**	**6,649**	**0**	**+8**
Attributable to				
– Roche shareholders	6,533	6,542	0	+8
– Non-controlling interests	108	107	+1	+14
Core EPS (CHF) – Basic	7.70	7.71	0	+7
Core EPS (CHF) – Diluted	7.57	7.58	0	+7

Sales

In the first half of 2014 sales increased by 5% at constant exchange rates (–1% in Swiss francs; +4% in US dollars) to 23.0 billion Swiss francs. Sales in the Pharmaceuticals Division rose 4% to 17.8 billion Swiss francs, driven by strong growth in medicines for HER2-positive breast cancer, as well as by Avastin, MabThera/Rituxan and Actemra/RoActemra. Sales grew in all regions, and particularly in the US where the HER2 franchise grew by 30%. Xeloda sales declined as it is now off-patent in the US and Europe and subject to generic competition in these markets. The Diagnostics Division recorded sales of 5.1 billion Swiss francs, an increase of 6% at constant exchange rates, consolidating its leading market position. The major growth area was Professional Diagnostics, which represents more than half of the division's sales and grew by 9%, led by the immunodiagnostics business. Diabetes Care sales were stable (0%), despite continued US reimbursement cuts and pricing pressure.

Divisional operating results for the six months ended 30 June 2014

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	17,834	5,140	–	22,974
Core operating profit	8,601	988	(179)	9,410
– margin, % of sales	48.2	19.2	–	41.0
Operating profit	8,075	254	(177)	8,152
– margin, % of sales	45.3	4.9	–	35.5
Operating free cash flow	7,424	632	(187)	7,869
– margin, % of sales	41.6	12.3	–	34.3

Divisional operating results – Development of results compared to the six months ended 30 June 2013

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase CER	+4	+6	–	+5
Core operating profit				
– % increase CER	+9	0	+53	+7
– margin: percentage point change	+2.0	–1.2	–	+1.0
Operating profit				
– % increase CER	+9	–56	+41	+3
– margin: percentage point change	+2.0	–7.8	–	–0.5
Operating free cash flow				
– % increase CER	+10	+3	–32	+11
– margin: percentage point change	+2.2	–0.4	–	+2.0

Core operating results

Currency translation had a significant impact on the operating results, with a negative effect of 0.7 percentage points on the development of the Group core operating margin, and also on the core operating margin of both divisions.

There were two one-time items which had a significant impact on the Group's profitability. There was a divestment gain of 428 million Swiss francs from the sale of the filgrastim franchise rights back to Amgen. There was also a base effect of 252 million Swiss francs income from changes to the Group's pension plans in 2013.

Pharmaceuticals Division. The division increased its core operating profit by 9% at constant exchange rates, driven by sales growth of 4% and control of operating costs. There were continued marketing activities for new products and in emerging markets, including patient access programmes. Research and development costs increased by 5% due to investment in the oncology and neuroscience therapeutic areas. The outcomes of certain Phase III clinical studies for bitopertin and onartuzumab had negative impacts on cost of sales resulting from cancelled manufacturing arrangements and on research and development costs from the accelerated recognition of the remaining trial costs.

Diagnostics Division. Core operating profit was stable despite a sales growth of 6%. This was due to higher general and administration costs driven by the base effect of the pension plan changes in 2013. There was also a negative impact on cost of sales from the base effect of a VAT refund of 30 million Swiss francs in 2013. Excluding these factors core operating profit grew by 6% in line with sales. The division has continued the implementation of global restructuring plans in the Diabetes Care business and has also initiated various IT projects.

Global restructuring plans

During the first half of 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division.

Global restructuring plans: costs incurred for the six months ended 30 June 2014 in millions of CHF

	Diagnostics[1]	Site consolidation[2]	Other plans[3]	Total
Global restructuring costs				
– Employee-related costs	36	13	70	119
– Site closure costs	15	43	0	58
– Other reorganisation expenses	80	7	10	97
Total costs	**131**	**63**	**80**	**274**

The split of plans in this table has been reformatted from prior years to reflect the relative development of the various plans.
1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes plan for global outsourcing of clinical trial monitoring in the Pharmaceuticals Division.

Diagnostics Division. On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. In the first half of 2014 total costs of 78 million Swiss francs were incurred, mainly for IT-related costs, employee-related costs and dedicated project resources and consultancy costs. Spending on other smaller plans within the division was 53 million Swiss francs and included costs related to the restructuring of the former Applied Science business and certain IT projects.

Site Consolidation. The operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the Group is currently in the process of divesting the site. Work on remediating the Nutley site is continuing, but no significant additional restructuring expenses were incurred in the first half of 2014. Other site consolidation costs include those related to the closure of the sites at Toluca, Mexico (Pharmaceuticals) and Graz, Austria (Diagnostics).

Other global restructuring plans. Total costs were 80 million Swiss francs, with the major item being 41 million Swiss francs from the implementation of the global outsourcing of clinical trial monitoring in the Pharmaceuticals Division.

Merger and Acquisitions

On 3 June 2014 the Group acquired a 100% controlling interest in Genia Technologies, Inc. ('Genia'), a US private company based in California. Genia is developing a single-molecule, semiconductor-based DNA sequencing platform using nanopore technology. Genia is reported in the Diagnostics operating segment as part of the Sequencing business. The purchase consideration was 125 million US dollars in cash and up to 225 million US dollars from a contingent consideration arrangement.

On 10 June 2014 the Group acquired a 100% controlling interest in IQuum, Inc. ('IQuum'), a US private company based in Massachusetts. IQuum is focused on developing point-of-care offerings for the molecular diagnostics market. IQuum is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The purchase consideration was 282 million US dollars in cash and up to 175 million US dollars from a contingent consideration arrangement.

On 2 July 2014 the Group announced an agreement to acquire a 100% controlling interest in Seragon Pharmaceuticals, Inc. ('Seragon'), a US private company based in San Diego, California. The closing of the transaction is expected in the third quarter of 2014. With the acquisition, the Group will obtain rights to Seragon's entire portfolio of selective estrogen receptor degraders (SERDs) for the potential treatment of hormone receptor-positive cancers. Seragon will be reported in the Pharmaceuticals Division. The purchase consideration will be 725 million US dollars in cash and up to 1 billion US dollars from a contingent consideration arrangement.

Impairment of goodwill and intangible assets

Impairment charges were incurred in the Tissue Diagnostics business of 259 million Swiss francs against goodwill and 155 million Swiss francs against product intangible assets. This was due to a change in the timelines for future product development, combined with reduced revenue expectations in the US following additional reimbursement cuts and a change in the discount rate used for the impairment testing. In the Pharmaceuticals Division there were impairment charges of 166 million Swiss francs resulting from decisions to stop development on two compounds.

Pensions and other post-employment benefits

As disclosed in the interim financial report in 2013, there was a base effect in operating income of 252 million Swiss francs in the first six months of 2013 for past service costs from changes to the Group's pension plans in Switzerland and the UK. Of this amount, 121 million Swiss francs were recorded in the Pharmaceuticals Division and 28 million Swiss francs in the Diagnostics Division. The remaining 103 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses.

Legal and environmental matters

On 5 March 2014 the Italian Antitrust Authority ('AGCM') issued a verdict that alleges that Roche and Novartis colluded to artificially differentiate Avastin and Lucentis in order to foster the sales of Lucentis in Italy. The AGCM fined Roche with 90.5 million euros and Novartis with 92 million euros. Roche strongly disagrees with the allegations and has appealed against the AGCM verdict, with the appeal hearing scheduled on 5 November 2014. In July 2014 Roche paid the fine under protest to avoid additional penalty fees prior to the appeal hearing and recorded a provision for this amount in the Interim Financial Statements and a corresponding expense of 111 million Swiss francs within general and administration. The fine and related interest will be reimbursed if Roche wins the case. See Note 9 to the Interim Financial Statements for more details on this matter.

Treasury and taxation

Financing costs were 0.7 billion Swiss francs, a decrease of 6%, with interest expenses being 15% lower at constant exchange rates as debt was repaid. Core tax expenses increased by 13% to 2.1 billion Swiss francs and the Group's effective core tax rate increased to 24.1% compared to 23.1% in the first half of 2013. This was mainly due to the expiration of the US research and development tax credits at the end of 2013. In addition the effective tax rate in the first half of 2013 was favourably impacted by the retrospective re-enactment of the 2012 tax credits in January 2013, which means that the 2013 interim results included a whole year of US research and development tax credits in respect of 2012 as well as six months of credits for 2013.

Net income and Earnings per share

Net income and diluted EPS increased by 2% and 1% respectively at constant exchange rates driven by the strong operating performance and significantly lower financing costs which offset higher tax expenses. Core net income and Core EPS increased by 8% and 7% respectively. The core basis excludes non-core items such as global restructuring costs and amortisation and impairment of goodwill and intangible assets.

Supplementary net income and EPS information is given on pages 75–78. This includes calculations of Core EPS and reconciles the Core results to the Group's published IFRS results.

Financial position

	30 June 2014 (mCHF)	31 December 2013 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	6,385	5,451	+17	+16
Long-term net operating assets	12,903	12,952	0	–1
Diagnostics				
Net working capital	2,938	2,782	+6	+6
Long-term net operating assets	11,295	11,250	0	+1
Corporate				
Net working capital	(70)	(58)	+21	+21
Long-term net operating assets	(414)	(443)	–7	–6
Net operating assets	**33,037**	**31,934**	**+3**	**+3**
Net debt	(8,785)	(6,708)	+31	+30
Pensions	(6,440)	(5,426)	+19	+19
Income taxes	1,939	1,838	+5	+5
Other non-operating assets, net	(267)	(397)	–33	–30
Total net assets	**19,484**	**21,241**	**–8**	**–9**

Compared to the start of the year the Swiss franc weakened against the Japanese yen, but it appreciated slightly against the euro resulting overall in a positive translation impact on balance sheet positions. The exchange rates used are given on page 38.

In the Pharmaceuticals Division net working capital increased significantly by 16% at constant exchange rates. Receivables decreased with strong collections and decreased payment terms more than offsetting the impact of higher sales. Inventory levels increased to ensure patient supply given increasing demand for established products in expanding markets in addition to new approvals for recently launched products such as the Actemra/RoActemra subcutaneous formulation and Kadcyla. Payables decreased mainly as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits. Long-term net operating assets were stable as increases in provisions and property, plant and equipment were offset by lower intangible assets. In Diagnostics the increase in net working capital of 6% was driven by an increase in inventories due to higher demand in emerging markets, higher other receivables and a decrease in trade payables. Trade receivables decreased by 5% driven by strong collections in the Southern European countries. Other payables decreased mainly as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits. Long-term net operating assets were stable as the increase in goodwill and intangible assets from the Genia and IQuum acquisitions offset the impairments in the Tissue Diagnostics business.

The increase in net debt was mainly due to the negative free cash flow of 1.0 billion Swiss francs which includes the annual dividend payment of 6.7 billion Swiss francs. The net pension liabilities increased by 1.0 billion Swiss francs due to lower interest rates increasing the discounted defined benefit obligation. The net tax assets increased mainly due to the deferred tax effects of the increased net pension liabilities.

Free cash flow

	Six months ended 30 June			
	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals	7,424	7,024	+6	+10
Diagnostics	632	700	–10	+3
Corporate	(187)	(279)	–33	–32
Operating free cash flow	**7,869**	**7,445**	**+6**	**+11**
Treasury activities	(691)	(900)	–23	–18
Taxes paid	(1,542)	(1,653)	–7	–1
Dividends paid	(6,662)	(6,284)	+6	+6
Free cash flow	**(1,026)**	**(1,392)**	**–26**	**–41**

The Group's operating free cash flow for the first six months of 2014 was 7.9 billion Swiss francs, an increase of 11%. The 7% increase in core operating profit and the lower increase in net working capital more than offset the higher investments in property, plant and equipment. There were also several non-cash items in core income of the comparative period, including the income from changes to the Group's pension plans in 2013. The free cash flow in the first half of 2014 shows a net cash outflow of 1.0 billion Swiss francs driven by the annual dividend payments. The free cash outflow improved by 41% compared to the first half of 2013, as the incremental increase in operating free cash flow and relatively lower interest and tax payments more than offset the increase in the annual dividend.

Pharmaceuticals operating results

Pharmaceuticals Division interim operating results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	17,834	18,162	–2	+4
Royalties and other operating income	1,334	883	+51	+57
Cost of sales	(3,661)	(3,715)	–1	+2
Marketing and distribution	(2,723)	(2,822)	–4	+2
Research and development	(3,963)	(4,002)	–1	+3
General and administration	(746)	(489)	+53	+60
Operating profit	**8,075**	**8,017**	**+1**	**+9**
– margin, % of sales	45.3	44.1	+1.2	+2.0
Core results[1)]				
Sales	17,834	18,162	–2	+4
Royalties and other operating income	1,334	883	+51	+57
Cost of sales	(3,557)	(3,626)	–2	+2
Marketing and distribution	(2,703)	(2,791)	–3	+2
Research and development	(3,712)	(3,670)	+1	+5
General and administration	(595)	(436)	+36	+45
Core operating profit	**8,601**	**8,522**	**+1**	**+9**
– margin, % of sales	48.2	46.9	+1.3	+2.0
Financial position				
Net working capital	6,385	5,451	+17	+16
Long-term net operating assets	12,903	12,952	0	–1
Net operating assets	**19,288**	**18,403**	**+5**	**+4**
Free cash flow				
Operating free cash flow	7,424	7,024	+6	+10
– margin, % of sales	41.6	38.7	+2.9	+2.2

1) See pages 75–78 for definition of Core results and Core EPS.

Sales overview

Pharmaceuticals Division – Interim sales by therapeutic area

Therapeutic area	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Oncology	11,135	11,174	+6	62	60
Immunology	2,389	2,275	+11	13	13
Infectious diseases	1,555	1,728	–5	9	10
Ophthalmology	828	820	+6	5	5
Neuroscience	350	404	–7	2	2
Other therapeutic areas	1,577	1,761	–4	9	10
Total sales	**17,834**	**18,162**	**+4**	**100**	**100**

Pharmaceuticals Division sales increased by 4% at constant exchange rates, with growth driven by key oncology products, especially by the HER2 breast cancer franchise, and by Actemra/RoActemra. Sales growth was primarily driven by the following products: Perjeta, Avastin, Herceptin, Kadcyla, MabThera/Rituxan and Actemra/RoActemra. These products represent 60% of the portfolio (2013: 57%) and together contributed 1.1 billion Swiss francs at constant exchange rates to sales growth in the first half of 2014. Sales of Xeloda were 34% lower as it is now off-patent in the US and Europe and subject to generic competition in these markets.

In oncology, the HER2 franchise benefited from particularly strong demand for Perjeta, further good growth of Herceptin and uptake of Kadcyla. Avastin showed strong growth across all regions with strong demand for key indications. MabThera/Rituxan grew strongly in the Europe and International regions. Sales in immunology increased due to strong growth in all regions of Actemra/RoActemra, which is now available in a subcutaneous formulation in a number of markets. There was continued growth in ophthalmology as Lucentis sales in the US increased largely due to increased adoption in treating diabetic macular edema (DME).

