Roche Holdings, Inc.

Interim Financial Statements 2015

Roche Holdings, Inc. Interim Financial Statements

Contents

Interim Management Report

1. Review of the first six months ended June 30, 2015

Principal activities

Roche Holdings, Inc. (RHI) is the holding company for the Roche Group's U.S. operations and performs financing activities for other members of the RHI Group.

RHI Group results

During the first half of 2015 the RHI Group reported sales growth of 8% to $11.5 billion and a rise in operating profit of 8% to $4.8 billion. RHI had a positive cash flow from operating activities of $5 billion. Sales in the Pharmaceuticals Division rose by 9% to $9.8 billion, mainly driven by growth in oncology and immunology products. The key growth drivers were the following products: Esbriet, Herceptin, Rituxan, Xolair, Perjeta and Avastin. Sales of Tamiflu also increased. Growth was negatively impacted by a decline in Valcyte/Cymevene and Xeloda. Sales in the Diagnostics Division increased by 5% to $1.7 billion with growth in Professional Diagnostics, Molecular Diagnostics and Tissue Diagnostics being partially offset by a decline in Diabetes Care. The RHI Group's operating profit rose mainly due to growth in the underlying operating performance in the first half of 2015 and the base effect of goodwill and intangible asset impairment charges in the comparative period of 2014. These were partially offset by higher amortisation from InterMune related intangible assets and additional contingent consideration provisions recorded in respect of the Seragon acquisition in the first half of 2015. The RHI Group's operating profit margin remained relatively stable at 41.4% of sales. The RHI Group's net income increased by 19% to $2.3 billion driven by the operating result explained above.

<u>Pharmaceuticals Division</u>

Pharmaceuticals Division sales increased by 9% to $9.8 billion. The leading products were the oncology medicines Rituxan, Avastin, Herceptin and Perjeta with sales of $2.1 billion (+12%), $1.6 billion (+9%), $1.4 billion (+22%) and $0.4 billion (+50%), respectively. In addition sales in immunology increased due to demand for Esbriet and Xolair with combined sales of $0.9 billion (+80%). Growth was negatively impacted by the sharp decline of Valcyte/Cymevene (-70%) and Xeloda (-82%), which are both now off-patent and Pegasys (-83%), due to competition from a new generation of treatment.

In oncology, the HER2 franchise benefited from demand for Herceptin and Perjeta. Herceptin sales grew primarily from increased usage in the treatment of breast cancer in combination with Perjeta. Perjeta sales grew with demand in pre-surgical treatment, as well as in advanced breast cancer. Avastin sales grew driven by expanded use in the more recently launched indications, cervical and ovarian cancers. Rituxan sales continued with growth in both oncology and immunology. In immunology, there was also a strong demand for the recently acquired Esbriet, a medicine for idiopathic pulmonary fibrosis, and Xolair. Xolair sales grew following its approval for an additional indication, chronic hives, in 2014.

Royalties and other operating income were stable at $2.2 billion, due to higher net royalty income being offset by lower income from out-licensing agreements. The increase in royalty income was mainly due to the receipt of certain non-recurrent royalties, partially offset by lower royalties for Lucentis. The decrease in out-licensing income was mainly due to income from related parties under research and development cost-sharing agreements in the first half of 2014, partially offset by upfront and milestone payments from the exclusive license agreement with Galenica for the commercialisation of Mircera and a payment from a collaboration partner for a de-blocking amendment.

Cost of sales increased by 36% to $3.7 billion, mainly driven by the amortisation of the intangible assets and the release of the inventory fair value adjustment related to the InterMune acquisition. There were also higher sales volumes. Expenses from collaboration and profit-sharing agreements also increased mainly driven by higher co-promotion expenses due to growing sales of Rituxan and Xolair. Royalty expenses increased by 5% due to higher sales. As a percentage of sales, cost of sales increased by 7.5 percentage points to 37.4%.

Marketing and distribution costs increased by 5% to $1.2 billion. Additional investments were made to market the recently acquired Esbriet and marketing efforts also continued to support already established and launched products.

Research and development costs were stable at $2.0 billion. There were lower intangible asset impairment charges of $14 million in the first half of 2015 resulting from a decision to stop development of a compound (six months ended June 30, 2014: $64 million). In addition there was lower spending in oncology following the termination of MetMab and Pictilisib. These were partly offset by increased investments in the immunology and ophthalmology areas driven by programmes for idiopathic pulmonary fibrosis, asthma, inflammatory bowel disease and geographic atrophy. The Pharmaceuticals Division also spent $115 million on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets.

General and administration costs increased by 69% to $0.6 billion, mainly driven by alliance and business combination costs from the additional contingent consideration provisions recorded in respect of the Seragon acquisition.

The Pharmaceuticals Division's operating profit decreased by 9% to $4.6 billion, mainly driven by the amortisation of the intangible assets and the release of the inventory fair value adjustment related to the InterMune acquisition. This was partially offset by growth in the underlying operating performance.

Diagnostics Division

Diagnostics Division sales increased by 5% to $1.7 billion. Professional Diagnostics sales increased by 2% to $0.6 billion with growth being primarily driven by the immunodiagnostics business. Molecular Diagnostics sales increased by 20% to $0.4 billion, mainly due to sales from the sequencing business, driven by NIPT (non-invasive prenatal testing). In addition there was growth in the underlying molecular businesses of 12%, with the major contributions coming from the virology, the HPV (cervical cancer screening) and the genomics and oncology businesses. Tissue Diagnostics sales increased by 7% to $0.3 billion, driven by growth in the advanced staining portfolio and companion diagnostics. This performance was partially offset by Diabetes Care sales which decreased by 7% to $0.3 billion, due to the continuing impact of the Medicare reimbursement cuts in 2013 on strips and lower pump sales as well as continuing challenging market conditions for the blood glucose monitoring portfolio.

Royalties and other operating income decreased by 17% to $0.1 billion due to the expiration of patents.

Costs of sales decreased by 19% to $0.9 billion, mainly due to the comparative period of 2014 including $173 million of product intangible asset impairment charges related to the Tissue Diagnostics business area. As a percentage of sales, cost of sales decreased by 16.5 percentage points to 55.4%.

Marketing and distribution costs were stable at $0.4 billion, mainly due to higher marketing support and field force cost related to the Ariosa acquisition being offset by decreased spending for field force and distribution in existing businesses.

