Roche Holdings, Inc. -

Consolidated Interim Financial Statements 2010

Roche Holdings, Inc. Half Year Report 2010

Interim Management Report and

Interim Consolidated Financial Statements

for the six months ended on June 30, 2010

Management Report

1. Review of the first six months ended June 30, 2010

Important events

In the first half of 2010 the Roche Holdings, Inc. (RHI) Group achieved a solid operating performance. Effective March 26, 2009 the RHI Group obtained full ownership of Genentech, Inc. and further continued the implementation of the reorganization of the RHI Goup's U.S. Pharmaceuticals business announced on July 21, 2008. The majority of the program has been completed. The RHI Goup also continued to pay down debt after obtaining full ownership of Genentech, Inc. in the first half of 2009. Additionally the RHI Group has exercised its option to call for redemption in the second half of 2010 $2.5 billion of notes that were due March 1, 2012.

The financial and economic crisis has not had a significant impact on the RHI Group's operations in the first half of 2010. The RHI Group continues to actively monitor the situation, including its credit risk, mainly resulting from three major wholesalers.

The effect of the U.S. healthcare reforms on the Pharmaceuticals Division in the first half of 2010 was a reduction in sales of $122 million.

Financial performance

In the first six months of 2010 the RHI Group's total sales increased 4% to $8.6 billion, with the Pharmaceuticals Division representing 84% of RHI total sales and the Diagnostics Division contributing 16%. Sales in the Pharmaceuticals Division continued to grow by 4% to $7.2 billion driven by the key oncology drugs, especially Avastin, Mabthera/Rituxan and Herceptin as well as Lucentis in ophthalmology. These increased sales were partly offset by the decline in CellCept in transplantation due to the patent expiry in the United States in May 2009 and the initial impacts of the U.S. healthcare reforms. The Diagnostics Division increased sales to $1.4 billion in the first six months of 2010, growing 5%. Major growth areas were Professional Diagnostics and Tissue Diagnostics.

The RHI Group's operating profit before exceptional items increased by $0.9 billion to $4.1 billion, ahead of the sales growth of 4%, reflecting the RHI Group's focus not only on top line growth but also on further cost management. The operating profit margin before exceptional items increased by 8.9 percentage points to reach 47.2%. In the Pharmaceuticals Division operating profit before exceptional items increased by 28% to $3.9 billion, driven primarily by higher sales, synergies from the Genentech integration in all functions, higher positive effects of cost-sharing agreements with related parties and resource prioritization, notably in marketing and distribution. Cost of sales decreased in comparison to the first half of 2009, as a result of the costs of the voluntary withdrawal of Raptiva in 2009, lower royalty expenses and lower expenses for collaboration and profit-sharing agreements in 2010, further to an amended agreement with GlaxoSmithKline in the U.S. for Bonviva/Boniva. The first half of 2010 also includes the impacts of productivity improvements, partially offset by unfavorable product mix effects. Research and development costs, excluding intangible assets impairments, decreased by 4% mainly due to the positive impact of cost sharing agreements with related parties, resource prioritization and synergies. Research and development expenses also included the immediate recognition of the remaining costs of $48 million necessary to cover the termination of the ocrelizumab rheumatoid arthritis development program, which was partially offset by the payment received from Novartis for opting in the Lucentis study on the treatment of macular edema following retina/vein occlusion. The operating profit in the Diagnostics Division increased to $152 million. The operating profit margin improvement of 3.3 percentage points was driven by sales growth mainly in Professional Diagnostics and Tissue Diagnostics as well as higher royalty income. Furthermore, there was a favorable development of operating expenses which is partially due to the non-recurrence of one-time expenses such as restructuring expenses recorded in the comparative period in 2009.

The Pharmaceuticals Division incurred exceptional operating expenses of $0.2 billion mainly relating to employee-related costs and other reorganization expenses arising from the Genentech transaction, whereas the comparative period contained exceptional operating costs of $1.9 billion also relating to the restructuring of the Pharmaceuticals operations further to the Genentech transaction, mainly for the impairment of a manufacturing facility as well as an increase in the provisions for major legal cases. Overall this led to an increase of the RHI Group's operating profit to $3.9 billion compared to $1.2 billion in the same period of 2009.