Product sales

Pharmaceuticals Division – Interim sales

	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Oncology					
Avastin	3,097	3,093	+6	17	17
Herceptin	3,082	3,082	+6	17	17
MabThera/Rituxan [1]	2,739	2,833	+2	15	16
Tarceva	651	691	–1	4	4
Xeloda	474	771	–34	3	4
Perjeta	388	108	+276	2	0
Kadcyla	227	83	+188	1	0
Zelboraf	155	171	–5	1	1
Neutrogin	91	110	–7	1	0
Others	231	232	+8	1	1
Total Oncology	**11,135**	**11,174**	**+6**	**62**	**60**
Immunology					
MabThera/Rituxan [1]	621	568	+13	3	3
Actemra/RoActemra	568	496	+22	3	3
Xolair	437	386	+19	2	2
CellCept	413	465	–6	2	3
Pulmozyme	278	278	+6	2	2
Others	72	82	–2	1	0
Total Immunology	**2,389**	**2,275**	**+11**	**13**	**13**
Infectious diseases					
Pegasys	582	724	–15	3	4
Tamiflu	372	380	+3	2	2
Valcyte/Cymevene	353	333	+12	2	2
Rocephin	133	138	+3	1	1
Others	115	153	–19	1	1
Total Infectious diseases	**1,555**	**1,728**	**–5**	**9**	**10**
Ophthalmology					
Lucentis	828	820	+6	5	5
Total Ophthalmology	**828**	**820**	**+6**	**5**	**5**
Neuroscience					
Madopar	135	158	–9	1	1
Others	215	246	–6	1	1
Total Neuroscience	**350**	**404**	**–7**	**2**	**2**
Other therapeutic areas					
Activase/TNKase	359	341	+11	2	2
NeoRecormon/Epogin	231	269	–8	1	2
Mircera	203	200	+11	1	1
Nutropin	111	144	–19	1	1
Bonviva/Boniva	93	110	–9	1	0
Others	580	697	–9	3	4
Total other therapeutic areas	**1,577**	**1,761**	**–4**	**9**	**10**
Total sales	**17,834**	**18,162**	**+4**	**100**	**100**

1) Total MabThera/Rituxan sales of 3,360 million Swiss francs (2013: 3,401 million Swiss francs) split between oncology and immunology franchises.

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer. Overall growth in the HER2 franchise was 20%. Herceptin sales grew primarily in the US (+10%) and in the International region (+6%). US growth resulted from increased usage in the treatment of breast cancer in combination with Perjeta. The International region grew in all sub-regions. Growth in Latin America resulted from higher demand in the public sector. Sales in Asia–Pacific grew as a result of improving patient access. In Europe sales also increased (+3%) with good uptake for the Herceptin subcutaneous formulation which is now available in many markets including Germany and the UK. Sales in Japan grew by 4% due to increased usage in combination with Perjeta. Perjeta itself grew significantly in the US in both metastatic and pre-surgical breast cancer and sales in Europe grew with particularly strong uptake in Germany. Kadcyla sales continued to increase in the US and in addition there was good initial uptake in Europe.

MabThera/Rituxan. For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL), follicular lymphoma (FL) and rheumatoid arthritis (RA) as well as granulomatosis with polyangiitis (GPA) and microscopic polyangiitis (MPA). Sales were 4% higher, with strong growth in Europe (+7%), where sales were driven by increased market share in both FL and first line treatment for CLL. Sales also benefited from a decrease in mandatory rebates in Germany. US sales were 3% higher, while in International markets sales growth was 5%, driven by sales in Latin America to the public sector. The subcutaneous formulation of MabThera/Rituxan in NHL was approved in Europe in March, as well as in Australia in May. There was also a new label extension granted in the EU in May for a faster infusion regime in treatment of rheumatoid arthritis.

Avastin. For advanced colorectal, breast, lung, kidney and ovarian cancer, and relapsed glioblastoma (a type of brain tumour). Demand was strong, with sales growing in all regions. In the US sales growth of 6% was driven by expanded use in colorectal and lung cancer while in Europe sales grew by 5% as a result of increasing demand in ovarian cancer. In the International region growth of 8% was driven by launches for ovarian cancer and colorectal cancer. In Japan sales increased by 10% with strong demand for use in the treatment of lung and breast cancer.

Lucentis. For wet age-related macular degeneration (AMD), macular edema following retinal vein occlusion (RVO) and diabetic macular edema (DME). US sales grew by 6% driven largely by increased adoption of Lucentis in treating DME.

Pegasys. For hepatitis B and C. Sales decreased by 15%, due to the expected competition in the US and Europe from interferon-free medicines.

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis and polyarticular juvenile idiopathic arthritis. Sales increased by 22%, with growth in all regions driven by strong demand for monotherapy in rheumatoid arthritis. Demand was particularly strong in the US and Europe. Sales also grew strongly in Japan mainly in the new subcutaneous form. The subcutaneous formulation is now also approved in the US and Europe, with launches in both Germany and the UK during May 2014.

Other products. Tamiflu sales increased slightly due to Europe sales for pandemic stockpiling partly offset by sales in China in the first half of 2013. Sales of Xeloda decreased by 34% following loss of exclusivity in the US and Europe.

Pharmaceuticals Division – Interim sales by region

Region	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
United States	7,572	7,553	+5	42	42
Europe	4,775	4,652	+3	27	26
Japan	1,581	1,672	+7	9	9
International	3,906	4,285	+2	22	23
– EEMEA[1)]	*833*	*997*	*–8*	*5*	*5*
– Latin America	*1,168*	*1,255*	*+11*	*7*	*7*
– Asia–Pacific	*1,476*	*1,571*	*+1*	*8*	*9*
– Other regions	*429*	*462*	*+3*	*2*	*2*
Total sales	**17,834**	**18,162**	**+4**	**100**	**100**

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 5% led by the HER2 breast cancer franchise (+30%) as well as Avastin, Xolair and Lucentis. The leading products were the oncology medicines MabThera/Rituxan, Avastin and Herceptin, with sales of 1.6 billion Swiss francs (+3%), 1.3 billion Swiss francs (+6%) and 0.9 billion Swiss francs (+10%), respectively. In addition Actemra/RoActemra was a significant growth driver (+26%). Growth was negatively impacted by the decline of Xeloda (–47%), which is now off-patent in the US.

Europe. Sales increased by 3% led by the HER2 breast cancer franchise (+15%) and higher demand for MabThera/Rituxan and Avastin. MabThera/Rituxan grew by 7% due to increased market share in follicular lymphoma and chronic lymphocytic leukemia and lower mandatory rebates. Avastin grew by 5% due to demand in ovarian and colorectal cancer. In addition there was continued sales growth of Actemra/RoActemra (+20%) and higher Tamiflu sales due to some pandemic stocking. Growth was partially offset by lower Xeloda (–64%) and Pegasys (–26%) sales.

Japan. Sales grew by 7%, with the major growth driver being the HER2 franchise (+41%). There was increased demand for Avastin (+10%) in breast and lung cancer, for Actemra/RoActemra (+24%) with its new subcutaneous form, and also for Edirol (+28%).

International. Sales increased by 2% driven by the Latin America sub-region. Growth in Latin America was mainly due to the HER2 franchise (+18%) and the other oncology products, especially MabThera/Rituxan (+20%) and Avastin (+19%). In Asia–Pacific, the main drivers of growth were Herceptin and MabThera/Rituxan and there was an overall growth of 1%. Sales in China fell by 1%, with growth being negatively impacted by the base effect of strong Tamiflu sales in 2013 and a decline in sales of Tarceva. For the Eastern Europe, Middle East and Africa sub-region, the impact of new public sector stock level controls led to lower overall sales despite the favourable timing of tender sales in Algeria as compared to 2013. Total sales in the E7 key emerging markets grew by 1% with growth in Brazil being offset by the impacts of public sector stock management in Mexico and carry over effects of prior year price cuts in Turkey. Sales growth in Russia was impacted by the timing of tender sales compared to 2013.

Pharmaceuticals Division – Interim sales for E7 leading emerging markets

Country	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Brazil	461	474	+15	2	3
China	737	780	–1	4	4
India	44	47	+9	0	0
Mexico	164	203	–11	1	1
Russia	102	132	–8	1	1
South Korea	123	117	+5	1	1
Turkey	137	184	–7	1	1
Total sales	**1,768**	**1,937**	**+1**	**10**	**11**

Operating results

Pharmaceuticals Division – Royalties and other operating income for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Royalty income	761	754	+6
Income from out-licensing agreements	65	80	–9
Income from disposal of products and other	508	49	Over +500
Total – IFRS and Core basis	**1,334**	**883**	**+57**

Royalties and other operating income. The increase of 57% at constant exchange rates was due to higher income from product disposals. The majority of this income arose from the divestment gain of 428 million Swiss francs from the sale of the filgrastim franchise rights back to Amgen. Royalty income increased by 6% due to higher sales of Eylea, Lucentis and Humira.

Pharmaceuticals Division – Cost of sales for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,043)	(2,066)	+2
Royalty expenses	(591)	(731)	–15
Collaboration and profit-sharing agreements	(889)	(829)	+12
Impairment of property, plant and equipment	(34)	0	–
Cost of sales – Core basis	**(3,557)**	**(3,626)**	**+2**
Global restructuring plans	(42)	(28)	+63
Amortisation of intangible assets	(62)	(61)	+8
Total – IFRS basis	**(3,661)**	**(3,715)**	**+2**

Cost of sales. Core costs increased by 2% at constant exchange rates slightly below the growth in sales. As a percentage of sales, cost of sales were stable at 20.0%. The outcomes of certain Phase III clinical studies for bitopertin and onartuzumab resulted in one-time costs of 82 million Swiss francs within cost of sales from cancelled manufacturing arrangements and asset write-offs. Royalty expenses were 15% lower due to the 2013 base impact of the additional back royalty expenses booked in relation to the Sanofi arbitration, and also due to changes in agreement terms and divestment of some products. Expenses from collaboration and profit-sharing agreements increased mainly driven by higher co-promotion expenses due to growing sales of Xolair, MabThera/Rituxan and the recently launched Gazyva.

Pharmaceuticals Division – Marketing and distribution for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(2,703)**	**(2,791)**	**+2**
Global restructuring plans	(20)	(31)	–34
Total – IFRS basis	**(2,723)**	**(2,822)**	**+2**

Marketing and distribution. Core costs increased at constant exchange rates by 2%. However, as a percentage of sales, costs fell to 15.2% (2013: 15.4%). Marketing efforts focused on newly launched products such as Kadcyla and Gazyva, as well as supporting established oncology products in key markets. Investments were also made to enable continued growth in emerging markets and increased patient access to medicines.

Pharmaceuticals Division – Research and development for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Research and development – Core basis	**(3,712)**	**(3,670)**	**+5**
Global restructuring plans	(59)	(38)	+62
Amortisation of intangible assets	(26)	(26)	+1
Impairment of intangible assets	(166)	(268)	–37
Total – IFRS basis	**(3,963)**	**(4,002)**	**+3**

Research and development. Core costs increased by 5% at constant exchange rates and, as a percentage of sales, rose to 20.8% (2013: 20.2%). There were increased investments in the oncology franchise with the progression of developments such as PDL1 targeted therapy and also the recently approved alectinib. The neuroscience therapeutic area remained a key area, with the advancement of programmes for multiple sclerosis and Alzheimer's disease. These were partially offset by lower spending in cardiovascular and metabolism following the previously announced reorganisation of the Pharmaceuticals Division's R&D activities and the termination of aleglitazar in 2013. Costs of 63 million Swiss francs were incurred following the outcomes of certain Phase III bitopertin and onartuzumab clinical studies for the accelerated recognition of the remaining trial costs. In addition the Pharmaceuticals Division spent 103 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. Global restructuring costs of 59 million Swiss francs were recorded, consisting mainly of employee-related costs resulting from the implementation of an outsourced model for clinical trial monitoring activities. There were impairment charges of 166 million Swiss francs resulting from decisions to stop development on two compounds.

Pharmaceuticals Division – General and administration for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(507)	(498)	+7
Pensions – past service costs	1	121	–99
Gains (losses) on disposal of property, plant and equipment	(2)	(1)	+167
Business taxes and capital taxes	(125)	(119)	+11
Other general items	38	61	–40
General and administration – Core basis	**(595)**	**(436)**	**+45**
Global restructuring plans	(12)	(39)	–69
Alliances and business combinations	0	1	–
Legal and environmental settlements	(139)	(15)	Over +500
Total – IFRS basis	**(746)**	**(489)**	**+60**

General and administration. Core costs increased by 45% at constant exchange rates and as a percentage of sales increased to 3.3% from 2.4%. This reflects the base effect of income recorded in 2013 for past service costs from changes in the Group's pension plans in Switzerland and the UK of 121 million Swiss francs. The increase in administration costs was mainly a result of a global efficiency initiative enhancing procurement processes and related systems. There was an increase in business taxes, including the costs for the US Branded Pharmaceutical Product Fee of 98 million Swiss francs (2013: 90 million Swiss francs). Other general items include 37 million Swiss francs provided for in respect of a retrospective VAT claim. Legal and environmental settlements costs of 111 million Swiss francs were recorded in respect of a fine paid to the Italian Antitrust Authority regarding allegations about Avastin and Lucentis in Italy. Roche strongly disagrees with the allegations and has appealed. See Note 9 to the Interim Financial Statements for more details on this matter.

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional interim operating results in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
	2014	2013	2014	2013	2014	2013
Sales						
– External customers	16,253	16,490	1,581	1,672	17,834	18,162
– Within division	642	538	228	180	870	718
Core operating profit	8,300	8,180	377	365	8,601	8,522
– margin, % of sales to external customers	51.1	49.6	23.8	21.8	48.2	46.9
Operating profit	7,794	7,699	357	342	8,075	8,017
– margin, % of sales to external customers	48.0	46.7	22.6	20.5	45.3	44.1
Operating free cash flow	7,109	6,728	315	296	7,424	7,024
– margin, % of sales to external customers	43.7	40.8	19.9	17.7	41.6	38.7

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of 76 million Swiss francs of unrealised inter-company profits between Roche Pharmaceuticals and Chugai (2013: 24 million Swiss francs of profits).

Core operating profit of Roche Pharmaceuticals increased more than the underlying sales growth due to control of costs as explained previously. The fall in the exchange rate of the Japanese yen has a negative impact of approximately 13% on the Chugai results when expressed in Swiss francs. Sales to external customers by Chugai increased by 7% in Japanese yen and sales within the division were also significantly higher. This resulted in a 16% increase in Chugai core operating profit as there was an under-proportional increase in operating expenses. The operating free cash flow at Chugai increased at a higher rate than operating profit mainly as a result of a lower increase in net working capital than in the first half of 2013.