Research and development costs increased by 50% to $0.2 billion, mainly due to investments in the sequencing business and lower income from related parties under research and development cost-sharing agreements.

General and administration costs decreased by 85% to $0.1 billion, due to the comparative period of 2014 including a $604 million of goodwill impairment related to the Tissue Diagnostics business area.

Restructuring plans

The RHI Group continued with the implementation of several major restructuring plans initiated in prior years with a total cost of $76 million in the first half of 2015, compared to $63 million in the first half of 2014. The increase in restructuring costs was mainly due to the divestment of the wholly owned subsidiary Marcadia Biotech, Inc. to a third party with a loss on disposal of $25 million. The costs of the InterMune integration were $22 million. These were partially offset by lower restructuring costs of the former Applied Science business and certain IT projects.

Impairment of goodwill and intangible assets

In the Pharmaceuticals Division impairment charges totalled $14 million relating to a decision to stop development of a compound with an alliance partner. There were no impairments in the Diagnostics Division.

Treasury and taxation results

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

Financing costs decreased by 28% to $0.4 billion in the first half of 2015, mainly due to $142 million of losses on redemption of bonds and notes in the prior period. In addition there was a decrease of $48 million in interest expenses compared to the first half of 2014, which reflects the continued repayment of bonds and notes incurred to finance the Genentech transaction. At June 30, 2015 debt was $42.4 billion compared to $43.7 billion at the end of 2014. This decrease was mainly due to bond and note redemptions of $1.4 billion during the first half of 2015. A full analysis of financing costs is given in Note 3 to the Interim Financial Statements.

The RHI Group's effective tax rate for the six months ended June 30, 2015 decreased to 39.0% (six months ended June 30, 2014: 42.8%). This was mainly due to a non-tax deductible goodwill impairment that increased the effective tax rate in the first half of 2014.

Cash flow

The cash inflows from operating activities increased by $0.8 billion to $5.0 billion in the first half of 2015. This was mainly due to a net decrease in working capital, increased cash generated from operations and lower income tax payments. The cash outflows from investing activities increased by $1.0 billion to $1.8 billion mainly due to the acquisitions of Foundation Medicine, Inc., Ariosa Diagnostics, Inc. and CAPP Medical, Inc. in the first half of 2015. The cash outflows from financing activities of $3.0 billion were mainly due to repayment of related party debt of $4.3 billion, bond and note debt repayments of $1.4 billion and dividends paid to related parties of $1.1 billion partially offset by $4.4 billion received from the issuance of debt to related parties.

Financial position

In 2009 the Genentech transaction was accounted for in full as an equity transaction and as a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced (see Note 1 to the RHI Interim Financial Statements). At June 30, 2015 the RHI Group had a negative equity of $21.7 billion (December 31, 2014: $23.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition RHI has bonds, notes and commercial paper outstanding with a carrying value of $18.4 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Total assets increased by $1.0 billion to $35.9 billion at June 30, 2015 mainly due to increases in goodwill and intangible assets partially offset by decreases in inventories and accounts receivables. Total liabilities decreased by $0.9 billion to $57.6 billion at June 30, 2015 mainly due to a decrease in debt. At June 30, 2015 the carrying value of debt was $42.4 billion (December 31, 2014: $43.7 billion), of which $22.5 billion (December 31, 2014: $22.4 billion) is due to related parties.

Merger and acquisitions

During the first six months of 2015 the RHI Group completed the acquisition of several companies, including some previously announced in 2014. The total cost of the acquired assets was $1.5 billion in cash and $0.2 billion from the fair value of contingent consideration arrangements.

On April 7, 2015 the Pharmaceutical Division completed the acquisition of a 60.1% controlling interest in Foundation Medicine, Inc. ('FMI') for a total cash consideration of $1.0 billion. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the RHI Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The Diagnostics Division completed the acquisitions of Ariosa Diagnostics and CAPP Medical, in the sequencing business, for a total consideration of $0.7 billion.

On September 29, 2014 the Pharmaceuticals Division acquired a 100% controlling interest in InterMune for $8.8 billion. The acquisition added a new medicine for idiopathic pulmonary fibrosis, Esbriet, to the Roche portfolio. The 2015 results included intangible asset amortisation of $555 million and an expense of $248 million from the release of the inventory fair value adjustment. The RHI Group issued $5.75 billion of debt in 2014 to partially finance the transaction.

In the 2014 Annual Financial Statements the accounting for the InterMune and Bina acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations have been finalised in 2015 and as a result the comparative balance sheet information at December 31, 2014 has been restated. The contingent consideration provisions were increased by $182 million in the first half of 2015 mainly due to the progression of the lead product candidate from the Seragon acquisition. This was recorded as a general and administration expense. See Notes 5 and 13 to the Interim Financial Statements for more details on these matters.

Subsidiaries

Foundation Medicine, Inc. ('FMI') is a fully consolidated subsidiary of the RHI Group and at June 30, 2015 the RHI Group's interest in FMI was 60.0%. The common stock of FMI is publicly traded and is listed on the Nasdaq under the stock code 'FMI'. FMI prepares financial statements in accordance with U.S. GAAP which are filed on a quarterly basis with the SEC. Due to certain consolidation entries there are differences between FMI's stand-alone U.S. GAAP results and the results of FMI as consolidated by the RHI Group in accordance with IFRS.

On April 23, 2015 the RHI Group sold its wholly owned subsidiary Marcadia Biotech, Inc. to a third party as part of the previously announced Pharmaceuticals Division's Research and Development reorganisation. The total consideration received was a 3 million U.S. dollar convertible note. The total loss on divestment of $25 million is reported in restructuring costs in the Roche Pharmaceuticals operating segment.

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of RHI's counterparties. The RHI Group's financial risk management is described in Note 26 to the RHI Annual Financial Statements.

Uncertainties

Key accounting judgements, estimates and assumptions are described in Note 1 to the RHI Interim Financial Statements. Provisions and contingent liabilities are described in Note 19 to the RHI Annual Financial Statements and these are updated, where appropriate, in Note 9 to the RHI Interim Financial Statements.

3. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge as of the date of their approval of the Interim Consolidated Financial statements at July 24, 2015:

- the Interim Consolidated Financial Statements at June 30, 2015, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole; and that
- the Management Report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Severin Schwan Chairman of the Board	Alan Hippe Vice Chairman of the Board	Bruce Resnick Member of the Board
Roger Brown Member of the Board	Frederick C. Kentz III Member of the Board	David P. McDede Member of the Board

Roche Holdings, Inc. Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditor and their review report is presented on page 25.