In 2009, the RHI Group financed the Genentech transaction by a combination of own funds, bonds, notes and commercial paper. The RHI Group raised net proceeds of $40.3 billion through a series of debt offerings. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent of the RHI Group. As a consequence, the underlying dynamics of the RHI Group's treasury results changed significantly, with a substantial increase in interest expenses. The interim period of 2010 includes six months of these interest expenses compared to only three months in the first half of 2009. Additionally in 2009 the RHI Group entered into derivative contracts with related parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than U.S. dollars. The losses on these derivative contracts are offset by foreign exchanges gains on the bonds and notes issues in currencies other than U.S. dollars. The financing costs from related parties increased to $533 million mainly reflecting six months of financing costs in 2010 compared to only three months in 2009 arising from the additional related-party debt taken on to fund the Genentech transaction. The RHI Group's effective tax rate before exceptional items increased to 38.1% from 32.8% in the comparative period mainly due to the non-renewal of the U.S. research and development tax credit rules so far in 2010 and the impact from adjustments recognized for current tax of prior periods.

Overall net income increased by $1.2 billion to $1.5 billion primarily driven by significantly lower exceptional items incurred in respect of the Genentech transaction in 2010 compared to 2009. Excluding the exceptional items, net income increased by 6% to $1.6 billion.

The cash flow from operating activities decreased by $1.4 billion to $2.6 billion. This is mainly a result of higher tax payments, as 2009 included the one-time $0.9 billion tax benefit on the settlement of stock options with Genentech employees upon closing the transaction in March 2009. Before income taxes paid, cash from operating activities decreased by $0.4 billion, as higher cash generation from operations was more than offset principally by payments of certain large year-end 2009 accruals, notably for Tamiflu royalties including the payment of the employee retention/severance schemes in 2010. The cash flow from investing activities decreased by $6.0 billion to an outflow of $0.2 billion for capital expenditure for property, plant and equipment, while the comparative period contained $6.1 billion proceeds from liquidation of certain debt securities to fund the Genentech transaction. The cash outflow from financing activities was $2.4 billion mainly due to the repayment of $5.1 billion of notes as well as $1.3 billion interest payments for the new debt issued in 2009, partly offset with a net inflow from related party financing of $4.8 billion, including cash pool. The financing cash outflow of $12.3 billion in 2009 included payments of $47 billion for the Genentech transaction and proceeds of $40.3 billion from issuance of bonds and notes. Furthermore, it included an outflow of $6.8 billion into the Roche Group cash pool outside the United States. The total decrease in cash was $0.4 billion.

Financial position

The decrease in total assets mainly results from a decrease in related party receivables and deferred income tax assets, compared to December 31, 2009. The carrying value of debt, mainly from the financing of the Genentech transaction, at June 30, 2010 was $45.1 billion, compared to $48.8 billion at December 31, 2009. This reduction reflects the redemption on due dates in the first quarter of 2010 of the $3 billion and 1.5 billion euro denominated floating rate notes and the decrease in the carrying value of the outstanding bonds denominated in foreign currencies due to the strengthening of the U.S. dollar. The decrease in bonds and notes was partly offset by an increase in related party debt. In 2009 the Genentech transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced. In 2010, the negative equity was reduced by $1.4 billion to $28.9 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds and notes with a carrying value of $29.1 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of the RHI Group's counterparties. The RHI Group's financial risk management is described in Note 30 to the Consolidated Financial Statements for the year ended December 31, 2009.

Uncertainties

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

The RHI Group's provisions and contingent liabilities are described in Note 24 to the Consolidated Financial Statements for the year ended December 31, 2009. In addition, key assumptions and sources of estimation uncertainty in the preparation of the financial statements are described in Note 1 to these Financial Statements.

The difficulties in the financial markets and the economy have not had a significant impact on the RHI Group's businesses so far. However, the developments are being closely monitored and if the situation continues or worsens through 2010, then the risk of negative impacts becomes more likely.

The effect of the U.S. healthcare reforms in the first half of 2010 was $122 million, reducing sales in the Pharmaceuticals Division.

Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the future results, financial situation development or performance of the RHI Group and the historical results given in the Management Report and the Financial Statements for the six months ended 2010.

3. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge as of the date of their approval of the interim consolidated financial statements as at July 19, 2010:

- the interim consolidated financial statements as at June 30, 2010, which have been prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole and that
- the management report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Franz B. Humer Chairman of the Board	Erich Hunziker Vice Chairman of the Board	Severin Schwan Member of the Board

Frank J. D'Angelo Member of the Board	Frederick C. Kentz III Member of the Board	David P. McDede Member of the Board	Bruce Resnick Member of the Board

Roche Holdings, Inc. Interim Consolidated Financial Statements

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

	Six months ended June 30, 2010	2009
Sales [2]	**8,601**	8,267
Royalties and other operating income [2]	**1,697**	1,822
Cost of sales	**(3,121)**	(3,215)
Marketing and distribution	**(1,084)**	(1,468)
Research and development	**(1,821)**	(1,892)
General and administration	**(212)**	(347)
Operating profit before exceptional items [2]	**4,060**	3,167
Major legal cases [9]	**-**	(372)
Changes in RHI Group organization [7]	**(191)**	(1,548)
Operating profit [2]	**3,869**	1,247
Associates	**-**	-
Financial income [4]	**465**	(431)
Financing costs [4]	**(1,058)**	(676)
Financial income – related parties [12]	**(285)**	632
Financing costs – related parties [12]	**(533)**	(399)
Exceptional financing costs [4]	**-**	(150)
Profit before taxes	**2,458**	223
Income taxes [5]	**(1,009)**	(752)
Income taxes on exceptional items [5]	**73**	889
Net income	**1,522**	360
Attributable to		
- Roche Holdings, Inc. shareholder	**1,522**	(15)
- Non-controlling interests	**-**	375

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

	Six months ended June 30, 2010	2009
Net income recognized in income statement	**1,522**	360
Other comprehensive income		
Available-for-sale investments	**(41)**	(11)
Cash flow hedges	**(134)**	(8)
Defined benefit post-employment plans	**(35)**	153
Other comprehensive income, net of tax	**(210)**	134
Total comprehensive income	**1,312**	494
Attributable to		
- Roche Holdings, Inc. shareholder	**1,312**	104
- Non-controlling interests	**-**	390
Total	**1,312**	494

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditors and their review report is presented on page 25.

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

	June 30, 2010	December 31, 2009
Non-current assets	**17,280**	17,823
Current assets	**8,056**	11,116
Total assets	**25,336**	28,939
Non-current liabilities	**(39,805)**	(43,664)
Current liabilities	**(14,390)**	(15,572)
Total liabilities	**(54,195)**	(59,236)
Total net assets / (liabilities)	**(28,859)**	(30,297)
Equity [11]		
Capital and reserves attributable to Roche Holdings, Inc. shareholder	**(28,859)**	(30,297)
Equity attributable to non-controlling interests	**-**	-
Total equity	**(28,859)**	(30,297)

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

	Six months ended June 30,	
	2010	2009
Cash flows from operating activities, before income taxes paid	**3,401**	3,767
Income taxes reimbursed (paid)	**(823)**	221
Cash flows from operating activities	**2,578**	3,988
Cash flows from investing activities	**(224)**	5,776
Cash flows from financing activities	**(2,416)**	(12,348)
Increase (decrease) in cash and cash equivalents	**(62)**	(2,584)
Cash and cash equivalents at beginning of period	**10**	2,910
Cash and cash equivalents at end of period [a]	**(52)**	326

a) Cash overdrafts of $52 million (2009: zero) are included within current liabilities in the balance sheet