Financial position

Pharmaceuticals Division – Net operating assets

	30 June 2014 (mCHF)	31 Dec. 2013 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	6,056	6,150	–2	–2	(126)	32
Inventories	4,489	4,069	+10	+10	389	31
Trade payables	(841)	(928)	–9	–10	93	(6)
Net trade working capital	**9,704**	**9,291**	**+4**	**+4**	**356**	**57**
Other receivables/(payables)	(3,319)	(3,840)	–14	–14	537	(16)
Net working capital	**6,385**	**5,451**	**+17**	**+16**	**893**	**41**
Property, plant and equipment	11,110	10,898	+2	+1	155	57
Goodwill and intangible assets	3,826	3,960	–3	–4	(151)	17
Provisions	(2,308)	(2,151)	+7	+7	(153)	(4)
Other long-term assets, net	275	245	+12	+11	28	2
Long-term net operating assets	**12,903**	**12,952**	**0**	**–1**	**(121)**	**72**
Net operating assets	**19,288**	**18,403**	**+5**	**+4**	**772**	**113**

The absolute amount of the movement between the 30 June 2014 and 31 December 2013 consolidated balances reported in Swiss francs is split between actual 2014 transactions (translated at average rates for 2013) and the currency translation adjustment (CTA) that arises on consolidation. The 2014 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 50 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 80.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc weakened against the Japanese yen but it appreciated slightly against the euro resulting overall in a positive translation impact on balance sheet positions. The exchange rates used are given on page 38.

Net working capital. The increase of 16% at constant exchange rates was due to an increase of inventories and a decrease in payables, which more than offset a decrease in receivables. Receivables decreased, despite higher sales, due to strong collections and shorter payment terms. In February 2014 a payment was received in Spain as part of the Montoro Plan. Inventory levels increased to ensure continuity of supply to patients due to increases in demand which resulted from volume increases of established products, especially in emerging markets. Inventories also increased due to recently launched products such as the Actemra/RoActemra subcutaneous formulation and Kadcyla. Payables decreased since the end of 2013 as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits.

Long-term net operating assets. These decreased slightly due to increases in legal provisions and lower intangible assets, which more than offset the increase in property, plant and equipment. Significant investments continue to be made in site development projects and manufacturing facilities, in particular in Switzerland, the US and China. Intangible assets decreased as amortisation and impairments were greater than the intangibles arising from new investments with business partners. These investments were mainly in the neuroscience and oncology therapeutic areas.

Free cash flow

Pharmaceuticals Division – Operating free cash flow for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Operating profit – IFRS basis	**8,075**	**8,017**	**+9**
– Depreciation, amortisation and impairment	778	870	–7
– Provisions	149	(165)	–
– Equity compensation plans	127	147	–10
– Other	48	87	–
Operating profit cash adjustments[1]	**1,102**	**939**	**–5**
Operating profit, net of operating cash adjustments	**9,177**	**8,956**	**+7**
(Increase) decrease in net working capital	(900)	(1,235)	–20
Investments in property, plant and equipment	(739)	(515)	+49
Investments in intangible assets	(114)	(182)	–36
Operating free cash flow	**7,424**	**7,024**	**+10**
– as % of sales	41.6	38.7	+2.2

1) A detailed breakdown is provided on page 79.

The Pharmaceuticals Division's operating free cash flow increased to 7.4 billion Swiss francs. The increased cash generation from the underlying business more than compensated for the increases in net working capital during the first half of 2014 noted above in the comments on the financial position. Operating profit, net of operating cash adjustments, increased by 7% while core operating profit increased by 9%. This difference was mainly due to significant non-cash items, including the income from changes to the Group's pension plans in 2013. Increasing capital expenditure in 2014 for property, plant and equipment reflects the significant investments being made in site development and manufacturing expansion projects, particularly in Switzerland, the US and China.

Diagnostics operating results

Diagnostics Division interim operating results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	5,140	5,133	0	+6
Royalties and other operating income	64	73	–12	–10
Cost of sales	(2,650)	(2,411)	+10	+16
Marketing and distribution	(1,199)	(1,287)	–7	–2
Research and development	(500)	(534)	–6	–5
General and administration	(601)	(271)	+122	+129
Operating profit	**254**	**703**	**–64**	**–56**
– margin, % of sales	4.9	13.7	–8.8	–7.8
Core results [1]				
Sales	5,140	5,133	0	+6
Royalties and other operating income	64	73	–12	–10
Cost of sales	(2,319)	(2,213)	+5	+10
Marketing and distribution	(1,170)	(1,233)	–5	0
Research and development	(492)	(473)	+4	+6
General and administration	(235)	(204)	+15	+18
Core operating profit	**988**	**1,083**	**–9**	**0**
– margin, % of sales	19.2	21.1	–1.9	–1.2
Financial position				
Net working capital	2,938	2,782	+6	+6
Long-term net operating assets	11,295	11,250	0	+1
Net operating assets	**14,233**	**14,032**	**+1**	**+2**
Free cash flow				
Operating free cash flow	632	700	–10	+3
– margin, % of sales	12.3	13.6	–1.3	–0.4

1) See pages 75–78 for definition of Core results and Core EPS.

Sales

The Diagnostics Division continued to increase sales with a growth of 6% at constant exchange rates to 5.1 billion Swiss francs. Professional Diagnostics, with 9% sales growth, was the main growth contributor led by its immunodiagnostics business. Molecular Diagnostics sales increased by 4%, with growth in the underlying molecular businesses of 6% being partly offset by a decline in the genome sequencing business. Diabetes Care sales were stable despite the continued challenging market environment, notably in the US. The growth in Tissue Diagnostics was driven by the advanced staining franchise.

Diagnostics Division – Interim sales by business area

Business area	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Professional Diagnostics	2,904	2,825	+9	56	56
Diabetes Care	1,140	1,205	0	23	23
Molecular Diagnostics	762	781	+4	15	15
Tissue Diagnostics	334	322	+9	6	6
Total sales	**5,140**	**5,133**	**+6**	**100**	**100**

Professional Diagnostics. With an increase in sales of 9%, the business area was the major contributor to divisional performance in all regions, with growth being primarily driven by the immunodiagnostics business (+12%), which now represents 26% of divisional sales. This was supported by the clinical chemistry business (+9%). The Professional Diagnostics business is growing in all regions, but especially in Asia–Pacific (+17%) and North America (+9%) due to strong sales in China and the US. In the EMEA region strong growth was reported for the immunodiagnostics (+7%) and clinical chemistry businesses (+5%). The new Elecsys Syphilis immunoassay was launched in the first half of 2014. A new instrument, cobas 6500, was also launched in the first half of 2014 for fully automated urinalysis combining urine strip testing and digital microscopy.

Diabetes Care. Sales were stable (0%) despite continuing challenging market conditions for the blood glucose monitoring portfolio in major markets like the US. Sales of the premium product Accu-Chek Mobile grew by 22% and Accu-Chek Aviva/ Performa sales were up 2%. Sales in North America were down by 6% due to the Medicare reimbursement cut in 2013 on strips, lower pump sales in the US and changes in the number of reimbursed strips in Canada. Sales in the EMEA region were flat. This was partially offset by increased sales in the Asia–Pacific and Latin America regions, mainly driven by China and Argentina. The Accu-Chek Insight system, an insulin delivery system combining insulin pump and a blood glucose meter, has been launched in the EU in 2014.

On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. The implementation of this programme has continued in 2014.

Molecular Diagnostics. Sales rose 4% with growth in the underlying molecular businesses of 6%, with the major contributions coming from the Virology, Blood screening and the HPV (cervical cancer screening) businesses. This was partly offset by a sales decline in the genome sequencing business. Regionally, growth was driven by North America (+8%) due to strong sales in the US. In the first half of 2014 the FDA approved the cobas HPV test for first-line primary screening for cervical cancer. A further three diagnostics tests (MRSA/SA, C-difficile, HSV) were launched in CE-marked countries which expand the menu of the cobas 4800.

In June 2014 Roche acquired Genia Technologies, Inc., which is developing a single-molecule, semiconductor-based DNA sequencing platform using nanopore technology. Also in June 2014 Roche acquired IQuum, Inc., which is focused on developing point-of-care products for the molecular diagnostics market. The IQuum acquisition provides Roche with access to the Laboratory-in-a-tube (Liat™) system, which performs rapid and simple molecular diagnostic testing.

Tissue Diagnostics. Sales rose 9%, driven by 8% growth in the advanced staining portfolio and 29% in companion diagnostics. Regionally, growth was driven by EMEA (+14%) and North America (+5%) despite reimbursement changes in the US. In both regions the growth was driven by the advanced staining portfolio. Sales in Asia–Pacific grew by 24%, with China as the main market. Revenues from existing external partnerships showed continued growth.

Impairments of 259 million Swiss francs to goodwill and 155 million Swiss francs to product intangible assets were recorded in Tissue Diagnostics. The factors leading to these impairments were a change in the timelines for future product development combined with reduced revenue expectations in the US following additional reimbursement cuts and a change in the discount rate used for the impairment testing.

Diagnostics Division – Interim sales by region

Region	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Europe, Middle East and Africa (EMEA)	2,423	2,423	+2	47	47
North America	1,272	1,275	+6	25	25
Asia–Pacific	877	823	+15	17	16
Latin America	346	370	+11	7	7
Japan	222	242	+4	4	5
Total sales	**5,140**	**5,133**	**+6**	**100**	**100**

The sales growth of the Diagnostics Division was driven by the Asia–Pacific and North America regions, mainly in Professional Diagnostics. The sales increase in Asia–Pacific was also influenced by increasing sales in China (+24%) coming from governmental healthcare investments, public demand and the division's expanding presence and wide portfolio. In the EMEA region, the division's largest market, sales increased by 2% led by growth in Professional Diagnostics. In the Latin America region sales increased 11% driven mainly by growth in Professional Diagnostics and Diabetes Care. Sales in Japan increased 4% driven by the immunodiagnostics business.

Diagnostics Division – Interim sales for E7 leading emerging markets

Country	2014 (mCHF)	2013 (mCHF)	% change (CER)	% of sales (2014)	% of sales (2013)
Brazil	104	111	+11	2	2
China	460	373	+24	9	7
India	49	51	+15	1	1
Mexico	48	52	+1	1	1
Russia	75	82	+9	1	2
South Korea	85	83	+2	2	2
Turkey	55	64	+8	1	1
Total sales	**876**	**816**	**+16**	**17**	**16**

Operating results

Diagnostics Division – Royalties and other operating income for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Royalty income	54	66	–15
Income from out-licensing agreements	4	1	+145
Income from disposal of products and other	6	6	+6
Total – IFRS and Core basis	**64**	**73**	**–10**

Royalties and other operating income. The decrease of 10% at constant exchange rates was driven by lower royalty income, mainly in Molecular Diagnostics.

Diagnostics Division – Cost of sales for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,226)	(2,125)	+11
Royalty expenses	(93)	(88)	+9
Cost of sales – Core basis	**(2,319)**	**(2,213)**	**+10**
Global restructuring plans	(25)	(36)	–34
Amortisation of intangible assets	(151)	(162)	–3
Impairment of intangible assets	(155)	0	–
Total – IFRS basis	**(2,650)**	**(2,411)**	**+16**

Cost of sales. Core costs increased by 10% at constant exchange rates primarily due to an increase in manufacturing cost of goods sold and period costs as a result of product-related provisions. Additionally the period costs in 2013 included a one-time VAT refund of 30 million Swiss francs related to meter placements. The underlying cost of goods sold increased in line with sales growth. This resulted in a cost of sales ratio of 45.0% compared to 43.1% in the first half of 2013. Global restructuring costs were incurred mainly due to the reorganisation of the Applied Science business and the closure of the site in Graz, Austria. Amortisation of product intangibles decreased as some intangible assets became fully amortised. In addition, product intangible asset impairment charges of 155 million Swiss francs were incurred in the Tissue Diagnostics business area.

Diagnostics Division – Marketing and distribution for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(1,170)**	**(1,233)**	**0**
Global restructuring plans	(27)	(51)	–45
Amortisation of intangible assets	(2)	(3)	–46
Total – IFRS basis	**(1,199)**	**(1,287)**	**–2**

Marketing and distribution. Core costs were flat at constant exchange rates, reflecting lower spending in Molecular Diagnostics and Diabetes Care as a result of the restructuring initiatives, as well as lower bad debt expenses, which together offset the increased spending in Professional Diagnostics. In North America marketing and distribution costs decreased significantly due to lower field force expenses. This decrease was partially offset by higher expenses in the Asia–Pacific and Latin America regions to further penetrate emerging markets. On a core basis, marketing and distribution costs as a percentage of sales were 22.8% compared to 24.0% in 2013. Global restructuring costs were mainly due to initiatives to improve the efficiency of marketing and distribution activities within the reorganisations of the Diabetes Care and Applied Science businesses.

Diagnostics Division – Research and development for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Research and development – Core basis	**(492)**	**(473)**	**+6**
Global restructuring plans	(7)	(48)	–84
Amortisation of intangible assets	(1)	(1)	0
Impairment of intangible assets	0	(12)	–100
Total – IFRS basis	**(500)**	**(534)**	**–5**

Research and development. Core costs increased by 6% at constant exchange rates, driven by increased spending in Professional Diagnostics for instrument development costs for major platforms. In the former Applied Science business areas expenses declined significantly as a result of restructuring and cost containment programmes. As a percentage of sales, research and development core costs increased to 9.6% from 9.2% in 2013. Global restructuring costs were mainly due to the closure of the site in Graz, Austria and the reorganisation in the Applied Science business.

Diagnostics Division – General and administration for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(187)	(185)	+4
Pensions – past service costs	0	28	–100
Business taxes and capital taxes	(20)	(21)	+2
Other general items	(28)	(26)	+3
General and administration – Core basis	**(235)**	**(204)**	**+18**
Global restructuring plans	(82)	(24)	+237
Impairment of goodwill	(259)	(35)	Over +500
Alliances and business combinations	(3)	(1)	Over +500
Legal and environmental settlements	(22)	(7)	+215
Total – IFRS basis	**(601)**	**(271)**	**+129**

General and administration. Core costs increased by 18% at constant exchange rates due to one-time income of 28 million Swiss francs recorded for past service costs from changes in the Group's pension plans in Switzerland in 2013. Administration costs increased by 4% due to ramping up new and developing affiliates. Business taxes included costs of 11 million Swiss francs for the medical device tax in the US. As a percentage of sales, core costs increased to 4.6% from 4.0% in 2013. Global restructuring costs were mainly due to IT projects and the reorganisation in Diabetes Care. In addition, goodwill impairment charges of 259 million Swiss francs were incurred in the Tissue Diagnostics business area.