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

	Six months ended June 30, 2015	2014
Sales [2]	**11,499**	**10,624**
Royalties and other operating income [2]	2,279	2,276
Cost of sales	(4,597)	(3,840)
Marketing and distribution	(1,548)	(1,483)
Research and development	(2,183)	(2,128)
General and administration	(695)	(1,031)
Operating profit [2]	**4,755**	**4,418**
Financing costs [3]	(432)	(601)
Financing costs – related parties [14]	(538)	(387)
Other financial income (expense) [3]	102	14
Other financial income (expense) – related parties [14]	(56)	(2)
Profit before taxes	**3,831**	**3,442**
Income taxes [4]	(1,494)	(1,473)
Net income	**2,337**	**1,969**
Attributable to		
- Roche Holdings, Inc. shareholder	2,347	1,969
- Non-controlling interests	(10)	-

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

	Six months ended June 30, 2015	2014
Net income recognised in income statement	**2,337**	**1,969**
Other comprehensive income		
Remeasurements of defined benefits plans	178	(85)
Items that will never be reclassified to the income statement	**178**	**(85)**
Available-for-sale investments	18	-
Cash flow hedges	(40)	27
Currency translation of foreign operations	53	-
Items that are or may be reclassified to the income statement	**31**	**27**
Other comprehensive income, net of tax	**209**	**(58)**
Total comprehensive income	**2,546**	**1,911**
Attributable to		
- Roche Holdings, Inc. shareholder	2,556	1,911
- Non-controlling interests	(10)	-
Total	**2,546**	**1,911**

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

	June 30, 2015	December 31, 2014
Non-current assets	26,288	24,626
Current assets	9,634	10,308
Total assets	**35,922**	**34,934**
Non-current liabilities	(38,813)	(36,865)
Current liabilities	(18,831)	(21,674)
Total liabilities	**(57,644)**	**(58,539)**
Total net liabilities	**(21,722)**	**(23,605)**
Equity		
Capital and reserves attributable to Roche Holdings, Inc. shareholder	(21,969)	(23,605)
Equity attributable to non-controlling interests	247	-
Total equity	**(21,722)**	**(23,605)**

As disclosed in Note 5, the balance sheet at December 31, 2014 has been restated following the finalisation of the valuation of the net assets acquired related to the InterMune and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

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

	Six months ended June 30,	
	2015	2014
Cash flows from operating activities, before income taxes paid	6,003	5,333
Income taxes paid	(976)	(1,076)
Cash flows from operating activities	5,027	4,257
Cash flows from investing activities	(1,787)	(825)
Cash flows from financing activities	(3,022)	(3,437)
Net effect of currency translation on cash and cash equivalents	28	-
Increase (decrease) in cash and cash equivalents	**246**	**(5)**
Cash and cash equivalents at beginning of period	(35)	(69)
Cash and cash equivalents at end of period	**211**	**(74)**

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended June 30, 2014								
At January 1, 2014	**1**	**(21,096)**	**104**	**84**	**-**	**(20,907)**	**-**	**(20,907)**
Net income recognised in income statement	-	1,969	-	-	-	1,969	-	1,969
Cash flow hedges	-	-	-	27	-	27	-	27
Remeasurements of defined benefit plans	-	(85)	-	-	-	(85)	-	(85)
Total comprehensive income	**-**	**1,884**	**-**	**27**	**-**	**1,911**	**-**	**1,911**
Dividends	-	(2,500)	-	-	-	(2,500)	-	(2,500)
Equity compensation plans	-	(835)	-	-	-	(835)	-	(835)
At June 30, 2014	**1**	**(22,547)**	**104**	**111**	**-**	**(22,331)**	**-**	**(22,331)**
Six months ended June 30, 2015								
At January 1, 2015	**1**	**(23,780)**	**96**	**78**	**-**	**(23,605)**	**-**	**(23,605)**
Net income recognised in income statement	-	2,347	-	-	-	2,347	(10)	2,337
Available-for-sale investments	-	-	18	-	-	18	-	18
Cash flow hedges	-	-	-	(40)	-	(40)	-	(40)
Currency translation of foreign operations	-	-	-	-	53	53	-	53
Remeasurements of defined benefit		-						
plans	-	178	-	-	-	178	-	178
Total comprehensive income	**-**	**2,525**	**18**	**(40)**	**53**	**2,556**	**(10)**	**2,546**
Dividends	-	(1,100)	-	-	-	(1,100)	-	(1,100)
Equity compensation plans	-	163	-	-	-	163	-	163
Business combinations [5]	-	-	-	-	-	-	257	257
Other movements	-	17	-	-	-	17	-	17
At June 30, 2015	**1**	**(22,175)**	**114**	**38**	**53**	**(21,969)**	**247**	**(21,722)**

Notes to the Roche Holdings, Inc. 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 Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries (hereafter 'RHI' or 'the RHI Group') for the six months ended June 30, 2015 (hereafter 'the interim period'). RHI is 100% indirectly owned by Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group. The RHI Group is therefore a member of the Roche Group. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2014 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on July 24, 2015.

Statement of compliance

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

Going concern

The RHI Group completed the purchase of the non-controlling interests in Genentech, effective March 26, 2009. Based on the International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), which was adopted by RHI in 2013, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by $46.6 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At June 30, 2015 the RHI Group had a negative equity of $21.7 billion (December 31, 2014: $23.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of $18.4 billion which are guaranteed by Roche Holding Ltd. Management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In the 2015 interim period, the RHI Group generated an operating profit of $4.8 billion and a positive operating cash flow of $5.0 billion.

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 RHI Group's accounting policies and the key sources of estimation uncertainty are the same as those applied in the Annual Financial Statements.

Seasonality

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

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. Changes in accounting policies will be reflected in the RHI Group's Consolidated Financial Statements for the year ended December 31, 2015.

Changes in accounting policies

In 2015 the RHI Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position.

Future new and revised standards

The RHI Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from January 1, 2016 and which the RHI Group has not yet applied. Based on the analysis to date, the RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position. The RHI Group is also assessing other new and revised standards which are not mandatory until after 2016, notably IFRS 9 'Financial Instruments' and IFRS 15 'Revenues from Contracts with Customers'.