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

	Share capital	Retained earnings	Fair value reserve	Hedging reserve	Total	Non-controlling interests	Total equity
Six months ended June 30, 2009							
At January 1, 2009	1	7,127	65	7	7,200	6,991	14,191
Net income recognized in income statement	-	(15)	-	-	(15)	375	360
Available-for-sale investments	-	-	(13)	-	(13)	2	(11)
Cash flow hedges	-	-	-	(21)	(21)	13	(8)
Defined benefit post-employment plans	-	153	-	-	153	-	153
Total comprehensive income	-	138	(13)	(21)	104	390	494
Business combinations [6]	-	-	-	-	-	4	4
IGEN capital contribution	-	292	-	-	292	-	292
Dividends [11]	-	-	-	-	-	-	-
Equity compensation plans	-	437	-	-	437	154	591
Changes in ownership interests in subsidiaries							
- Genentech [3]	-	(39,050)	-	-	(39,050)	(7,550)	(46,600)
- Memory [6]	-	(1)	-	-	(1)	(4)	(5)
Changes in non-controlling interests	-	(15)	-	-	(15)	15	-
At June 30, 2009	1	(31,072)	52	(14)	(31,033)	-	(31,033)
Six months ended June 30, 2010							
At January 1, 2010	**1**	**(30,449)**	**88**	**63**	**(30,297)**	**-**	**(30,297)**
Net income recognized in income statement	**-**	**1,522**	**-**	**-**	**1,522**	**-**	**1,522**
Available-for-sale investments	**-**	**-**	**(41)**	**-**	**(41)**	**-**	**(41)**
Cash flow hedges	**-**	**-**	**-**	**(134)**	**(134)**	**-**	**(134)**
Defined benefit post-employment plans	**-**	**(35)**	**-**	**-**	**(35)**	**-**	**(35)**
Total comprehensive income	**-**	**1,487**	**(41)**	**(134)**	**1,312**	**-**	**1,312**
Dividends [11]	**-**	**-**	**-**	**-**	**-**	**-**	-
Equity compensation plans	**-**	**126**	**-**	**-**	**126**	**-**	**126**
Other movements	**-**	**(75)**	**53**	**22**	**-**	**-**	**-**
At June 30, 2010	**1**	**(28,911)**	**100**	**(49)**	**(28,859)**	**-**	**(28,859)**

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

Reference numbers indicate the corresponding Notes to the Interim Consolidated Financial Statements. The Interim Consolidated Financial Statements are unaudited. The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditors and their review report is presented on page 25.

1. Accounting policies

Basis of preparation of financial statements

These financial statements are the unaudited interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries (hereafter 'RHI' or 'the RHI Group') for the six-month period ended June 30, 2010 (hereafter 'the interim period'). RHI is 100% indirectly owned by Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group. Roche Holdings, Inc. and its subsidiaries are therefore members of the Roche Group.

The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) 'Interim Financial Reporting'. They should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2009 (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 19, 2010.

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

The preparation of the Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgments at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

Effective March 26, 2009, the purchase of the non-controlling interests in Genentech was completed (see Note 3). Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced by approximately $47 billion and at June 30, 2010 the RHI Group had a negative equity of $28.9 billion. The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, bonds, notes and commercial paper with a carrying value of $29.1 billion are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. Accordingly, management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In the interim period of 2010, the RHI Group generated an operating profit of $3.9 billion and a positive operating cash flow of $2.6 billion.

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

The RHI Group has two divisions, Pharmaceuticals and Diagnostics. Revenues are primarily generated from the sale of prescription pharmaceutical products and diagnostic instruments, reagents and consumables, respectively. Both divisions also derive revenue from the sale or licensing of products or technology to third parties. Certain headquarter activities are reported as 'Corporate'.

Changes in accounting policies

In 2008 the RHI Group early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' which are required to be implemented from January 1, 2010 at the latest. In 2010 the RHI Group has implemented various amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position.

The RHI Group is currently assessing the potential impacts of the other new and revised standards and interpretations that will be effective from January 1, 2011 and beyond, and which the RHI Group has not early adopted. The RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position.

2. Operating segment information

Divisional information *in millions of USD*

	Pharmaceuticals		Diagnostics		Corporate		RHI Group	
Six months ended June 30,	2010	2009	2010	2009	2010	2009	2010	2009
Revenues from external customers and related parties	**8,750**	8,640	**1,548**	1,449	**-**	-	**10,298**	10,089
Revenues from other operating segments	**-**	-	**-**	-	**-**	-	**-**	-
Segment results								
Operating profit before exceptional items	**3,913**	3,067	**152**	100	**(5)**	-	**4,060**	3,167
Major legal cases	**-**	(372)	**-**	-	**-**	-	**-**	(372)
Changes in RHI Group organization	**(191)**	(1,548)	**-**	-	**-**	-	**(191)**	(1,548)
Operating profit	**3,722**	1,147	**152**	100	**(5)**	-	**3,869**	1,247

3. Genentech

Genentech transaction

On March 12, 2009, Roche entered into a merger agreement with Genentech pursuant to which the Group made a successful tender offer to purchase all of the shares of Genentech not already owned by the Group for $95.00 per share in cash (the 'Genentech transaction'). As a result, Genentech became a wholly-owned subsidiary of the RHI Group, effective March 26, 2009.