Financial position

Diagnostics Division – Net operating assets

	30 June 2014 (mCHF)	31 Dec. 2013 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Trade receivables	2,599	2,746	–5	–5	(152)	5
Inventories	1,967	1,837	+7	+8	134	(4)
Trade payables	(537)	(615)	–13	–12	77	1
Net trade working capital	**4,029**	**3,968**	**+2**	**+2**	**59**	**2**
Other receivables/(payables)	(1,091)	(1,186)	–8	–8	95	0
Net working capital	**2,938**	**2,782**	**+6**	**+6**	**154**	**2**
Property, plant and equipment	4,761	4,721	+1	+1	53	(13)
Goodwill and intangible assets	7,370	7,129	+3	+3	238	3
Provisions	(773)	(522)	+48	+49	(251)	0
Other long-term assets, net	(63)	(78)	–19	–18	14	1
Long-term net operating assets	**11,295**	**11,250**	**0**	**+1**	**54**	**(9)**
Net operating assets	**14,233**	**14,032**	**+1**	**+2**	**208**	**(7)**

The absolute amount of the movement between the 30 June 2014 and 31 December 2013 consolidated balances reported in Swiss francs is split between actual 2014 transactions (translated at average rates for 2013) and the currency translation adjustment (CTA) that arises on consolidation. The 2014 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 50 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 80.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc appreciated slightly against the euro by 30 June resulting in a negative translation impact on balance sheet positions. The Diagnostics Division does not have a significant net asset position in Japanese yen so the depreciation of the Swiss franc against the Japanese yen had only a minor impact. The exchange rates used are given on page 38.

Net working capital. Net trade working capital increased by 2%, driven by an increase in inventories and a decrease in trade payables. Inventories increased by 8% due to higher demand in emerging markets, notably in China, Turkey and Brazil. Trade payables decreased by 12% due to lower supplier order levels in Germany. Trade receivables decreased by 5% driven by strong collections and factoring initiatives in Southern Europe. In February 2014 payment was received in Spain as part of the Montoro Plan. The net liability for other receivables/payables decreased due to an increase in some prepayments and VAT receivables.

Long-term net operating assets. The increase of 1% at constant exchange rates was due to the increase in goodwill and intangible assets from the Genia and IQuum acquisitions, partly offset by impairments in the Tissue Diagnostics business. Property, plant and equipment increased slightly due to increased capital expenditure. Provisions increased by 49% due to the creation of new provisions for the contingent consideration arrangements in the two acquisitions.

Free cash flow

Diagnostics Division – Operating free cash flow for the six months ended 30 June

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Operating profit – IFRS basis	**254**	**703**	**–56**
– Depreciation, amortisation and impairment	1,000	640	+64
– Provisions	24	31	–20
– Equity compensation plans	19	18	+6
– Other	56	96	–39
Operating profit cash adjustments [1)]	**1,099**	**785**	**+46**
Operating profit, net of operating cash adjustments	**1,353**	**1,488**	**–1**
(Increase) decrease in net working capital	(181)	(299)	–39
Investments in property, plant and equipment	(531)	(489)	+14
Investments in intangible assets	(9)	–	–
Operating free cash flow	**632**	**700**	**+3**
– as % of sales	12.3	13.6	–0.4

1) A detailed breakdown is provided on page 79.

The operating free cash flow of the Diagnostics Division was 0.6 billion Swiss francs. The cash generation of the business was offset by increases in net working capital, which are noted above in the comments on the financial position. Operating profit, net of cash adjustments, decreased by 1% while core operating profit was stable. This was due to some non-cash items, including the income from changes to the Group's pension plans in 2013. Increased capital expenditure for property, plant and equipment of 0.5 billion Swiss francs came mainly from investments in Germany.

Corporate operating results

Corporate interim operating results summary

	2014 (mCHF)	2013 (mCHF)	% change (CER)
Administration	(199)	(203)	–3
Pensions – past service costs	0	103	–100
Business taxes and capital taxes	(7)	(5)	+44
Other general items	27	(12)	–
General and administration costs – Core basis [1]	**(179)**	**(117)**	**+53**
Global restructuring plans	0	(5)	–92
Legal and environmental settlements	2	(4)	–
Total costs – IFRS basis	**(177)**	**(126)**	**+41**
Financial position			
Net working capital	(70)	(58)	+21
Long-term net operating assets	(414)	(443)	–6
Net operating assets	**(484)**	**(501)**	**–3**
Free cash flow			
Operating free cash flow	(187)	(279)	–32

1) See pages 75–78 for definition of Core results and Core EPS.

General and administration core costs increased by 53% at constant exchange rates due to the 2013 base effect of income of 103 million Swiss francs recorded for past service costs from changes in the Group's pension plans in Switzerland and the UK. Otherwise administration expenses decreased slightly and other general items include income of 20 million Swiss francs which are driven by the allocation of internal IT charges. Total costs on an IFRS basis increased by 41% with lower restructuring and legal expenses than in 2013.

Corporate operating free cash flow showed a lower outflow due to the settlement of accruals in the comparative period.

Foreign exchange impact on operating results

The Group's exposure to movements in foreign currencies affecting its operating results, as expressed in Swiss francs, is summarised by the following key figures and comments.

Growth (reported at CER and in Swiss francs) for the six months ended 30 June

	% change (CER)		% change (CHF)	
	2014	2013	2014	2013
Pharmaceuticals Division				
Sales	+4	+6	–2	+4
Core operating profit	+9	+9	+1	+8
Diagnostics Division				
Sales	+6	+3	0	+2
Core operating profit	0	+10	–9	+9
Group				
Sales	+5	+5	–1	+4
Core operating profit	+7	+10	–1	+10

Exchange rates against the Swiss franc

	30 June 2014	Average to 30 June 2014	31 December 2013	Average to 30 June 2013
1 USD	0.89	0.89	0.89	0.94
1 EUR	1.22	1.22	1.23	1.23
100 JPY	0.88	0.87	0.84	0.98

In the first half of 2014 compared to the first half of 2013, the Swiss franc was stronger against most currencies, in particular the US dollar, a number of Latin American currencies and the Japanese yen. The impact is strongly negative on the income statement and free cash flow results expressed in Swiss francs compared to constant exchange rates. For sales, these developments resulted in a negative impact of 6 percentage points, equivalent to 1.4 billion Swiss francs when translated into Swiss francs. The currency translation exposure for the operating profit is mitigated by the Group having the majority of its cost base located outside of Switzerland. The sensitivity of Group sales and core operating profit to a 1% change in average foreign currency exchange rates against the Swiss franc during the first half of 2014 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2014

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (mCHF)	Core operating profit (mCHF)
US dollar	91	38
Euro	50	25
Japanese yen	18	8
All other currencies	62	31

Treasury and taxation results

Treasury and taxation interim results

	2014 (mCHF)	2013 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	8,152	8,594	–5	+3
Financing costs	(695)	(777)	–11	–6
Other financial income (expense)	37	(61)	–	–
Profit before taxes	**7,494**	**7,756**	**–3**	**+5**
Income taxes	(1,853)	(1,709)	+8	+17
Net income	**5,641**	**6,047**	**–7**	**+2**
Attributable to				
– Roche shareholders	5,533	5,941	–7	+2
– Non-controlling interests	108	106	+2	+14
Core results [1]				
Operating profit	9,410	9,488	–1	+7
Financing costs	(695)	(777)	–11	–6
Other financial income (expense)	37	(61)	–	–
Profit before taxes	**8,752**	**8,650**	**+1**	**+9**
Income taxes	(2,111)	(2,001)	+5	+13
Net income	**6,641**	**6,649**	**0**	**+8**
Attributable to				
– Roche shareholders	6,533	6,542	0	+8
– Non-controlling interests	108	107	+1	+14
Financial position – Treasury and taxation				
Net debt	(8,785)	(6,708)	+31	+30
Pensions	(6,440)	(5,426)	+19	+19
Income taxes	1,939	1,838	+5	+5
Financial long-term assets	363	342	+6	+5
Derivatives, net	126	299	–58	–61
Collateral, net	(413)	(480)	–14	–14
Interest payable	(302)	(542)	–44	–44
Other non-operating assets, net	(41)	(16)	+156	–41
Total net assets (liabilities)	**(13,553)**	**(10,693)**	**+27**	**+27**
Free cash flow – Treasury and taxation				
Treasury activities	(691)	(900)	–23	–18
Taxes paid	(1,542)	(1,653)	–7	–1
Dividends paid	(6,662)	(6,284)	+6	+6
Total	**(8,895)**	**(8,837)**	**+1**	**+2**

1) See pages 75–78 for definition of Core results and Core EPS.

Financing costs

Financing costs were 695 million Swiss francs, a decrease of 82 million Swiss francs or 6% at constant exchange rates compared to the first half of 2013. The main driver was a decrease of 15% in interest expenses which reflects the continued repayment of the debt incurred to finance the Genentech transaction. The loss on early redemption of debt was 127 million Swiss francs compared with 79 million Swiss francs in 2013. The net interest cost of defined benefit pension plans decreased by 12% to 98 million Swiss francs due to the improved funding status at the end of 2013. A full analysis of financing costs is given in Note 3 to the Interim Financial Statements.

Other financial income (expense)

Other financial income (expense) was a net income of 37 million Swiss francs. Net income from equity securities increased to 85 million Swiss francs due to the divestment of certain positions. Interest income and income from debt securities were broadly stable at 19 million Swiss francs in an environment of continuing low interest rates. The net foreign exchange result reflects hedging costs and was a loss of 56 million Swiss francs compared to a loss of 111 million Swiss francs in the first half of 2013. The foreign exchange result in 2014 included a loss of 11 million Swiss francs following the devaluation of the Argentinian peso in January 2014. A full analysis of other financial income (expense) is given in Note 3 to the Interim Financial Statements.

Income taxes

The Group's effective core tax rate increased by 1.0 percentage points to 24.1% in the first half of 2014 (2013: 23.1%). This was mainly due to the expiration of the US research and development tax credits at the end of 2013. In addition the effective tax rate in the first half of 2013 includes the retrospective re-enactment of the credits for 2012, which means that the 2013 interim results included a whole year of US research and development tax credits in respect of 2012 as well as six months of credits for 2013. The IFRS results include a goodwill impairment that is not tax deductible and therefore increases the effective tax rate in the IFRS results over and above that in the core results.

Analysis of the Group's effective tax rate for the six months ended 30 June

	2014			2013		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate – Core basis	**8,752**	**(2,111)**	**24.1**	**8,650**	**(2,001)**	**23.1**
Global restructuring plans	(274)	65	23.7	(300)	83	27.7
Goodwill and intangible assets	(822)	178	21.7	(568)	178	31.3
Equity compensation plans	–	(2)	–	–	24	–
Other	(162)	17	10.5	(26)	7	26.9
Group's effective tax rate – IFRS basis	**7,494**	**(1,853)**	**24.7**	**7,756**	**(1,709)**	**22.0**

Financial position

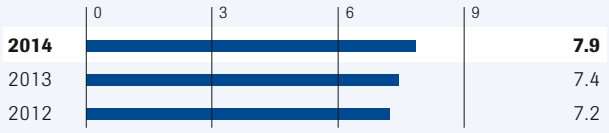
The increase in net debt was mainly due to the negative free cash flow of 1.0 billion Swiss francs which includes the annual dividend payment of 6.7 billion Swiss francs. The increase in net pension liabilities reflects lower interest rates leading to the discounted defined benefit obligation being higher. The net tax assets increased mainly due to deferred tax effects of the increased net pension liabilities. Interest payable relates mostly to bonds and notes with coupon payment dates in March and September, and the decline is due to 0.7 billion Swiss francs of coupon payments on bonds and notes during the interim period, partly offset by interest accrued in the period. At 30 June 2014 the Group held financial long-term assets with a market value of 0.2 billion Swiss francs, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations.

Free cash flow

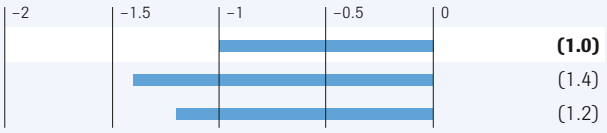
The cash outflow from treasury activities decreased to 0.7 billion Swiss francs mostly due to lower interest payments. Total taxes paid in the first half of 2014 were 1.5 billion Swiss francs, a decrease of 1% due to lower tax payments in the US. Total dividends paid in the first half of 2014 were 6.7 billion Swiss francs, an increase of 0.4 billion Swiss francs compared to the first half of 2013, reflecting the 6% increase of the Roche Group dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow for the six months ended 30 June

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
2014				
Operating profit – IFRS basis	8,075	254	(177)	8,152
Operating profit cash adjustments	1,102	1,099	(21)	2,180
Operating profit, net of operating cash adjustments	**9,177**	**1,353**	**(198)**	**10,332**
(Increase) decrease in net working capital	(900)	(181)	12	(1,069)
Investments in property, plant and equipment	(739)	(531)	(1)	(1,271)
Investments in intangible assets	(114)	(9)	0	(123)
Operating free cash flow	**7,424**	**632**	**(187)**	**7,869**
Treasury activities				(691)
Taxes paid				(1,542)
Dividends paid				(6,662)
Free cash flow				**(1,026)**
2013				
Operating profit – IFRS basis	8,017	703	(126)	8,594
Operating profit cash adjustments	939	785	(112)	1,612
Operating profit, net of operating cash adjustments	**8,956**	**1,488**	**(238)**	**10,206**
(Increase) decrease in net working capital	(1,235)	(299)	(40)	(1,574)
Investments in property, plant and equipment	(515)	(489)	(1)	(1,005)
Investments in intangible assets	(182)	0	0	(182)
Operating free cash flow	**7,024**	**700**	**(279)**	**7,445**
Treasury activities				(900)
Taxes paid				(1,653)
Dividends paid				(6,284)
Free cash flow				**(1,392)**

Operating free cash flow increased by 11% at constant exchange rates to 7.9 billion Swiss francs due to the continued strong growth of the underlying operating business, which showed a 7% increase in core operating profit. Net working capital increased at a lower rate than in 2013, while there were higher investments in property, plant and equipment.

The cash outflow from treasury activities decreased to 0.7 billion Swiss francs mostly due to lower interest payments. Total taxes paid were 1.5 billion Swiss francs, a decrease due to lower tax payments in the US. Total dividends paid were higher due to the 6% increase of the annual Roche Group dividend.

As in previous years the free cash flow for the first six months of the year showed a net cash outflow driven by the annual dividend payments. The total net outflow of 1.0 billion Swiss francs was lower than in the first half of 2013, as the increased operating free cash flow and lower tax and interest payments more than offset the increase in the dividend.