2. Operating segment information

The RHI Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both Divisions also derive revenues from the sale or licensing of products or technology to third parties. Certain corporate activities that cannot be reasonably allocated to the other reportable business segments based on RHI's management and organisational structure are reported as 'Corporate'. These include certain functions for communications, human resources, finance (including treasury, taxes and pension fund management), legal, safety and environmental services.

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
Six months ended June 30,	2015	2014	2015	2014	2015	2014	2015	2014
Revenues from external customers and related parties								
Sales	9,837	9,039	1,662	1,585	-	-	11,499	10,624
Royalties and other operating income	2,192	2,171	87	105	-	-	2,279	2,276
Total	**12,029**	**11,210**	**1,749**	**1,690**	**-**	**-**	**13,778**	**12,900**
Segment results								
Operating profit	4,616	5,058	151	(636)	(12)	(4)	4,755	4,418

Net operating assets *in millions of USD*

	Assets		Liabilities		Net assets	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Pharmaceuticals	25,219	25,160	(5,726)	(6,190)	19,493	18,970
Diagnostics	7,740	6,830	(1,427)	(1,407)	6,313	5,423
Corporate	27	27	(222)	(275)	(195)	(248)
Total operating	**32,986**	**32,017**	**(7,375)**	**(7,872)**	**25,611**	**24,145**
Non-operating	2,936	2,917	(50,269)	(50,667)	(47,333)	(47,750)
RHI Group	**35,922**	**34,934**	**(57,644)**	**(58,539)**	**(21,722)**	**(23,605)**

As disclosed in Note 5, the operating assets for the Pharmaceuticals and Diagnostics Divisions and the non-operating liabilities for the RHI Group at December 31, 2014 have been restated following the finalisation of the valuation of the net assets acquired related to the InterMune and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

3. Net financial expense

Financing costs *in millions of USD*		
	Six months ended June 30,	
	2015	2014
Interest expense	(368)	(416)
Amortisation of debt discount [10]	(8)	(9)
Net gains (losses) on redemption and repurchase of bonds and notes [10]	(7)	(142)
Discount unwind	(15)	(8)
Net interest cost of defined benefit plans	(34)	(26)
Total financing costs	**(432)**	**(601)**

Other financial income (expense) *in millions of USD*		
	Six months ended June 30,	
	2015	2014
Net gains (losses) on sale of equity securities	4	10
Net income from equity securities	**4**	**10**
Net interest income	1	-
Foreign exchange gains (losses)	98	4
Net other financial income (expense)	(1)	-
Total other financial income (expense)	**102**	**14**

Interest expense decreased by $48 million mainly due to the lower level of debt with third parties following debt repayments during the six months ended June 30, 2015.

Net financial expense *in millions of USD*		
	Six months ended June 30,	
	2015	2014
Financing costs	(432)	(601)
Other financial income (expense)	102	14
Net financial expense	**(330)**	**(587)**
Financial result from Treasury management	(296)	(561)
Financial result from Pension management	(34)	(26)
Net financial expense	**(330)**	**(587)**

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 June 30, 2015.

Income tax expenses *in millions of USD*		
	Six months ended June 30,	
	2015	2014
Current income taxes	(1,700)	(1,622)
Deferred taxes	206	149
Total income tax (expense)	**(1,494)**	**(1,473)**

The RHI Group's effective tax rate for the six months ended June 30, 2015 decreased to 39.0% (six months ended June 30, 2014: 42.8%). This was mainly due to a non-tax deductible goodwill impairment that increased the effective tax rate in the first half of 2014.

5. Business combinations

Acquisitions – 2015

Acquisitions – June 30,2015: net assets acquired in *millions of USD*

	Pharmaceuticals	Diagnostics	Total
Intangible assets			
- Product intangibles: in use [8]	533	518	1,051
- Product intangibles: not available for use [8]	-	115	115
Cash and cash equivalents	312	16	328
Deferred tax liabilities	(197)	(253)	(450)
Other net assets (liabilities)	(5)	15	10
Net identifiable assets	**643**	**411**	**1,054**
Non-controlling interests	(257)	-	(257)
Goodwill [7]	644	258	902
Total consideration	**1,030**	**669**	**1,699**
Cash	1,030	481	1,511
Contingent consideration [13]	-	188	188
Total consideration	**1,030**	**669**	**1,699**

Pharmaceuticals

Foundation Medicine, Inc. On April 7, 2015 the RHI Group acquired a 60.1% controlling interest in Foundation Medicine, Inc. ('FMI'), a publicly owned U.S. company based in Cambridge, Massachusetts. FMI is listed on Nasdaq under the stock code 'FMI'. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the RHI Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The transaction included both a broad research and development collaboration agreement and a commercial collaboration agreement aimed at expanding the global sales efforts for FMI's current and future products. FMI is reported in the Pharmaceuticals Division. The total cash consideration was $1.0 billion.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for FMI are provisional based on preliminary information and valuations of the assets and liabilities and are subject to adjustment during the second half of 2015.

Pharmaceuticals acquisitions – June 30, 2015: net assets acquired *in millions of USD*

	FMI	Total
Intangible assets		
- Product intangibles: in use	533	533
Cash and cash equivalents	312	312
Deferred tax liabilities	(197)	(197)
Other net assets (liabilities)	(5)	(5)
Net identifiable assets	**643**	**643**
Non-controlling interests	(257)	(257)
Goodwill	644	644
Total consideration	**1,030**	**1,030**
Cash	1,030	1,030
Total consideration	**1,030**	**1,030**

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 9.5% for FMI. The valuation was performed by an independent valuer.

The FMI accounts receivable comprise of gross contractual amounts due of $10 million which are all expected to be collectable at the date of acquisition.

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired company into the RHI Group's existing business. For FMI the control premium represents the premium paid over the traded market price to obtain control of the business. None of the goodwill is expected to be deductible for income tax purposes. The non-controlling interests in FMI are measured at their proportionate share (39.9%) of FMI's identifiable net assets.

Directly attributable transaction costs of $8 million are reported in the Pharmaceuticals operating segment within general and administration expenses and mainly relate to the FMI acquisition.

The impact of the FMI acquisition on the 2015 results for the Pharmaceuticals Division and the RHI Group was not material.