The cash consideration for the purchase of all public shares, including shares issuable under Genentech's outstanding employee stock options and payment of related fees and expenses, amounted to approximately $47 billion, as set out in the table below. These amounts have been recorded to equity as a change in ownership interest in subsidiaries in 2009.

Genentech transaction *in millions of USD*

	Six months ended June 30, 2009
Purchase of publicly held shares	**44,400**
Settlement of outstanding employee stock options	**2,412**
Directly attributable transaction costs	**205**
Total cash consideration	**47,017**
Income tax effects	**(417)**
Change in ownership interest in subsidiaries	**46,600**

4. Financial income and financing costs

Financial income *in millions of USD*

	Six months ended June 30, 2010	2009
Net income from equity securities	**72**	25
Net interest income and income from debt securities	**-**	55
Expected return on plan assets of defined benefit plans	**104**	91
Net foreign exchange gains (losses)	**286**	(608)
Net other financial income (expense)	**3**	6
Total financial income	**465**	(431)

Net foreign exchange gains of $286 million (2009: losses of $608 million) were offset by a net loss of $289 million (2009: net gain of $603 million) made on foreign exchange forward contracts with related parties (see Note 12).

Financing costs *in millions of USD*

	Six months ended June 30, 2010	2009
Interest expense	**(786)**	(553)
Gains (losses) on redemption and repurchase of bonds and notes, net [10]	**(133)**	-
Interest cost of defined benefit plans	**(111)**	(107)
Other financing costs	**(28)**	(16)
Total financing costs	**(1,058)**	(676)

Net financial income *in millions of USD*

	Six months ended June 30, 2010	2009
Financial income	**465**	(431)
Financing costs	**(1,058)**	(676)
Net financial income	**(593)**	(1,107)
Financial result from Treasury management	**(586)**	(1,091)
Financial result from Pension management	**(7)**	(16)
Net financial income	**(593)**	(1,107)

Exceptional financing costs

As described in Note 3, effective March 26, 2009 the RHI Group purchased all publicly owned shares of Genentech for $95.00 per share in cash, with the total cash consideration of the transaction, including shares issuable under Genentech's outstanding employee stock option plans and payment of related fees and expenses, being approximately $46.6 billion.

In order to execute this transaction, Roche's Treasury operations liquidated certain debt securities into cash in the interim period of 2009. This resulted in a net loss on these transactions of $26 million. Furthermore, due to the prevailing financial conditions at that time, the RHI Group issued bonds and notes in advance of the transaction totaling $40.3 billion through a series of debt offerings, as described in Note 26 to the Annual Financial Statements. The interest expense on these instruments for the bridging period between their issue and the completion of the Genentech transaction on March 26, 2009 was $124 million.

These amounts are disclosed separately in the income statement for the interim period of 2009 in order to fairly present the RHI Group's results in the overall context of the Genentech transaction and related reorganizations in the RHI Group's Pharmaceuticals Division. The total income tax benefit recorded in the interim period of 2009 in respect of exceptional financing costs was $55 million.

Exceptional financing costs *in millions of USD*

	Six months ended June 30, 2010	2009
Gain (loss) on liquidation of debt securities	-	(26)
Interest expense incurred on newly issued bonds and notes during bridging period	-	(124)
Total exceptional financing costs	-	(150)

5. Income taxes

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2010	2009
Current income taxes	**(624)**	(848)
Adjustments recognized for current tax of prior periods	**2**	55
Deferred income taxes	**(387)**	41
Total income tax (expense) benefit	**(1,009)**	(752)

Exceptional income taxes

As described in Note 7, the RHI Group incurred exceptional expenses totaling $191 million (2009: $1,548 million) in connection with the Genentech transaction and the related reorganizations in the RHI Group's pharmaceuticals business. Furthermore, as described in Note 4, the RHI Group incurred exceptional financing costs in the interim period of 2009 totaling $150 million in connection with the financing of the Genentech transaction. As disclosed in Note 9, expenses incurred in respect of major legal cases in the interim period of 2009 were $372 million. The income tax effects of these items, as shown in the table below, are disclosed separately in the income statement in order to fairly present the RHI Group's results in the overall context of the Genentech transaction and related reorganizations in the RHI Group's Pharmaceuticals Division. In the interim period of 2009 an income tax benefit of $130 million was recorded in respect of Genentech's stock option plans in 2009 that was clearly attributable to the Genentech transaction, and therefore has been allocated as part of exceptional income taxes.