Net debt in millions of CHF

At 31 December 2013	
Cash and cash equivalents	4,000
Marketable securities	7,935
Long-term debt	(16,423)
Short-term debt	(2,220)
Net debt at beginning of period	**(6,708)**
Change in net debt during interim period 2014	
Free cash flow for six months ended 30 June 2014	(1,026)
Transactions in own equity instruments	(585)
Business combinations, net of divestments of subsidiaries	(412)
Hedging and collateral arrangements	33
Currency translation, fair value and other movements	(87)
Net change in net debt	**(2,077)**
At 30 June 2014	
Cash and cash equivalents	4,158
Marketable securities	6,121
Long-term debt	(14,684)
Short-term debt	(4,380)
Net debt at end of period	**(8,785)**

Net debt – Currency profile in millions of CHF

	Cash and marketable securities		Debt	
	30 June 2014	31 Dec. 2013	30 June 2014	31 Dec. 2013
US dollar [1]	1,922	2,152	(14,388)	(14,075)
Euro	3,240	3,657	(1,221)	(1,232)
Swiss franc	1,911	3,070	(2,589)	(2,587)
Japanese yen	2,040	1,825	(1)	(1)
Pound sterling	581	753	(301)	(290)
Other	585	478	(564)	(458)
Total	**10,279**	**11,935**	**(19,064)**	**(18,643)**

1) US dollar-denominated debt includes those bonds and notes denominated in euros, Swiss francs and pounds sterling that were swapped into US dollars, and therefore in the financial statements have economic characteristics equivalent to US dollar-denominated bonds and notes.

The net debt position of the Group at 30 June 2014 was 8.8 billion Swiss francs, an increase of 2.1 billion Swiss francs from 31 December 2013. The increase in net debt was mainly due to the negative free cash flow of 1.0 billion Swiss francs which includes the annual dividend payment of 6.7 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes totalled 0.6 billion Swiss francs.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. During the first six months of 2014, the cash collateral balance remained largely stable. The collateral balance in relation to the hedges on the non-US dollar-denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to pound sterling. Currently the collateral balance moves by approximately 50 million US dollars if all of these foreign exchange rates move by 1% simultaneously.

The redemption and repurchase of bonds and notes during the first half of 2014 (see Note 10 to the Interim Financial Statements) had an impact on liquid funds, but had no impact on the net debt position.

Pensions and other post-employment benefits

Funding status and balance sheet position in millions of CHF

	30 June 2014	31 Dec. 2013
Funded plans		
– Fair value of plan assets	11,715	11,144
– Defined benefit obligation	(13,646)	(12,625)
Over (under) funding	**(1,931)**	**(1,481)**
Unfunded plans		
– Defined benefit obligation	(4,629)	(4,059)
Total funding status	**(6,560)**	**(5,540)**
Limit on asset recognition	(6)	(6)
Reimbursement rights	126	120
Net recognised asset (liability)	**(6,440)**	**(5,426)**

Overall the funding status on an IFRS basis of the Group's defined benefit plans decreased to 86% compared to 88% at the start of the year. This change came mainly from an increase in the defined benefit obligation arising from a fall in discount rates since the end of 2013. The funded status of the pension funds is monitored by the local pension fund governance bodies as well as being closely reviewed at a Group level.

Further information on the Group's pensions and other post-employment benefits is given in Note 25 to the 2013 Annual Financial Statements.

Debt

To finance the Genentech transaction in 2009, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs. Of the debt raised in early 2009, 71% had already been repaid by 30 June 2014. This includes the early partial redemption of 1.0 billion US dollar-denominated notes originally due 1 March 2019 that were redeemed on 3 March 2014 following the exercise of an early-call option in December 2013. On 28 February 2014 the Group completed a tender offer to repurchase 0.4 billion pounds sterling of notes originally due 4 March 2015. On 30 June 2014 the Group exercised its option to call for early partial redemption of 0.5 billion US dollars of notes that were due 1 March 2019. These notes will be repaid on 29 August 2014.

The maturity schedule of the Group's bonds and notes outstanding at 30 June 2014 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts at 30 June 2014 by contractual maturity

	US dollar (mUSD)	Euro (mEUR)	Pound sterling (mGBP)	Swiss franc (mCHF)	Total [1] (mUSD)	Total [1] (mCHF)
2014	500[2]	–	–	–	500	445
2015	1,000	–	481[4]	–	1,819	1,620
2016	–	2,100[3]	–	–	2,866	2,554
2017	–	–	–	1,500	1,684	1,500
2018	–	1,000	–	600	2,038	1,816
2019–2023	2,600	1,750[3]	200	500	5,891	5,248
2024 and beyond	3,000	–	–	–	3,000	2,673
Total	**7,100**	**4,850**	**681**	**2,600**	**17,798**	**15,856**

1) Total translated at 30 June 2014 exchange rates.
2) Following the Group's exercise of its early call option in June 2014, 0.5 billion US dollar of notes originally due in 2019 will be redeemed in August 2014.
3) Of the proceeds from these bonds and notes, 3.3 billion euros have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.
4) Of the proceeds from these bonds and notes, 300 million pounds sterling have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In the full year 2013 the free cash flow was 5.4 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends. In the first half of 2014 free cash flow was a net cash outflow of 1.0 billion Swiss francs, which includes an outflow of 6.7 billion Swiss francs for the payment of the annual dividends.

For short-term financing requirements, the Group has a commercial paper programme in the US under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 3.9 billion euros available as back-stop lines. Commercial paper notes totalling 2.9 billion US dollars were outstanding as of 30 June 2014 (31 December 2013: 0.8 billion US dollars). For longer-term financing the Group maintains strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's which should facilitate efficient access to international capital markets.

Further information on the Group's debt is given in Note 10 to the Interim Financial Statements and Note 20 to the 2013 Annual Financial Statements.

Financial risks

As at 30 June 2014 the Group has a net debt position of 8.8 billion Swiss francs (31 December 2013: 6.7 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

Asset allocation. A considerable portion of the cash and marketable securities the Group currently holds is being used for debt redemptions. Liquid funds are either held as cash or are invested in high-quality, investment-grade fixed income securities with an investment horizon to meet those liquidity requirements.

Cash and marketable securities

	30 June 2014		31 December 2013	
	(mCHF)	(% of total)	(mCHF)	(% of total)
Cash and cash equivalents	4,158	40	4,000	34
Money market instruments	4,109	40	6,706	55
Bonds, debentures and other investments	1,533	15	793	7
Shares	479	5	436	4
Total cash and marketable securities	**10,279**	**100**	**11,935**	**100**

Credit risk. Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's 9.8 billion Swiss francs of cash and fixed income marketable securities remained strong with 97% being invested in the A-AAA range. As noted previously the Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 9.1 billion Swiss francs. Since the beginning of 2010 there have been increasing financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and at 30 June 2014 has trade receivables of 0.9 billion euros (1.1 billion Swiss francs) with public customers in these countries. This is a decrease of 0.2 billion euros from 31 December 2013, which is mainly due to collections in Spain as part of the Montoro Plan and forfaiting in Italy. The Group uses different measures to improve collections in these countries, including intense communication with customers, forfaiting, negotiations of payment plans, charging of interest for late payments, and legal actions. The Group is applying new commercial policies with some selected hospitals in Greece, Portugal and Italy.

Liquidity risk. Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In addition to the current liquidity position, the Group has strong cash generation ability. Those future cash flows will be used to repay debt instruments in the coming years.

Roche enjoys strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 5.1 billion Swiss francs of which 4.7 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 30 June 2014 no debt has been drawn under these credit lines.

Market risk. Market risk arises from changing market prices of the Group's financial assets or financial liabilities. The exposures are predominantly related to changes in interest rates, foreign exchange rates and equity prices. The Group uses Value-at-Risk (VaR) to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The Group's VaR decreased during the first half of 2014, mainly due to a gradual decrease in long-term interest rates in major economies.

Interest rate risk. Interest rate risk arises from movements in interest rates which could affect the Group financial result or the value of the Group equity. The Group may use interest rate derivatives to manage its interest-rate-related exposure and financial result.

Further information on financial risk management and financial risks and the VaR methodology is included in Note 29 to the 2013 Annual Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2014 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2015 which the Group has not yet applied. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position. The Group is also assessing other new and revised standards which are not mandatory until after 2015, notably IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers'.

Roche Group Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by the Group's auditor and their review report is presented on page 74.

Roche Group consolidated income statement for the six months ended 30 June 2014 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**17,834**	**5,140**	**–**	**22,974**
Royalties and other operating income [2]	1,334	64	–	1,398
Cost of sales	(3,661)	(2,650)	–	(6,311)
Marketing and distribution	(2,723)	(1,199)	–	(3,922)
Research and development [2]	(3,963)	(500)	–	(4,463)
General and administration	(746)	(601)	(177)	(1,524)
Operating profit [2]	**8,075**	**254**	**(177)**	**8,152**
Financing costs [3]				(695)
Other financial income (expense) [3]				37
Profit before taxes				**7,494**
Income taxes [4]				(1,853)
Net income				**5,641**
Attributable to				
– Roche shareholders				5,533
– Non-controlling interests				108
Earnings per share and non-voting equity security [13]				
Basic (CHF)				6.52
Diluted (CHF)				6.41

Roche Group consolidated income statement for the six months ended 30 June 2013 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**18,162**	**5,133**	**–**	**23,295**
Royalties and other operating income [2]	883	73	–	956
Cost of sales	(3,715)	(2,411)	–	(6,126)
Marketing and distribution	(2,822)	(1,287)	–	(4,109)
Research and development [2]	(4,002)	(534)	–	(4,536)
General and administration	(489)	(271)	(126)	(886)
Operating profit [2]	**8,017**	**703**	**(126)**	**8,594**
Financing costs [3]				(777)
Other financial income (expense) [3]				(61)
Profit before taxes				**7,756**
Income taxes [4]				(1,709)
Net income				**6,047**
Attributable to				
– Roche shareholders				5,941
– Non-controlling interests				106
Earnings per share and non-voting equity security [13]				
Basic (CHF)				7.00
Diluted (CHF)				6.88

Roche Group consolidated statement of comprehensive income in millions of CHF

	Six months ended 30 June	
	2014	2013
Net income recognised in income statement	**5,641**	**6,047**
Other comprehensive income		
Remeasurements of defined benefit plans	(751)	297
Items that will not be reclassified to the income statement	**(751)**	**297**
Available-for-sale investments	10	10
Cash flow hedges	(2)	24
Currency translation of foreign operations	172	(496)
Items that may be reclassified subsequently to the income statement	**180**	**(462)**
Other comprehensive income, net of tax	**(571)**	**(165)**
Total comprehensive income	**5,070**	**5,882**
Attributable to		
– Roche shareholders	4,904	5,958
– Non-controlling interests	166	(76)
Total	**5,070**	**5,882**

Roche Group consolidated balance sheet in millions of CHF

	30 June 2014	31 December 2013
Non-current assets		
Property, plant and equipment	16,010	15,760
Goodwill [7]	7,258	7,145
Intangible assets [8]	3,938	3,944
Deferred tax assets	5,283	4,707
Defined benefit plan assets	664	636
Other non-current assets	844	811
Total non-current assets	**33,997**	**33,003**
Current assets		
Inventories	6,456	5,906
Accounts receivable	8,563	8,808
Current income tax assets	198	218
Other current assets	2,475	2,297
Marketable securities	6,121	7,935
Cash and cash equivalents	4,158	4,000
Total current assets	**27,971**	**29,164**
Total assets	**61,968**	**62,167**
Non-current liabilities		
Long-term debt [10]	(14,684)	(16,423)
Deferred tax liabilities	(1,161)	(1,282)
Defined benefit plan liabilities	(7,104)	(6,062)
Provisions [9]	(1,365)	(1,097)
Other non-current liabilities	(281)	(302)
Total non-current liabilities	**(24,595)**	**(25,166)**
Current liabilities		
Short-term debt [10]	(4,380)	(2,220)
Current income tax liabilities	(2,381)	(1,805)
Provisions [9]	(2,257)	(2,148)
Accounts payable	(2,089)	(2,162)
Other current liabilities	(6,782)	(7,425)
Total current liabilities	**(17,889)**	**(15,760)**
Total liabilities	**(42,484)**	**(40,926)**
Total net assets	**19,484**	**21,241**
Equity		
Capital and reserves attributable to Roche shareholders	17,417	19,294
Equity attributable to non-controlling interests	2,067	1,947
Total equity	**19,484**	**21,241**

Roche Group consolidated statement of cash flows in millions of CHF

	Six months ended 30 June	
	2014	2013
Cash flows from operating activities		
Cash generated from operations [14]	10,667	10,913
(Increase) decrease in net working capital	(1,069)	(1,574)
Payments made for defined benefit plans	(290)	(199)
Utilisation of provisions	(427)	(514)
Disposal of products	253	2
Other operating cash flows	3	3
Cash flows from operating activities, before income taxes paid	**9,137**	**8,631**
Income taxes paid	(1,542)	(1,653)
Total cash flows from operating activities	**7,595**	**6,978**
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,271)	(1,005)
Purchase of intangible assets	(123)	(182)
Disposal of property, plant and equipment	37	25
Disposal of intangible assets	–	–
Business combinations [5]	(412)	(29)
Interest and dividends received	12	22
Sales of marketable securities	35,234	32,034
Purchases of marketable securities	(33,375)	(26,539)
Other investing cash flows	77	12
Total cash flows from investing activities	**179**	**4,338**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [10]	–	–
Redemption and repurchase of bonds and notes [10]	(1,700)	(5,790)
Increase (decrease) in commercial paper [10]	1,852	1,932
Increase (decrease) in other debt	125	106
Hedging and collateral arrangements	33	(101)
Interest paid	(687)	(982)
Dividends paid [14]	(6,662)	(6,284)
Equity-settled equity compensation plans, net of transactions in own equity	(585)	(1,046)
Other financing cash flows	–	–
Total cash flows from financing activities	**(7,624)**	**(12,165)**
Net effect of currency translation on cash and cash equivalents	8	(115)
Increase (decrease) in cash and cash equivalents	**158**	**(964)**
Cash and cash equivalents at beginning of period	4,000	4,530
Cash and cash equivalents at end of period	**4,158**	**3,566**

Roche Group consolidated statement of changes in equity in millions of CHF

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended 30 June 2013								
At 1 January 2013	**160**	**20,041**	**113**	**40**	**(5,840)**	**14,514**	**2,236**	**16,750**
Net income recognised in income statement	–	5,941	–	–	–	5,941	106	6,047
Available-for-sale investments	–	–	5	–	–	5	5	10
Cash flow hedges	–	–	–	24	–	24	–	24
Currency translation of foreign operations	–	–	1	2	(312)	(309)	(187)	(496)
Remeasurements of defined benefit plans	–	297	–	–	–	297	–	297
Total comprehensive income	**–**	**6,238**	**6**	**26**	**(312)**	**5,958**	**(76)**	**5,882**
Dividends	–	(6,238)	–	–	–	(6,238)	(46)	(6,284)
Equity compensation plans, net of transactions in own equity	–	(279)	–	–	–	(279)	3	(276)
Changes in non-controlling interests	–	–	–	–	–	–	2	2
At 30 June 2013	**160**	**19,762**	**119**	**66**	**(6,152)**	**13,955**	**2,119**	**16,074**
Six months ended 30 June 2014								
At 1 January 2014	**160**	**25,643**	**123**	**95**	**(6,727)**	**19,294**	**1,947**	**21,241**
Net income recognised in income statement	–	5,533	–	–	–	5,533	108	5,641
Available-for-sale investments	–	–	9	–	–	9	1	10
Cash flow hedges	–	–	–	8	–	8	(10)	(2)
Currency translation of foreign operations	–	–	2	1	102	105	67	172
Remeasurements of defined benefit plans	–	(751)	–	–	–	(751)	–	(751)
Total comprehensive income	**–**	**4,782**	**11**	**9**	**102**	**4,904**	**166**	**5,070**
Dividends	–	(6,617)	–	–	–	(6,617)	(50)	(6,667)
Equity compensation plans, net of transactions in own equity	–	(164)	–	–	–	(164)	2	(162)
Changes in non-controlling interests	–	–	–	–	–	–	2	2
At 30 June 2014	**160**	**23,644**	**134**	**104**	**(6,625)**	**17,417**	**2,067**	**19,484**

Notes to the Roche Group Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited condensed interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries (hereafter 'the Group') for the six months ended 30 June 2014 (hereafter 'the interim period'). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2013 (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 21 July 2014.