Diagnostics

Ariosa Diagnostics, Inc. On January 12, 2015 the RHI Group acquired a 100% controlling interest in Ariosa Diagnostics, Inc. ('Ariosa'), a U.S. privately owned company based in San Jose, California. Ariosa is a molecular diagnostics testing service provider that provides a highly targeted and accurate non-invasive prenatal testing (NIPT) service through their CLIA laboratory using cell-free DNA (cfDNA) technology. Ariosa's proprietary Harmony™ Prenatal Test is a blood test that is performed as early as 10 weeks into pregnancy. Ariosa is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was $565 million, of which $411 million was paid in cash and $154 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and $225 million.

CAPP Medical, Inc. On April 9, 2015 the RHI Group acquired a 100% controlling interest in CAPP Medical, Inc. ('CAPP') a U.S. privately owned company based in Palo Alto, California. CAPP is developing technology for cancer screening and monitoring through the detection of circulating tumour DNA (ctDNA) in blood. CAPP is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was $104 million, of which $70 million was paid in cash and $34 million arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and $55 million.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts for CAPP are provisional based on preliminary information and valuations of the assets and liabilities and are subject to adjustment during the second half of 2015.

Diagnostics acquisitions – June 30, 2015: net assets acquired *in millions of USD*

	Ariosa	CAPP	Total
Intangible assets			
- Product intangibles: in use	518	-	518
- Product intangibles: not available for use	-	115	115
Cash and cash equivalents	16	-	16
Deferred tax liabilities	(207)	(46)	(253)
Other net assets (liabilities)	15	-	15
Net identifiable assets	**342**	**69**	**411**
Goodwill	223	35	258
Total consideration	**565**	**104**	**669**
Cash	411	70	481
Contingent consideration	154	34	188
Total consideration	**565**	**104**	**669**

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 Ariosa and 16.2% for CAPP. The valuations for Ariosa and CAPP were performed by independent valuers.

The Ariosa accounts receivable comprise of gross contractual amounts due of $12 million which are all expected to be collectable at the date of acquisition.

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired companies into the RHI Group's existing business. None of the goodwill is expected to be deductible for income tax purposes.

Directly attributable transaction costs of $1 million are reported in the Diagnostics operating segment within general and administration expenses.

The impact of the Ariosa and CAPP acquisitions on the 2015 results for the Diagnostics Division and the RHI Group were not material.

Acquisitions – 2014

Genia Technologies, Inc. On June 3, 2014 the RHI Group acquired a 100% controlling interest in Genia Technologies, Inc. ('Genia'), a U.S. private company based in California. Genia is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was $257 million, of which $125 million was paid in cash and $132 million arose from a contingent consideration arrangement.

IQuum, Inc. On June 10, 2014 the RHI Group acquired a 100% controlling interest in IQuum, Inc. ('IQuum'), a U.S. private company based in Massachusetts. IQuum is reported in the Diagnostics operating segment as part of the Molecular Diagnostics business. The total consideration was $432 million, of which $282 million was paid in cash and $150 million arose from a contingent consideration arrangement. In addition, the RHI Group acquired 100% controlling interest in the related intellectual property holding company for a cash consideration of $35 million.

Cash flows from business combinations

Acquisitions: net cash outflow *in millions of USD*

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	(1,030)	(481)	(1,511)	-	(442)	(442)
Deferred consideration paid	(54)	-	(54)	-	-	-
Contingent consideration paid [13]	(2)	(35)	(37)	-	(25)	(25)
Cash in acquired company	312	16	328	-	5	5
Transaction costs	(8)	(1)	(9)	-	-	–
Total net cash outflow	**(782)**	**(501)**	**(1,283)**	**-**	**(462)**	**(462)**

Restated Balance Sheet – 31 December 2014

In the Annual Financial Statements the accounting for the InterMune (September 29, 2014) and Bina (December 19, 2014) acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations have been finalised in 2015 and as a result the comparative balance sheet information at December 31, 2014 has been restated. The reconciliation between the balance sheet and the net assets acquired published previously for 2014 (using provisional acquisition accounting) and the restated amounts which are reported as comparatives in 2015 (using final acquisition accounting), as required by IFRS 3 'Business Combinations', are presented below.

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

			December 31, 2014
	As originally published	Measurement adjustment	Restated
Goodwill	7,677	(16)	7,661
Intangible assets	10,865	(97)	10,768
Deferred tax liabilities	(644)	113	(531)
Other net liabilities	(41,503)	-	(41,503)
Net liabilities	**(23,605)**	**-**	**(23,605)**

Restated acquisitions – 2014: net assets acquired (selected items) *in millions of USD*

	Pharmaceuticals InterMune			Diagnostics Bina		
	As originally published	Measurement adjustment	Restated	As originally published	Measurement adjustment	Restated
Intangible assets	8,231	-	8,231	114	(97)	17
Deferred tax liabilities	(3,102)	74	(3,028)	(46)	39	(7)
Other net assets (liabilities)	1,542	-	1,542	1	-	1
Net identifiable assets	**6,671**	**74**	**6,745**	**69**	**(58)**	**11**
Goodwill	2,161	(74)	2,087	45	58	103
Total consideration	**8,832**	**-**	**8,832**	**114**	**-**	**114**

In the Annual Financial Statements the acquisition accounting for the Seragon acquisition was also provisional and is now final with no changes to the amounts recorded at December 31, 2014.

6. Restructuring plans

During the six months ended June 30, 2015 the RHI Group continued with the implementation of several major restructuring plans initiated in prior years.

Restructuring plans: costs incurred *in millions of USD*

	Diagnostics	Site consolidation	Other Plans	Total
Six months ended June 30, 2015				
Restructuring costs				
- Employee-related costs	4	-	7	11
- Site closure costs	-	14	-	14
- Divestment of products and businesses [12]	-	-	25	25
- Other reorganisation expenses	11	-	15	26
Total restructuring costs	**15**	**14**	**47**	**76**
Six months ended June 30, 2014				
Restructuring costs				
- Employee related costs	9	1	19	29
- Site closure costs	1	14	-	15
- Other reorganisation expenses	15	2	2	19
Total restructuring costs	**25**	**17**	**21**	**63**

Diagnostics Division

During the six months ended June 30, 2015 total costs were $15 million, related to the restructuring of the former Applied Science business, certain IT projects and the Diabetes Care 'Autonomy and Speed' initiative.

Site consolidation

During the six months ended June 30, 2015 total costs were $14 million, mainly related to Genentech site restructuring. The operational closure of the site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the RHI 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 2015.

Other restructuring plans

During the six months ended June 30, 2015 total costs were $47 million. On April 23, 2015 the RHI Group sold its wholly owned subsidiary Marcadia Biotech, Inc. to a third party with a loss on disposal of $25 million (see Note 12). The costs of the InterMune integration were $22 million.