Exceptional income tax expenses *in millions of USD*

	Six months ended June 30,	
	2010	2009
Current income taxes	**78**	101
Deferred income taxes	**(5)**	788
Total income tax (expense) benefit on exceptional items	**73**	889

Reconciliation of the RHI Group's effective tax rate

Six months ended June 30,			2010			2009
	Profit before tax (mUSD)	Income taxes (mUSD)	Tax rate (%)	Profit before tax (mUSD)	Income taxes (mUSD)	Tax rate (%)
RHI Group's effective tax rate before exceptional items	**2,649**	**(1,009)**	**38.1**	2,293	(752)	32.8
Major legal cases [9]	**-**	**-**	**-**	(372)	144	38.7
Changes in RHI Group organization [7]	**(191)**	**73**	**38.2**	(1,548)	690	44.6
Exceptional financing costs [4]	**-**	**-**	**-**	(150)	55	36.7
RHI Group's effective tax rate	**2,458**	**(936)**	**38.1**	223	137	-61.4

6. Business combinations

Acquisitions – 2009

Effective January 1, 2009 the RHI Group acquired an 89.6% controlling interest in Memory Pharmaceuticals Corp. (Memory) for a cash consideration of $45 million. Subsequent to the effective date of the acquisition on January 1, 2009, the RHI Group purchased the remaining shares in Memory held by third parties to give the RHI Group a 100% interest in Memory. The additional cash consideration was $5 million, which has been recorded to equity as a change in ownership interest in subsidiaries.

Memory Acquisition – 2009: net cash outflow *in millions of USD*

	Cash consideration paid	Cash in acquired company	Net cash outflow
Memory	**(45)**	**15**	**(30)**

The above cash consideration paid does not include the subsequent payment of $5 million to purchase the remaining shares in Memory held by third parties to give the RHI Group a 100% interest in Memory.

7. Changes in RHI Group organization

On July 21, 2008 the Roche Group announced an offer to purchase all outstanding shares of Genentech. Following the closing of a transaction, Genentech's South San Francisco site would become the headquarters of the RHI Group's combined pharmaceuticals operations in the United States. On July 21, 2008 the Roche Group also announced that the Roche's pharmaceuticals business in the U.S. would close manufacturing operations at its site in Nutley, New Jersey, and commercial operations would be moved to Genentech. The research site at Palo Alto, California, would be closed with the research activities being transferred to Nutley and to Genentech. Subsequent to these announcements, initial restructuring activities started at the Nutley and Palo Alto sites in 2008.

As described in Note 3, the Genentech transaction was completed effective March 26, 2009. Following this the Pharmaceuticals Division initiated a detailed integration program to align the Genentech business and the rest of the Roche's pharmaceuticals business. Genentech's South San Francisco site is being established as the headquarters of the pharmaceuticals business in the U.S., including commercial operations for the U.S. market. Genentech Research and Early Development is being set up as an autonomous unit while Genentech's late-stage development activities are being integrated with the global Pharmaceuticals Division network. The integration program includes prioritizing projects within the shared portfolio and eliminating activities that are either duplicated or no longer required, notably in the administration function.

Following the completion of the transaction, the Pharmaceuticals Division carried out a detailed reassessment of its global manufacturing network, with particular emphasis on its biotech manufacturing facilities. As a result several manufacturing facilities and construction projects are being discontinued, notably a bulk drug production unit on part of the site at Vacaville in California.

During the interim period significant costs were incurred as described below. These are disclosed separately in the income statement due to the materiality of the amounts and in order to fairly present the RHI Group's results. Costs of other restructuring programs that are less material and do not fundamentally change the RHI Group's organization are expensed in the current period and reported within the respective functional expenses.