Statement of compliance

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

Management judgements and estimates

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

Seasonality

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

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. The following changes in accounting policies will be reflected in the Group's Consolidated Financial Statements for the year ended 31 December 2014.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 'Levies'

These do not have a material impact on the Group's overall results and financial position.

Future new and revised standards

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2015 which the Group has not yet applied. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position. The Group is also assessing other new and revised standards which are not mandatory until after 2015, notably IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers'.

2. Operating segment information

The Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenues from the sale or licensing of products or technology to third parties. Residual operating activities from divested businesses and certain global activities are reported as 'Corporate'. These include the Corporate Executive Committee and global group functions for communications, human resources, finance (including treasury, taxes and pension fund management), legal, safety and environmental services. Sub-divisional information for Roche Pharmaceuticals and Chugai, operating segments within the Pharmaceuticals Division, is also presented.

Divisional information in millions of CHF

Six months ended 30 June	Pharmaceuticals 2014	Pharmaceuticals 2013	Diagnostics 2014	Diagnostics 2013	Corporate 2014	Corporate 2013	Group 2014	Group 2013
Revenues from external customers								
Sales	17,834	18,162	5,140	5,133	–	–	22,974	23,295
Royalties and other operating income	1,334	883	64	73	–	–	1,398	956
Total	**19,168**	**19,045**	**5,204**	**5,206**	**–**	**–**	**24,372**	**24,251**
Revenues from other operating segments								
Sales	–	–	4	5	–	–	4	5
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(4)	(5)
Total	**–**	**–**	**4**	**5**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	8,075	8,017	254	703	(177)	(126)	8,152	8,594
Capital expenditure								
Business combinations	–	–	798	–	–	–	798	–
Additions to property, plant and equipment	688	470	508	480	1	1	1,197	951
Additions to intangible assets	103	182	9	–	–	–	112	182
Total capital expenditure	**791**	**652**	**1,315**	**480**	**1**	**1**	**2,107**	**1,133**
Research and development								
Research and development costs	3,963	4,002	500	534	–	–	4,463	4,536
Other segment information								
Depreciation of property, plant and equipment	502	511	425	419	3	4	930	934
Amortisation of intangible assets	88	87	154	166	–	–	242	253
Impairment (reversal) of property, plant and equipment	22	4	7	8	–	–	29	12
Impairment of goodwill	–	–	259	35	–	–	259	35
Impairment of intangible assets	166	268	155	12	–	–	321	280
Equity compensation plan expenses	132	147	21	18	8	9	161	174

Pharmaceuticals sub-divisional information in millions of CHF

Six months ended 30 June	Roche Pharmaceuticals 2014	Roche Pharmaceuticals 2013	Chugai 2014	Chugai 2013	Pharmaceuticals Division 2014	Pharmaceuticals Division 2013
Revenues from external customers						
Sales	16,253	16,490	1,581	1,672	17,834	18,162
Royalties and other operating income	1,270	810	64	73	1,334	883
Total	**17,523**	**17,300**	**1,645**	**1,745**	**19,168**	**19,045**
Revenues from other operating segments						
Sales	642	538	228	180	870	718
Royalties and other operating income	11	21	57	46	68	67
Elimination of income within division					(938)	(785)
Total	**653**	**559**	**285**	**226**	**–**	**–**
Segment results						
Operating profit	7,794	7,699	357	342	8,151	8,041
Elimination of profit within division					(76)	(24)
Operating profit	**7,794**	**7,699**	**357**	**342**	**8,075**	**8,017**
Capital expenditure						
Business combinations	–	–	–	–	–	–
Additions to property, plant and equipment	632	429	56	41	688	470
Additions to intangible assets	101	182	2	–	103	182
Total capital expenditure	**733**	**611**	**58**	**41**	**791**	**652**
Research and development						
Research and development costs	3,649	3,663	323	357	3,972	4,020
Elimination of costs within division					(9)	(18)
Total	**3,649**	**3,663**	**323**	**357**	**3,963**	**4,002**
Other segment information						
Depreciation of property, plant and equipment	444	444	58	67	502	511
Amortisation of intangible assets	68	65	20	22	88	87
Impairment (reversal) of property, plant and equipment	22	1	–	3	22	4
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	166	268	–	–	166	268
Equity compensation plan expenses	131	146	1	1	132	147

Net operating assets in millions of CHF

	Assets		Liabilities		Net assets	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Pharmaceuticals	27,340	26,672	(8,052)	(8,269)	19,288	18,403
Diagnostics	17,191	16,846	(2,958)	(2,814)	14,233	14,032
Corporate	161	164	(645)	(665)	(484)	(501)
Total operating	**44,692**	**43,682**	**(11,655)**	**(11,748)**	**33,037**	**31,934**
Non-operating	17,276	18,485	(30,829)	(29,178)	(13,553)	(10,693)
Group	**61,968**	**62,167**	**(42,484)**	**(40,926)**	**19,484**	**21,241**

Net operating assets – Pharmaceuticals sub-divisional information in millions of CHF

	Assets		Liabilities		Net assets	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Roche Pharmaceuticals	24,270	23,688	(7,233)	(7,472)	17,037	16,216
Chugai	3,909	3,725	(819)	(797)	3,090	2,928
Elimination within division	(839)	(741)	–	–	(839)	(741)
Pharmaceuticals Division	**27,340**	**26,672**	**(8,052)**	**(8,269)**	**19,288**	**18,403**

3. Net financial expense

Financing costs in millions of CHF

	Six months ended 30 June	
	2014	2013
Interest expense	(453)	(563)
Amortisation of debt discount [10]	(10)	(12)
Net gains (losses) on redemption and repurchase of bonds and notes [10]	(127)	(79)
Discount unwind	(7)	(9)
Net interest cost of defined benefit plans	(98)	(114)
Total financing costs	**(695)**	**(777)**

Other financial income (expense) in millions of CHF

	Six months ended 30 June	
	2014	2013
Net gains (losses) on sale of equity securities	84	38
Net gains (losses) on equity security derivatives	–	2
Dividend income	2	2
Write-downs and impairments of equity securities	(1)	(9)
Net income from equity securities	**85**	**33**
Interest income	16	16
Net gains (losses) on sale of debt securities	3	–
Net interest income and income from debt securities	**19**	**16**
Net foreign exchange gains (losses)	(38)	(58)
Net gains (losses) on foreign currency derivatives	(18)	(53)
Foreign exchange gains (losses)	**(56)**	**(111)**
Net other financial income (expense)	(11)	1
Associates	–	–
Total other financial income (expense)	**37**	**(61)**

Net financial expense in millions of CHF

	Six months ended 30 June	
	2014	2013
Financing costs	(695)	(777)
Other financial income (expense)	37	(61)
Net financial expense	**(658)**	**(838)**
Financial result from Treasury management	(560)	(724)
Financial result from Pension management	(98)	(114)
Associates	–	–
Net financial expense	**(658)**	**(838)**

4. Income taxes

Income tax expense is recognised based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended 30 June 2014.

Income tax expenses in millions of CHF

	Six months ended 30 June	
	2014	2013
Current income taxes	(2,330)	(1,979)
Deferred taxes	477	270
Total income tax (expense)	**(1,853)**	**(1,709)**

The Group's effective tax rate for the six months ended 30 June 2014 increased to 24.7% (six months ended 30 June 2013: 22.0%). This was mainly due to the expiration of the US research and development tax credits at the end of 2013. In addition the effective tax rate in the first half of 2013 includes the retrospective re-enactment of the 2012 tax credits in January 2013, which means that the six months ended 30 June 2013 included a whole year of tax credits in respect of 2012 as well as six months of tax credits for 2013. A goodwill impairment that is not tax deductible also contributed to the increase of the effective tax rate in the first half of 2014.

5. Business combinations

Acquisitions – 2014

Genia Technologies, Inc. On 3 June 2014 the Group acquired a 100% controlling interest in Genia Technologies, Inc. ('Genia'), a US private company based in California. Genia is developing a single-molecule, semiconductor-based DNA sequencing platform using nanopore technology. Genia is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was 255 million US dollars, of which 125 million US dollars was paid in cash and 130 million US dollars arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until June 2024 and the range of undiscounted outcomes is between zero and 225 million US dollars.

IQuum, Inc. On 10 June 2014 the Group acquired a 100% controlling interest in IQuum, Inc. ('IQuum'), a US private company based in Massachusetts. IQuum has developed the Laboratory-in-a-tube (Liat™) system, which enables healthcare workers to perform rapid molecular diagnostic testing in a point-of-care setting, closer to patients and with minimal training. IQuum is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The total consideration was 430 million US dollars, of which 282 million US dollars was paid in cash and 148 million US dollars arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones that may arise until the first half of 2017 and the range of undiscounted outcomes is between zero and 175 million US dollars. In addition, the Group acquired 100% controlling interest in the related intellectual property holding company for a cash consideration of 35 million US dollars.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for both IQuum and Genia are provisional based on preliminary information and valuations of the assets and liabilities. They are subject to adjustment during the second half of 2014 if new information is obtained about the facts that existed at the acquisition date.

Acquisitions – 2014: net assets acquired in millions of CHF

	Genia	IQuum	Total
Intangible assets			
– Product intangibles: in use [8]	–	211	211
– Product intangibles: not available for use [8]	226	–	226
Deferred tax liabilities	(90)	(71)	(161)
Other net assets (liabilities)	–	5	5
Net identifiable assets	**136**	**145**	**281**
Goodwill [7]	91	270	361
Total consideration	**227**	**415**	**642**
Cash	111	283	394
Contingent consideration [15]	116	132	248
Total consideration	**227**	**415**	**642**

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 10.0% for IQuum and 13.7% for Genia. The valuations were performed by independent valuers.

Goodwill represents a control premium and synergies that can be obtained from the Group's existing business. None of the goodwill is expected to be deductible for income tax purposes. Directly attributable transaction costs of 3 million Swiss francs are reported in the Diagnostics operating segment within general and administration expenses. The impact of the IQuum and Genia acquisitions on the results reported for the Diagnostics Division and the Group were not material.

Future acquisitions – 2014

Seragon Pharmaceuticals, Inc. On 2 July 2014 the Group announced an agreement to acquire a 100% controlling interest in Seragon Pharmaceuticals, Inc. ('Seragon'), a US private company based in San Diego, California. The closing of the transaction is expected in the third quarter of 2014. With the acquisition, the Group will obtain rights to Seragon's entire portfolio of selective estrogen receptor degraders (SERDs) for the potential treatment of hormone receptor-positive cancers. Seragon's lead product candidate, ARN-810, is a next-generation SERD that is currently in Phase I clinical trials for patients who have hormone receptor-positive breast cancer and have failed current hormonal agents. Seragon will be reported in the Pharmaceuticals Division. The purchase consideration will be 725 million US dollars in cash and up to 1 billion US dollars from a contingent consideration arrangement.

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	Six months ended 30 June	
	2014	2013
Cash consideration paid	(394)	–
Cash in acquired company	4	–
Contingent consideration paid [15]	(22)	(29)
Total net cash outflow	**(412)**	**(29)**

6. Global restructuring plans

During the six months ended 30 June 2014 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics [1]	Site consolidation [2]	Other plans [3]	Total
Six months ended 30 June 2014				
Global restructuring costs				
– Employee-related costs	36	13	70	119
– Site closure costs	15	43	–	58
– Other reorganisation expenses	80	7	10	97
Total global restructuring costs	**131**	**63**	**80**	**274**
Additional costs				
– Impairment of goodwill	–	–	–	–
– Impairment of intangible assets	–	–	–	–
– Legal and environmental costs	–	–	–	–
Total costs	**131**	**63**	**80**	**274**
Six months ended 30 June 2013				
Global restructuring costs				
– Employee-related costs	83	22	61	166
– Site closure costs	16	2	26	44
– Other reorganisation expenses	30	36	24	90
Total global restructuring costs	**129**	**60**	**111**	**300**
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	–	–	3
Total costs	**179**	**60**	**111**	**350**

The split of plans in this table has been reformatted from prior periods to reflect the relative development of the various plans.
1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes plan for global outsourcing of clinical trial monitoring in the Pharmaceuticals Division.

Diagnostics Division

On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. During the six months ended 30 June 2014 total costs of 78 million Swiss francs were incurred, mainly for IT-related costs, employee-related costs and dedicated project resources and consultancy costs. Spending on other smaller plans within the division was 53 million Swiss francs and included costs related to the restructuring of the former Applied Science business and certain IT projects.

Site consolidation

The operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the Group is currently in the process of divesting the site. Work on remediating the Nutley site is continuing, but no significant additional restructuring expenses were incurred in the first half of 2014. Other site consolidation costs include those related to the closure of the sites at Toluca, Mexico (Pharmaceuticals) and Graz, Austria (Diagnostics).

Other global restructuring plans

During the six months ended 30 June 2014 total costs were 80 million Swiss francs, with the major item being 41 million Swiss francs from the implementation of the global outsourcing of clinical trial monitoring in the Pharmaceuticals Division.