Restructuring plans: summary of costs incurred *in millions of USD*

	Six months ended June 30, 2015	2014
Employee-related costs		
- Termination costs	7	28
- Other employee-related costs	4	1
Total employee-related costs	**11**	**29**
Site closure costs		
- Accelerated depreciation of property, plant and equipment	14	14
- Other site closure costs	-	1
Total site closure costs	**14**	**15**
Loss on divestment of subsidiary	25	-
Total costs on divestment of products and businesses	**25**	**-**
Other reorganisation expenses	26	19
Total restructuring costs	**76**	**63**

Restructuring plans: classification of costs *in millions of USD*

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
- Pharmaceuticals	14	1	15	14	-	14
- Diagnostics	-	8	8	-	6	6
Marketing and distribution						
- Pharmaceuticals	-	8	8	-	-	-
- Diagnostics	-	4	4	-	9	9
Research and development						
- Pharmaceuticals	-	6	6	-	23	23
- Diagnostics	-	-	-	-	1	1
General and administration						
- Pharmaceuticals	-	32	32	-	1	1
- Diagnostics	-	3	3	-	9	9
Total	**14**	**62**	**76**	**14**	**49**	**63**
Total by operating segment						
Pharmaceuticals	14	47	61	14	24	38
Diagnostics	-	15	15	-	25	25
Total	**14**	**62**	**76**	**14**	**49**	**63**

7. Goodwill

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

Six months ended June 30, 2015	
At January 1, 2015	7,661
Business combinations [5]	902
At June 30, 2015	**8,563**
Allocation by operating segment	
Roche Pharmaceuticals	4,920
Diagnostics	3,643
Total RHI Group	**8,563**

As disclosed in Note 5, the goodwill at December 31, 2014 has been restated following the finalisation of the valuation of the net assets acquired related to the InterMune and Bina acquisitions in 2014. A reconciliation to the previously published goodwill is provided in Note 5.

Impairment charges – 2015

There were no impairments of goodwill during the six months ended June 30, 2015.

Impairment charges – 2014

During the six months ended June 30, 2014 the goodwill in the Tissue Diagnostics business area within the Diagnostics Division was fully written down with an impairment charge of $604 million. The impairment charge was recorded within general and administration. 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 U.S. reductions in immunohistochemistry testing reimbursement to laboratories and a change in the pre-tax discount rate used for impairment testing.

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Technology intangibles: in use	Total
Six months ended June 30, 2015				
At January 1, 2015	9,097	1,627	44	10,768
Business combinations [5]	1,051	115	-	1,166
Additions	30	105	-	135
Divestment of subsidiary [12]	(28)	-	-	(28)
Disposals	-	(8)	-	(8)
Amortisation charge	(702)	-	(4)	(706)
Impairment charge	-	(14)	-	(14)
Currency translation effects	125	-	-	125
At June 30, 2015	**9,573**	**1,825**	**40**	**11,438**
Allocation by operating segment				
Pharmaceuticals	8,478	1,146	39	9,663
Diagnostics	1,095	679	1	1,775
Total RHI Group	**9,573**	**1,825**	**40**	**11,438**

As disclosed in Note 5, the intangible assets at December 31, 2014 has been restated following the finalisation of the valuation of the net assets acquired related to the Bina acquisition in 2014. A reconciliation to the previously published goodwill is provided in Note 5.

Classification of intangible asset amortisation and impairment expenses *in millions of USD*

	Amortisation		Impairment	
	2015	2014	2015	2014
Cost of sales				
- Pharmaceuticals	(596)	(37)	-	-
- Diagnostics	(94)	(89)	-	(173)
Research and development				
- Pharmaceuticals	(16)	(19)	(14)	(64)
- Diagnostics	-	-	-	-
Total	**(706)**	**(145)**	**(14)**	**(237)**

Impairment charges – 2015

Pharmaceuticals Division. Impairment charges totalling $14 million were recorded which related to a decision to stop development of a compound with an alliance partner. The asset concerned, which was not yet being amortised, was fully written down.

Impairment charges – 2014

Pharmaceuticals Division. Impairment charges totalling $64 million were recorded which related to:

- A decision to stop development of a compound acquired as part of a previous business combination ($36 million). 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 ($28 million). The asset concerned, which was not yet being amortised, was fully written down.

Diagnostics Division. Impairment charges totalling $173 million 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 U.S. reductions in immunohistochemistry testing reimbursement to laboratories and a change in the asset specific pre-tax discount rate used for impairment testing. The assets concerned, which were being amortised, were written down to their estimated recoverable value of $147 million.

9. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2015	December 31, 2014
Legal provisions	591	600
Environmental provisions	277	333
Restructuring provisions	107	234
Employee provisions	157	218
Other provisions	1,668	1,393
Total provisions	**2,800**	**2,778**
Current	1,803	1,915
Non-current	997	863
Total provisions	**2,800**	**2,778**

During the six months ended June 30, 2015 a total of $324 million of provisions were utilised (six months ended June 30, 2014: $289 million), mainly related to the utilisation of restructuring, employee and environmental provisions. Other provisions increased mainly due to additional contingent consideration arrangements (see Note 13).

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

Accutane. The litigation related to Accutane is described in Note 19 to the Annual Financial Statements. Since January 1, 2015 there have been approximately 2,170 cases dismissed in the U.S. and at June 30, 2015 Hoffmann-La Roche Inc. was defending approximately 4,460 actions involving approximately 4,540 plaintiffs. In February 2015 the Superior Court of New Jersey, Law Division, Atlantic County, held an eight day evidentiary hearing on whether plaintiffs' experts can testify that Accutane causes Crohn's Disease. On February 20, 2015 the Superior Court barred plaintiffs' experts because their methods did not meet the requirements for scientific reliability. On May 8, 2015 the Superior Court entered an order dismissing with prejudice an agreed upon list of 2,076 cases which were subject to the Superior Court's February 2015 order and ruled that the plaintiffs did not have scientific evidence that Accutane caused Crohn's Disease. On May 12, 2015 the Superior Court entered an order granting summary judgment and dismissing with prejudice 18 cases. The judge ruled that the drug label since 2002 had appropriate warnings and therefore any residents in New Jersey that took the drug after 2002 had their cases dismissed. The plaintiffs have appealed both decisions related to Crohn's Disease and the drug label. In June 2015 the Superior Court held a hearing on the adequacy as a matter of law of the post-2002 ingestion cases in 43 other jurisdictions. The RHI Group continues to defend vigorously the remaining personal injury cases and claims.