Global restructuring plans: summary of costs incurred in millions of CHF

	Six months ended 30 June	
	2014	2013
Employee-related costs		
– Termination costs	111	143
– Defined benefit plans	–	1
– Other employee-related costs	8	22
Total employee-related costs	**119**	**166**
Site closure costs		
– Impairment (reversal) of property, plant and equipment	8	10
– Accelerated depreciation of property, plant and equipment	20	3
– (Gains) losses on disposal of property, plant and equipment	3	–
– Other site closure costs	27	31
Total site closure costs	**58**	**44**
Other reorganisation expenses	97	90
Total global restructuring costs	**274**	**300**
Additional costs		
– Impairment of goodwill	–	35
– Impairment of intangible assets [8]	–	12
– Legal and environmental costs	–	3
Total costs	**274**	**350**

Global restructuring plans: classification of costs in millions of CHF

	Six months ended 30 June 2014			Six months ended 30 June 2013		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
– Pharmaceuticals	21	21	42	1	27	28
– Diagnostics	6	19	25	–	36	36
Marketing and distribution						
– Pharmaceuticals	–	20	20	–	31	31
– Diagnostics	–	27	27	–	51	51
Research and development						
– Pharmaceuticals	–	59	59	4	34	38
– Diagnostics	1	6	7	20	40	60
General and administration						
– Pharmaceuticals	–	12	12	–	39	39
– Diagnostics	–	82	82	35	27	62
– Corporate	–	–	–	–	5	5
Total	**28**	**246**	**274**	**60**	**290**	**350**
Total by operating segment						
– Roche Pharmaceuticals	21	111	132	5	129	134
– Chugai	–	1	1	–	2	2
– Diagnostics	7	134	141	55	154	209
– Corporate	–	–	–	–	5	5
Total	**28**	**246**	**274**	**60**	**290**	**350**

7. Goodwill

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

Six months ended 30 June 2014	
At 1 January 2014	7,145
Business combinations [5]	361
Impairment charge	(259)
Currency translation effects	11
At 30 June 2014	**7,258**
Allocation by operating segment	
Roche Pharmaceuticals	1,995
Chugai	97
Diagnostics	5,166
Total Group	**7,258**

During the six months ended 30 June 2014 a goodwill impairment charge of 259 million Swiss francs was recorded in the Tissue Diagnostics business area within the Diagnostics Division. The factors leading to this impairment were a decrease in forecast cash flows following a change in the timelines for future product development, combined with additional US reductions in immunohistochemistry testing reimbursement to laboratories and a change in the pre-tax discount rate used for impairment testing to 9.7% at 30 June 2014 compared to 8.8% in 2013. The remaining goodwill allocated to the Tissue Diagnostics cash-generating unit is 278 million Swiss francs at 30 June 2014. In addition impairments of 155 million Swiss francs were recorded for product intangibles in the Tissue Diagnostics business (see Note 8).

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Six months ended 30 June 2014					
At 1 January 2014	2,076	1,799	3	66	3,944
Business combinations [5]	211	226	–	–	437
Additions	16	94	2	–	112
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
Amortisation charge	(234)	–	(2)	(6)	(242)
Impairment charge	(155)	(166)	–	–	(321)
Currency translation effects	4	3	–	1	8
At 30 June 2014	**1,918**	**1,956**	**3**	**61**	**3,938**
Allocation by operating segment					
Roche Pharmaceuticals	627	970	–	55	1,652
Chugai	70	8	3	1	82
Diagnostics	1,221	978	–	5	2,204
Total Group	**1,918**	**1,956**	**3**	**61**	**3,938**

Classification of amortisation and impairment expenses in millions of CHF

	Amortisation		Impairment	
Six months ended 30 June	2014	2013	2014	2013
Cost of sales				
– Pharmaceuticals	(62)	(61)	–	–
– Diagnostics	(151)	(162)	(155)	–
Marketing and distribution				
– Pharmaceuticals	–	–	–	–
– Diagnostics	(2)	(3)	–	–
Research and development				
– Pharmaceuticals	(26)	(26)	(166)	(268)
– Diagnostics	(1)	(1)	–	(12)
Total	**(242)**	**(253)**	**(321)**	**(280)**

Impairment charges – 2014

Pharmaceuticals Division. Impairment charges totalling 166 million Swiss francs were recorded which related to:

- A decision to stop development of a compound acquired as part of a previous business combination (88 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop development of a compound with an alliance partner (78 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.

Diagnostics Division. Impairment charges totalling 155 million Swiss francs were recorded which related to Tissue Diagnostics product intangibles. The factors leading to this impairment were a decrease in forecast cash flows following a change in the timelines for future product development, combined with additional US reductions in immunohistochemistry testing reimbursement to laboratories and a change in the asset specific pre-tax discount rate used for impairment testing to 12.5% at 30 June 2014 compared to 11.7% in 2013. The assets concerned, which were being amortised, were written down to their estimated recoverable value of 131 million Swiss francs.

Impairment charges – 2013

Pharmaceuticals Division. Impairment charges totalling 268 million Swiss francs were recorded which related to:

- A portfolio reassessment within the hepatitis C virus (HCV) franchise (235 million Swiss francs). The assets concerned, which were not yet being amortised, were written down to their recoverable value of 222 million Swiss francs.
- A decision to stop two collaboration projects with alliance partners (26 million Swiss francs). The assets concerned, which were being amortised, were fully written down.
- A decision to stop development of one compound with an alliance partner (7 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.

Diagnostics Division. Impairment charges totalling 12 million Swiss francs were recorded from the Applied Science business area reorganisation. The assets concerned, which were not yet being amortised, were fully written down.

9. Provisions and contingent liabilities

Provisions in millions of CHF

	30 June 2014	31 December 2013
Legal provisions	755	634
Environmental provisions	603	624
Restructuring provisions	561	601
Employee provisions	349	342
Other provisions	1,354	1,044
Total provisions	**3,622**	**3,245**
Current	2,257	2,148
Non-current	1,365	1,097
Total provisions	**3,622**	**3,245**

During the six months ended 30 June 2014 a total of 427 million Swiss francs of provisions were utilised (six months ended 30 June 2013: 514 million Swiss francs), mainly related to the utilisation of restructuring provisions.

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

Accutane. The litigation related to Accutane is described in Note 19 to the Annual Financial Statements. Since 1 January 2014 there have been 131 cases dismissed in the US. At 30 June 2014 Hoffmann-La Roche Inc. was defending approximately 7,480 actions involving approximately 7,590 plaintiffs. The Group continues to defend vigorously the remaining personal injury cases and claims.

Avastin/Lucentis investigations. On 14 February 2013 the Italian Antitrust Authority ('AGCM') announced an investigation to determine whether Roche, Genentech and Novartis had entered into an agreement to restrict competition in the Italian market for drugs, with reference in particular to Avastin (marketed by Roche) and Lucentis (marketed by Novartis). Avastin and Lucentis are two different drugs that were developed and approved for different therapeutic purposes and contain different active pharmaceutical ingredients. On 5 March 2014 the AGCM issued a verdict that alleges that Roche and Novartis colluded to artificially differentiate Avastin and Lucentis in order to foster the sales of Lucentis in Italy. The AGCM fined Roche with 90.5 million euros and Novartis with 92 million euros. Roche strongly disagrees with the allegations and has appealed against the AGCM verdict, with the appeal hearing scheduled on 5 November 2014. A decision is expected at the end of November/beginning of December 2014. On 30 May 2014 the Italian Ministry of Health notified Roche S.p.A. about their intention to seek damages related to this matter. In July 2014 Roche paid the 90.5 million euros fine under protest to avoid additional penalty fees prior to the appeal hearing and recorded a legal provision for this amount at 30 June 2014 and a corresponding expense within general and administration. The fine and related interest will be reimbursed if Roche wins the case. The outcome of these matters cannot be determined at this time.

Tarceva subpoena. On 2 November 2011 Genentech received a subpoena from the United States Department of Justice, requesting documents and information related to the promotion of Tarceva, a prescription product initially approved for the treatment of locally advanced or metastatic non-small cell lung cancer after failure of at least one prior chemotherapy regimen, and later approved for additional indications. Genentech is cooperating with the associated investigation which is both civil and criminal in nature. On 6 May 2014 government representatives presented for the first time the government's civil liability theory, specifically that Genentech allegedly participated in the off-label promotion of Tarceva causing the submission of false claims for reimbursement under the Civil False Claims Act. Genentech currently plans to respond to the government's presentation in the second half of 2014. The outcome of this matter cannot be determined at this time.

PDL litigation. The litigation and arbitration between PDL Biopharma and Genentech/Roche is described in Note 19 to the Annual Financial Statements. On 31 January 2014 the parties agreed to a settlement that resolves all of the disputes between them. Under the settlement agreement, PDL agreed to dismiss all of its claims against Genentech and Roche. In return Genentech agreed to pay PDL a single fixed royalty rate until the end of 2015. All of these matters are now concluded.

EMA investigation. The investigation by the European Medicines Agency ('EMA') is described in Note 19 to the Annual Financial Statements. On 14 April 2014 the EMA issued its report to the European Commission that summarises the EMA's findings in relation to the investigation. The European Commission will now decide whether the matter should be pursued and financial penalties should be imposed. The decision of the European Commission on this matter is still pending. The outcome of this matter cannot be determined at this time.

There have been certain procedural developments in the other significant litigation matters described in Note 19 to the Annual Financial Statements. These do not significantly affect the assessment of the Group's management concerning the adequacy of the total provisions recorded for legal matters.

10. Debt

Debt: movements in carrying value of recognised liabilities in millions of CHF

Six months ended 30 June 2014	
At 1 January 2014	18,643
Proceeds from issue of bonds and notes	–
Redemption and repurchase of bonds and notes	(1,700)
Increase (decrease) in commercial paper	1,852
Increase (decrease) in other debt	125
Net (gains) losses on redemption and repurchase of bonds and notes [3]	127
Amortisation of debt discount [3]	10
Net foreign currency transaction (gains) losses	(10)
Currency translation effects and other	17
At 30 June 2014	**19,064**
Bonds and notes	15,763
Commercial paper	2,556
Amounts due to banks and other financial institutions	565
Finance lease obligations	169
Other borrowings	11
Total debt	**19,064**
Long-term debt	14,684
Short-term debt	4,380
Total debt	**19,064**

Issuance of bonds and notes

The Group did not issue any bonds or notes during the six months ended 30 June 2014 or 30 June 2013.

Redemption and repurchase of bonds and notes – 2014

Partial repurchase of pound sterling-denominated notes. On 28 February 2014 the Group completed a tender offer to repurchase 419 million pounds sterling 5.5% fixed rate notes due 4 March 2015. The cash outflow was 653 million Swiss francs, plus accrued interest and there was a loss on repurchase of 32 million Swiss francs. The effective interest rate of these notes was 5.70%.

Partial redemption of US dollar-denominated notes. On 26 December 2013 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. On 3 March 2014 the Group redeemed an outstanding principal of 1,000 million US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 1,047 million Swiss francs, plus accrued interest and there was an additional 15 million Swiss francs loss recorded on redemption. The effective interest rate of these notes was 6.37%.

Partial redemption of US dollar-denominated notes in August 2014. On 30 June 2014 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. The Group will redeem an outstanding principal of 500 million US dollars on 29 August 2014 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker. A cash outflow of approximately 586 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The increase in carrying value of 90 million US dollars (80 million Swiss francs) is recorded within financing costs (see Note 3) as a loss on redemption. The effective interest rate of these notes is 6.37%.

Redemption and repurchase of bonds and notes – 2013

During the six months ended 30 June 2013 the Group redeemed 3.3 billion euros of notes (4.1 billion Swiss francs) on their due date and completed the early redemption of 1.8 billion US dollars of notes (1.7 billion Swiss francs).

Cash flows from issuance, redemption and repurchase of bonds and notes

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

	Six months ended 30 June	
	2014	2013
European Medium Term Note programme euro-denominated notes	–	(4,068)
European Medium Term Note programme pound sterling-denominated notes	(653)	–
US dollar-denominated notes	(1,047)	(1,722)
Total cash outflows from redemption and repurchase of bonds and notes	**(1,700)**	**(5,790)**

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At 30 June 2014 unsecured commercial paper notes with a principal of 2.9 billion US dollars and an average interest rate of 0.10% were outstanding.

Movements in commercial paper obligations in millions of CHF

Six months ended 30 June 2014	
At 1 January 2014	702
Net cash proceeds (payments)	1,852
Currency translation effects	2
At 30 June 2014	**2,556**

11. Equity attributable to Roche shareholders

Share capital and non-voting equity securities *(Genussscheine)*

The authorised and issued share capital of the Group and the number of issued non-voting equity securities have not changed during the first half of 2014. The weighted average number of shares and non-voting equity securities in issue during the six months ended 30 June 2014 was 848 million (six months ended 30 June 2013: 849 million).

Dividends

On 4 March 2014 the shareholders approved the distribution of a dividend of 7.80 Swiss francs per share and non-voting equity security (2013: 7.35 Swiss francs) in respect of the 2013 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 6,617 million Swiss francs (2013: 6,238 million Swiss francs) and has been recorded against retained earnings in the six months ended 30 June 2014.

Own equity instruments

Holdings of own equity instruments in equivalent number of non-voting equity securities

	30 June 2014 (millions)	31 December 2013 (millions)
Shares	0.6	0.9
Non-voting equity securities	12.6	12.6
Derivative instruments	2.0	5.5
Total	**15.2**	**19.0**

Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (described in Note 26 to the Annual Financial Statements). The derivative instruments consist of call options that are exercisable upon their maturity.

Retained earnings

In addition to net income attributable to Roche shareholders of 5,533 million Swiss francs (six months ended 30 June 2013: 5,941 million Swiss francs) and the dividend payments described above, retained earnings also includes losses on remeasurements of defined benefit plans of 751 million Swiss francs, after tax (2013: gains of 297 million Swiss francs, after tax). These were based on updated actuarial calculations for major plans and the losses were mainly due to a decrease in discount rates since the end of 2013.

12. Chugai

Chugai is a fully consolidated subsidiary of the Group and at 30 June 2014 the Group's interest in Chugai was 61.5% (31 December 2013: 61.5%). The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE: 4519'. Chugai prepares financial statements in accordance with International Financial Reporting Standards (IFRS) which are filed on a quarterly basis with the Tokyo Stock Exchange. Due to certain consolidation entries there are minor differences between Chugai's stand-alone IFRS results and the results of Chugai as consolidated by the Roche Group in accordance with IFRS.

Dividends

The dividends distributed to third parties holding Chugai shares during the six months ended 30 June 2014 totalled 42 million Swiss francs (six months ended 30 June 2013: 41 million Swiss francs) and have been recorded against non-controlling interests. Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

13. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	Six months ended 30 June	
	2014	2013
Net income attributable to Roche shareholders (CHF millions)	**5,533**	**5,941**
Number of shares (millions)	160	160
Number of non-voting equity securities (millions)	703	703
Weighted average number of own shares and non-voting equity securities held (millions)	(15)	(14)
Weighted average number of shares and non-voting equity securities in issue (millions)	**848**	**849**
Basic earnings per share and non-voting equity security (CHF)	**6.52**	**7.00**

Diluted earnings per share and non-voting equity security

	Six months ended 30 June	
	2014	2013
Net income attributable to Roche shareholders (CHF millions)	5,533	5,941
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	–
Net income used to calculate diluted earnings per share (CHF millions)	**5,532**	**5,941**
Weighted average number of shares and non-voting equity securities in issue (millions)	848	849
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	15	15
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**863**	**864**
Diluted earnings per share and non-voting equity security (CHF)	**6.41**	**6.88**

14. Statement of cash flows

Cash generated from operations in millions of CHF

	Six months ended 30 June	
	2014	2013
Net income	5,641	6,047
Add back non-operating (income) expense		
– Financing costs [3]	695	777
– Other financial income (expense) [3]	(37)	61
– Income taxes [4]	1,853	1,709
Operating profit	**8,152**	**8,594**
Depreciation of property, plant and equipment [2]	930	934
Amortisation of intangible assets [2]	242	253
Impairment of goodwill [2]	259	35
Impairment of intangible assets [2]	321	280
Impairment (reversal) of property, plant and equipment [2]	29	12
Operating (income) expense for defined benefit plans	198	(33)
Operating expense for equity-settled equity compensation plans	154	174
Net (income) expense for provisions	566	360
Bad debt (reversal) expense	(7)	26
Inventory write-downs	188	146
Net (gain) loss on disposal of products	(466)	(2)
Other adjustments	101	134
Cash generated from operations	**10,667**	**10,913**

Dividends paid in millions of CHF

	Six months ended 30 June	
	2014	2013
Dividends to Roche Group shareholders	(6,617)	(6,238)
Dividends to non-controlling shareholders – Chugai	(42)	(41)
Dividends to non-controlling shareholders – Other	(8)	(5)
Increase (decrease) in dividends payable	6	1
Dividend withholding tax	(1)	(1)
Total	**(6,662)**	**(6,284)**

15. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in Note 29 to the Annual Financial Statements.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments in millions of CHF

	Level 1	Level 2	Level 3	Total
At 30 June 2014				
Marketable securities:				
– Equity securities	479	–	–	479
– Debt securities	1,531	2	–	1,533
– Money market instruments and time accounts over three months	599	3,510	–	4,109
Derivative financial instruments	–	509	–	509
Available-for-sale investments – held at fair value	28	140	–	168
Financial assets recognised at fair value	**2,637**	**4,161**	**–**	**6,798**
Derivative financial instruments	–	(383)	–	(383)
Contingent consideration	–	–	(348)	(348)
Financial liabilities recognised at fair value	**–**	**(383)**	**(348)**	**(731)**

At 30 June 2014 Level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit and derivative financial instruments.

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

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

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 during the six months ended 30 June 2014.

Level 3 fair values

Details of the determination of Level 3 fair value measurements and the transfer out of Level 3 of the fair value hierarchy during the six months ended 30 June 2014 are set out below.

Contingent consideration arrangements in millions of CHF

Six months ended 30 June 2014	
At 1 January 2014	(122)
Arising from business combination [5]	(248)
Total unrealised gains and losses included in the income statement	
– Unused amounts reversed	2
– Additional amounts created	(2)
– Discount unwind	(1)
Total gains and losses included in other comprehensive income	
– Currency translation effects	1
Transfers out of Level 3	
– Utilised [5]	22
At 30 June 2014	**(348)**

Contingent consideration arrangements

The Group is party to certain contingent consideration arrangements arising from business combination arrangements. The fair value is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate. The expected payments are determined by considering the possible scenarios of forecast sales or other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales or other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At 30 June 2014 the payments under contingent consideration arrangements could be up to 637 million Swiss francs (31 December 2013: 303 million Swiss francs). The contingent consideration arrangements mainly relate to the acquisitions of Constitution Medical Investors, Inc. (2013), Genia Technologies, Inc. (2014) and IQuum, Inc. (2014).

Carrying value and fair value

At 30 June 2014 the carrying value of bonds and notes is 15.8 billion Swiss francs compared to a fair value of 18.7 billion Swiss francs and the carrying value of total debt is 19.1 billion Swiss francs compared to a fair value of 22.0 billion Swiss francs. The carrying values of financial assets are a reasonable approximation of the fair values at 30 June 2014.

Review Report of the Statutory Auditor

To the Board of Directors of Roche Holding Ltd, Basel

Introduction. We have been engaged to review the accompanying consolidated balance sheet of Roche Holding Ltd as at 30 June 2014 and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended, and selected explanatory notes (the interim consolidated financial statements) on pages 47 to 73. 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 30 June 2014 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 21 July 2014

Supplementary Information

Supplementary Core results and EPS information

The Group's basic and diluted earnings per share is given in Note 13. To allow for a transparent assessment of both the actual results and the underlying performance of the business the full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis.

The core results concept, which is used in the internal management of the business, is based on the IFRS results, with the following adjustments:

- Global restructuring plans (see Note 6) are excluded.
- Amortisation and impairment of intangible assets (see Note 8) and impairment of goodwill (see Note 7) are excluded.
- Acquisition accounting and other one-time impacts from Alliance arrangements and Business Combinations (see Financial Review) are excluded.
- Discontinued operations (currently none) would be excluded.
- Legal and environmental expenses (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control (currently none) would be excluded.
- Material one-time treasury items such as major debt restructurings (currently none) would be excluded.
- Pension plan settlements (currently none) would be excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to the price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 4).

The core results concept was further described on 22 October 2010 at an Investor Update teleconference, which is available for download at: http://www.roche.com/investors/ir_agenda/csr_151010.htm

The Group's IFRS results, including the divisional breakdown, are reconciled to the core results in the tables below. The calculation of core EPS is also given in the tables below. Additional commentary to the adjustment items is given in the Financial Review.

Core results reconciliation – six months ended 30 June 2014 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Normalisation of ECP tax benefit	Core
Sales	22,974	–	–	–	–	–	–	22,974
Royalties and other operating income	1,398	–	–	–	–	–	–	1,398
Cost of sales	(6,311)	67	213	155	–	–	–	(5,876)
Marketing and distribution	(3,922)	47	2	–	–	–	–	(3,873)
Research and development	(4,463)	66	27	166	–	–	–	(4,204)
General and administration	(1,524)	94	–	259	3	159	–	(1,009)
Operating profit	**8,152**	**274**	**242**	**580**	**3**	**159**	**–**	**9,410**
Financing costs	(695)	–	–	–	–	–	–	(695)
Other financial income (expense)	37	–	–	–	–	–	–	37
Profit before taxes	**7,494**	**274**	**242**	**580**	**3**	**159**	**–**	**8,752**
Income taxes	(1,853)	(65)	(80)	(98)	–	(17)	2	(2,111)
Net income	**5,641**	**209**	**162**	**482**	**3**	**142**	**2**	**6,641**
Attributable to								
– Roche shareholders	5,533	209	162	482	3	142	2	6,533
– Non-controlling interests	108	–	–	–	–	–	–	108

Core results reconciliation – six months ended 30 June 2013 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Normalisation of ECP tax benefit	Core
Sales	23,295	–	–	–	–	–	–	23,295
Royalties and other operating income	956	–	–	–	–	–	–	956
Cost of sales	(6,126)	64	223	–	–	–	–	(5,839)
Marketing and distribution	(4,109)	82	3	–	–	–	–	(4,024)
Research and development	(4,536)	86	27	280	–	–	–	(4,143)
General and administration	(886)	68	–	35	–	26	–	(757)
Operating profit	**8,594**	**300**	**253**	**315**	**–**	**26**	**–**	**9,488**
Financing costs	(777)	–	–	–	–	–	–	(777)
Other financial income (expense)	(61)	–	–	–	–	–	–	(61)
Profit before taxes	**7,756**	**300**	**253**	**315**	**–**	**26**	**–**	**8,650**
Income taxes	(1,709)	(83)	(85)	(93)	–	(7)	(24)	(2,001)
Net income	**6,047**	**217**	**168**	**222**	**–**	**19**	**(24)**	**6,649**
Attributable to								
– Roche shareholders	5,941	216	168	222	–	19	(24)	6,542
– Non-controlling interests	106	1	–	–	–	–	–	107

Divisional core results reconciliation – six months ended 30 June 2014 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Core
Pharmaceuticals							
Sales	17,834	–	–	–	–	–	17,834
Royalties and other operating income	1,334	–	–	–	–	–	1,334
Cost of sales	(3,661)	42	62	–	–	–	(3,557)
Marketing and distribution	(2,723)	20	–	–	–	–	(2,703)
Research and development	(3,963)	59	26	166	–	–	(3,712)
General and administration	(746)	12	–	–	–	139	(595)
Operating profit	**8,075**	**133**	**88**	**166**	**–**	**139**	**8,601**
Diagnostics							
Sales	5,140	–	–	–	–	–	5,140
Royalties and other operating income	64	–	–	–	–	–	64
Cost of sales	(2,650)	25	151	155	–	–	(2,319)
Marketing and distribution	(1,199)	27	2	–	–	–	(1,170)
Research and development	(500)	7	1	–	–	–	(492)
General and administration	(601)	82	–	259	3	22	(235)
Operating profit	**254**	**141**	**154**	**414**	**3**	**22**	**988**
Corporate							
General and administration	(177)	–	–	–	–	(2)	(179)
Operating profit	**(177)**	**–**	**–**	**–**	**–**	**(2)**	**(179)**

Divisional core results reconciliation – six months ended 30 June 2013 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Core
Pharmaceuticals							
Sales	18,162	–	–	–	–	–	18,162
Royalties and other operating income	883	–	–	–	–	–	883
Cost of sales	(3,715)	28	61	–	–	–	(3,626)
Marketing and distribution	(2,822)	31	–	–	–	–	(2,791)
Research and development	(4,002)	38	26	268	–	–	(3,670)
General and administration	(489)	39	–	–	(1)	15	(436)
Operating profit	**8,017**	**136**	**87**	**268**	**(1)**	**15**	**8,522**
Diagnostics							
Sales	5,133	–	–	–	–	–	5,133
Royalties and other operating income	73	–	–	–	–	–	73
Cost of sales	(2,411)	36	162	–	–	–	(2,213)
Marketing and distribution	(1,287)	51	3	–	–	–	(1,233)
Research and development	(534)	48	1	12	–	–	(473)
General and administration	(271)	24	–	35	1	7	(204)
Operating profit	**703**	**159**	**166**	**47**	**1**	**7**	**1,083**
Corporate							
General and administration	(126)	5	–	–	–	4	(117)
Operating profit	**(126)**	**5**	**–**	**–**	**–**	**4**	**(117)**

Core EPS (basic)

	Six months ended 30 June	
	2014	2013
Core net income attributable to Roche shareholders (CHF millions)	6,533	6,542
Weighted average number of shares and non-voting equity securities in issue (millions) [13]	848	849
Core earnings per share (basic) (CHF)	**7.70**	**7.71**

Core EPS (diluted)

	Six months ended 30 June	
	2014	2013
Core net income attributable to Roche shareholders (CHF millions)	6,533	6,542
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	(1)	–
Net income used to calculate diluted earnings per share (CHF millions)	**6,532**	**6,542**
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions) [13]	**863**	**864**
Core earnings per share (diluted) (CHF)	**7.57**	**7.58**

Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

Six months ended 30 June	Pharmaceuticals 2014	Pharmaceuticals 2013	Diagnostics 2014	Diagnostics 2013	Corporate 2014	Corporate 2013	Group 2014	Group 2013
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	502	511	425	419	3	4	930	934
Amortisation of intangible assets	88	87	154	166	–	–	242	253
Impairment (reversal) of property, plant and equipment	22	4	7	8	–	–	29	12
Impairment of goodwill	–	–	259	35	–	–	259	35
Impairment of intangible assets	166	268	155	12	–	–	321	280
Total	**778**	**870**	**1,000**	**640**	**3**	**4**	**1,781**	**1,514**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	127	147	19	18	8	9	154	174
– Net (income) expense for provisions	432	204	132	152	2	4	566	360
– Net (gain) loss from disposals	(463)	2	5	(1)	–	–	(458)	1
– Non-cash working capital and other items	248	80	24	75	2	(105)	274	50
Deduct								
– Utilisation of provisions	(283)	(369)	(108)	(121)	(36)	(24)	(427)	(514)
– Proceeds from disposals	263	5	27	22	–	–	290	27
Total	**324**	**69**	**99**	**145**	**(24)**	**(116)**	**399**	**98**
Operating profit cash adjustments	**1,102**	**939**	**1,099**	**785**	**(21)**	**(112)**	**2,180**	**1,612**
EBITDA								
Core operating profit	8,601	8,522	988	1,083	(179)	(117)	9,410	9,488
Depreciation and impairment of property, plant and equipment – core basis	503	510	425	419	3	4	931	933
EBITDA	**9,104**	**9,032**	**1,413**	**1,502**	**(176)**	**(113)**	**10,341**	**10,421**
– margin, % of sales	51.0	49.7	27.5	29.3	–	–	45.0	44.7

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation 30 June 2014 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	11,110	4,761	139	–	16,010
Goodwill	2,092	5,166	–	–	7,258
Intangible assets	1,734	2,204	–	–	3,938
Inventories	4,489	1,967	–	–	6,456
Provisions	(2,308)	(773)	(541)	–	(3,622)
Current income tax net liabilities	–	–	–	(2,183)	(2,183)
Deferred tax net assets	–	–	–	4,122	4,122
Defined benefit plan net liabilities	–	–	–	(6,440)	(6,440)
Marketable securities	–	–	–	6,121	6,121
Cash and cash equivalents	–	–	–	4,158	4,158
Debt	–	–	–	(19,064)	(19,064)
Other net assets (liabilities)					
– Net working capital	1,896	971	(70)	–	2,797
– Long-term net operating assets	275	(63)	(12)	–	200
– Other	–	–	–	(267)	(267)
Total net assets	**19,288**	**14,233**	**(484)**	**(13,553)**	**19,484**

Roche Securities

Number of shares and non-voting equity securities [a]

	30 June 2014	31 December 2013
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**
Number of own shares and non-voting equity securities *(Genussscheine)* held	(13,167,818)	(13,537,704)
Total in issue	**849,394,882**	**849,024,996**

Data per share and non-voting equity security in CHF

		Six months ended 30 June 2014	2013
Earnings (basic)		6.52	7.00
Earnings (diluted)		6.41	6.88
Core earnings (basic)		7.70	7.71
Core earnings (diluted)		7.57	7.58
Stock price of share [b]	Opening	247.40	186.90
	High	271.25	258.50
	Low	239.40	186.90
	Period end	259.25	234.80
Stock price of non-voting equity security *(Genussscheine)* [b]	Opening	249.20	184.00
	High	273.00	258.50
	Low	239.00	184.00
	Period end	264.50	235.00

Market capitalisation in millions of CHF

	30 June 2014	31 December 2013	30 June 2013
Period end	223,828	211,291	199,026

a) Each non-voting equity security *(Genussschein)* confers the same rights as any of the shares to participate in the available earnings and any remaining proceeds from liquidation following repayment of the nominal value of the shares and the participation certificate capital (if any). Shares and non-voting equity securities are listed on the SIX Swiss Exchange. Roche Holding Ltd has no restrictions as to ownership of its shares or non-voting equity securities.

b) All stock price data reflect daily closing prices.

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The Roche Half-Year Report is published in English. A translated German version is also available. In case of any deviotions the English shall prevail over the German text.

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