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 RHI 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 USD*	
Six months ended June 30, 2015	
At January 1, 2015	43,662
Proceeds from issue of bonds and notes	597
Redemption and repurchase of bonds and notes	(1,436)
Increase (decrease) in commercial paper	(91)
Increase (decrease) in amounts due to related parties	50
Increase (decrease) in other debt	(13)
Net (gains) losses on redemption and repurchase of bonds and notes [3]	7
Amortisation of debt discount [3]	8
Net foreign exchange (gains) losses	(362)
At June 30, 2015	**42,422**
Bonds and notes	16,516
Commercial paper	3,260
Amounts due to related parties	22,480
Finance lease obligations	166
Total debt	**42,422**
Long-term debt	35,027
Short-term debt	7,395
Total debt	**42,422**

Foreign currency transaction gains of $362 million are mainly related to the stronger U.S. dollar compared to the euro and occurred in Roche Holdings, Inc., which is the issuer of most of the outstanding bonds and notes. These gains were recorded in the income statement, where they have been partially offset by losses on the hedging derivatives.

Issuance of bonds and notes

On March 13, 2015 the RHI Group issued 600 million U.S. dollar-denominated fixed rate notes with a coupon of 2.00% under the European Medium Term Note Programme. The notes will mature on March 13, 2020 and are listed on the Luxembourg Stock Exchange. The RHI Group received approximately $597 million aggregate net proceeds from the issuance and sale of these fixed notes.

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

Redemption and repurchase of bonds and notes – 2015

Partial redemption of U.S. dollar-denominated notes. On December 19, 2014 the RHI Group resolved to exercise its option to call for early partial redemption of U.S. dollar-denominated 6.0% fixed rate notes due March 1, 2019. On March 26, 2015 the RHI Group redeemed an outstanding principal of $600 million at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the U.S. Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was $697 million, plus accrued interest and there was an additional $7 million loss recorded on redemption. The effective interest rate of these notes was 6.37%.

Redemption of pound sterling-denominated notes. On the due date of March 4, 2015 the RHI Group redeemed the 5.5% fixed rate notes with a principal of 481 million pounds sterling. The cash outflow was $739 million, plus accrued interest. The effective interest rate of these notes was 5.70%.

Redemption of bonds and notes since June 30, 2015

Redemption of Genentech Senior Notes in July 2015. On the due date of July 15, 2015 the RHI Group redeemed the 4.75% fixed rate Senior Notes with a principal of 1.0 billion U.S. dollars. The cash outflow was $1.0 billion, plus accrued interest. The effective interest rate of these notes was 4.87%.

Redemption and repurchase of bonds and notes – 2014

During the six months ended June 30, 2014 the RHI Group completed the early repurchase of 419 million pounds sterling of fixed rate notes ($735 million) and completed the early redemption of 1.0 billion U.S. dollars of fixed rate notes.

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

Cash inflows from issuance of bonds and notes *in millions of USD*

	Six months ended June 30, 2015	2014
European Medium Term Note programme U.S. dollar-denominated bonds	597	-
Total cash inflows from issuance of bonds and notes	**597**	**-**

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

	Six months ended June 30, 2015	2014
European Medium Term Note programme pound sterling-denominated notes	(739)	(735)
U.S. dollar-denominated notes	(697)	(1,190)
Total cash outflows from redemption and repurchase of bonds and notes	**(1,436)**	**(1,925)**

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 of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2015 unsecured commercial paper notes with a principal of $3.3 billion and an average interest rate of 0.12% were outstanding.

Movements in commercial paper obligations *in millions of USD*

Six months ended June 30, 2015	
At January 1, 2015	3,351
Net cash proceeds (payments)	(91)
At June 30, 2015	**3,260**

Recognised liabilities due to related parties

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

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

Six months ended June 30, 2015	
At January 1, 2015	22,430
Cash inflows from related parties	4,350
Cash outflows to related parties	(4,300)
At June 30, 2015	**22,480**

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

Cash inflows from related parties *in millions of USD*

	Six months ended June 30,	
	2015	2014
Term note 2.39% issued March 14, 2014	-	800
Term note 4.55% issued January 6, 2014	-	875
Term note 2.27% issued January 6, 2014	-	875
Term note 4.38% issued March 3, 2014	-	1,000
Term note 4.38% issued March 14, 2014	-	500
Term note 2.49% issued June 24, 2014	-	400
Term note 3.14% issued February 27, 2015	750	-
Term note 3.14% issued February 27, 2015	750	-
Term note 3.14% issued February 27, 2015	800	-
Term note 3.48% issued January 30, 2015	1,000	-
Term note 3.48% issued January 30, 2015	1,000	-
Term note 1.91% issued March 2, 2015	50	-
Total	**4,350**	**4,450**

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

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

	Six months ended June 30,	
	2015	2014
Term note 5.52% due March 14, 2014	-	(800)
Term note 2.25% due March 14, 2014	-	(500)
Term note 1.99% due January 6, 2014	-	(1,750)
Term note 3.04% due March 3, 2014	-	(1,000)
Term note 1.66% due June 19, 2015	(250)	-
Term note 2.12% due March 19, 2015	(1,300)	-
Term note 1.56% due June 5, 2015	(1,750)	-
Term note 1.66% due April 16, 2015	(1,000)	-
Total	**(4,300)**	**(4,050)**

11. Equity attributable to RHI shareholder

Genentech transaction

The RHI Group completed the purchase of the non-controlling interest in Genentech effective March 26, 2009. Based on the International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), which was adopted by RHI in 2013, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by $46.6 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interest. At June 30, 2015 the RHI Group had a negative equity of $21.7 billion (December 31, 2014: $23.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

At June 30, 2015 the share capital of Roche Holdings, Inc., which is the RHI Group's parent company, consisted of 1,000 shares with a nominal value of $1,000 each and has not changed during the first half of 2015. All shares are indirectly owned by Roche Holding Ltd., a public company registered in Switzerland.

Dividends

On January 5, 2015 the Board of Directors of RHI resolved to declare a dividend of $0.6 million per share to RHI's sole stockholder, Roche Finance Ltd, which has been paid in the first half of 2015. On May 28, 2015 the Board of Directors of RHI resolved to declare a dividend of $0.5 million per share to RHI's sole stockholder, Roche Finance Ltd.

Own equity instruments

The RHI Group holds none of its own equity shares.

Retained earnings

In addition to net income attributable to the RHI shareholder of $2,337 million (six months ended June 30, 2014: $1,969 million) and the dividend payments described above, retained earnings also includes gains on remeasurements of defined benefit plans of $178 million, after tax (six months ended June 30, 2014: losses of $85 million, after tax). These were based on updated actuarial calculations for major plans and the gains were mainly due to an increase in discount rate since the end of 2014.

12. Subsidiaries

Foundation Medicine, Inc.

Foundation Medicine, Inc. ('FMI') is a fully consolidated subsidiary of the RHI Group and at June 30, 2015 the RHI Group's interest in FMI was 60.0%. The common stock of FMI is publicly traded and is listed on the Nasdaq under the stock code 'FMI'. FMI prepares financial statements in accordance with U.S. GAAP which are filed on a quarterly basis with the SEC. Due to certain consolidation entries there are differences between FMI's stand-alone U.S. GAAP results and the results of FMI as consolidated by the RHI Group in accordance with IFRS.

Divestment of subsidiary

On April 23, 2015 the RHI Group sold its wholly owned subsidiary Marcadia Biotech, Inc. to a third party as part of the previously announced Pharmaceuticals Division's Research and Development reorganisation. The total consideration received was a 3 million U.S. dollar convertible note. The total loss on divestment of $25 million is reported in restructuring costs in the Roche Pharmaceuticals operating segment and is shown in the table below.

Loss on divestment of subsidiary – six months ended June 30, 2015 *in millions of USD*

Consideration	**3**
Intangible assets [8]	28
Total net assets disposed	**28**
Loss on divestment of subsidiary [6]	**(25)**

13. Financial risk management

The RHI Group's financial risk management objectives and policies are consistent with those disclosed in Note 26 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 USD*

	Level 1	Level 2	Level 3	Total
At June 30, 2015				
Marketable securities - equity securities	658	-	-	658
Derivative financial instruments – related parties [14]	-	1	-	1
Available-for-sale investments – held at fair value	4	17	-	21
Financial assets recognised at fair value	**662**	**18**	**-**	**680**
Derivative financial instruments	-	(479)	-	(479)
Derivative financial instruments – related parties [14]	-	(471)	-	(471)
Contingent consideration	-	-	(890)	(890)
Financial liabilities recognised at fair value	**-**	**(950)**	**(890)**	**(1,840)**

At June 30, 2015 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 RHI Group determines Level 2 fair values using the following valuation techniques:

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

The RHI Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 2015.

Level 3 fair values

Details of the determination of Level 3 fair value measurements during the six months ended June 30, 2015 are set out below.

Contingent consideration arrangements *in millions of USD*

Six months ended June 30, 2015	
At January 1, 2015	(548)
Arising from business combination [5]	(188)
Utilised [5]	37
Total unrealised gains and losses included in the income statement	
- Unused amounts reversed	-
- Additional amounts created	(182)
- Discount unwind	(9)
At June 30, 2015	**(890)**

The contingent consideration provisions were increased by $182 million in the first half of 2015 mainly due to the progression of the lead product candidate from the Seragon acquisition. This was recorded as a general and administration expense.

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from business combination arrangements. The fair values are determined considering the expected payments, discounted to present value using risk-adjusted average discount rate of 4.1% (2014: 4.1%). The expected payments are determined by considering the possible scenarios of forecast sales and 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, 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 June 30, 2015 the total payments under contingent consideration arrangements could be up to $1.8 billion (December 31, 2014: $1.6 billion). The most significant contingent consideration arrangements relate to the Ariosa (2015), CAPP (2015), Seragon (2014), IQuum (2014), Genia (2014) and CMI (2013) acquisitions.

Carrying value and fair value

At June 30, 2015 the carrying value of bonds and notes is $16.5 billion compared to a fair value of $17.7 billion and the carrying value of total debt is $42.4 billion compared to a fair value of $43.6 billion. The carrying values of financial assets are a reasonable approximation of the fair values at June 30, 2015.

14. Related parties

Controlling shareholder

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

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

Related party transactions *in millions of USD*

	Six months ended June 30,	
	2015	2014
Sales	1,012	809
Royalty income	1,105	1,185
Contract revenue	-	212
Purchases of inventory and other materials	(263)	(288)
Reimbursements received under research and development cost-sharing and collaboration agreements	429	407
Payments issued under research and development cost-sharing and collaboration agreements	(559)	(474)
Services rendered	41	51
Services received	(51)	(35)
Financing costs – related parties		
Interest expense	(495)	(337)
Guarantee fees	(43)	(50)
Total financing costs – related parties	**(538)**	**(387)**
Other financial income (expense) – related parties		
Net gains (losses) on foreign currency derivatives	(58)	(3)
Other financial income (expense)	2	1
Total other financial income (expense) – related parties	**(56)**	**(2)**

Related party balances *in millions of USD*

	June 30,2015	December 31, 2014
Other non-current assets	-	6
Other current assets	-	-
Accounts receivable	2,745	3,304
- of which derivative financial assets [13]	*1*	*76*
Total receivable – related parties	**2,745**	**3,310**
Long-term debt	(21,730)	(17,880)
Short-term debt	(750)	(4,550)
Total debt – related parties	**(22,480)**	**(22,430)**
Other non-current liabilities	(116)	(240)
Other current liabilities	(2,029)	(2,175)
Accounts payable	(1,336)	(919)
- of which derivative financial liabilities [13]	*(471)*	*(151)*
Total payable – related parties	**(3,481)**	**(3,334)**

The RHI Group deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited of $1.7 billion are immediately available and bear variable interest referenced to one month LIBOR.

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Review Report of the Independent Auditor on the Consolidated Financial Statements to the Board of Directors of

Roche Holdings, Inc., Wilmington, Delaware

Introduction
We have been engaged to review the accompanying consolidated condensed balance sheet of Roche Holdings, Inc., as at June 30 2015 and the related consolidated statements of income and comprehensive income, condensed statement of cash flows and statement of changes in equity, for the six-month period then ended, and selected explanatory notes (the interim consolidated financial statements) on pages 6 to 24. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

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

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements as at June 30, 2015 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

Marc Ziegler
Licensed Audit Expert

Basel, 24 July 2015