Changes in RHI Group organization *in millions of USD*

	Six months ended June 30, 2010	2009
Employee-related costs		
- Termination costs	**29**	107
- Pensions and other post-employment benefits	**-**	(27)
- Genentech Employee Retention Program expenses	**-**	18
- Genentech stock options: accelerated vesting expenses	**-**	209
- Other retention plans and other employee benefits	**5**	25
- Other employee-related costs	**44**	27
Total employee-related costs	**78**	359
Site closure costs		
- Impairment of property, plant and equipment	**1**	830
- Accelerated depreciation of property, plant and equipment	**25**	27
- Other site closure costs	**9**	130
Total site closure costs	**35**	987
Impairment of intangible assets	**-**	154
Other reorganization expenses	**78**	48
Total	**191**	1,548

The total income tax benefit recorded in respect of changes in RHI Group organization was $73 million (2009: $690 million).

8. Goodwill

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

	Six months ended June 30, 2010
At January 1, 2010	**5,537**
Business combinations [6]	**-**
Impairment charge	**-**
At June 30, 2010	**5,537**

There are no accumulated impairment losses in goodwill.

9. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2010	December 31, 2009
Current portion	**1,073**	1,136
Non-current portion	**252**	249
Total provisions	**1,325**	1,385

Payments in the interim period from previously recorded provisions totalled $267 million (2009: $167 million).

Major legal cases

Income (expense) from major legal cases is disclosed separately in the income statement due to the materiality of the amounts and in order to fairly present the RHI Group's results. There were no such items in the interim period. In the interim period of 2009 provisions for major legal cases were increased by $372 million, based on management's estimates at that time of the ultimate liabilities that were expected to arise, taking into account the development of the various litigation and arbitration processes and any negotiations to resolve these cases.

On June 28, 2003 Mr Ubaldo Bao Martinez filed a lawsuit against the Porriño Town Council and Genentech España S.L. in the Contentious Administrative Court Number One of Pontevedra, Spain. The lawsuit challenged the Town Council's decision to grant licenses to Genentech España S.L. for the construction and operation of a warehouse and biopharmaceutical manufacturing facility in Porriño, Spain. On January 16, 2008 the Administrative Court ruled in favor of Mr Bao on one of the claims in the lawsuit and ordered the closing and demolition of the facility, subject to certain further legal proceedings. On February 12, 2008, Genentech España S.L and the Town Council filed appeals of the Administrative Court decision at the High Court in Galicia, Spain. On March 16, 2010 Genentech received notice that it prevailed over Mr Bao on the appeal. This decision revokes the January 2008 ruling in its entirety.

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

10. Debt

Debt: movements in carrying value of recognized liabilities *in millions of USD*	
Six months ended June 30, 2010	
At January 1, 2010	**48,756**
Proceeds from issue of bonds and notes	**-**
Redemption and repurchase of bonds and notes	**(5,055)**
Increase (decrease) in commercial paper	**178**
Increase (decrease) in amounts due to related parties	**3,450**
Increase (decrease) in other debt	**(24)**
(Gains) losses on redemption and repurchase of bonds and notes, net [4]	**133**
Amortization of debt discount	**23**
(Gains) losses on financial liabilities at fair-value-through-profit-or-loss, net	**-**
Foreign exchange (gains) losses and other	**(2,407)**
At June 30, 2010	**45,054**
Consisting of	
- Bonds and notes	**31,091**
- Commercial paper	**438**
- Amounts due to related parties	**13,265**
- Amounts due to banks and other financial institutions	**-**
- Genentech leasing obligations	**260**
- Finance lease obligations	**-**
- Other borrowings	**-**
Total debt	**45,054**
Reported as	
- Long-term debt	**37,479**
- Short-term debt	**7,575**
Total debt	**45,054**

Issuance of bonds and notes - 2010

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

Issuance of bonds and notes - 2009

The RHI Group financed the Genentech transaction (see Note 3) by a combination of the RHI Group's own funds, bonds, notes and commercial paper. The RHI Group raised net proceeds of $40.3 billion through a series of debt offerings, as described in Note 26 to the Annual Financial Statements. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Cash inflows from issuance of bonds and notes *in millions of USD*	Six months ended June 30,	
	2010	2009
U.S. dollar-denominated notes	-	18,764
European Medium Term Note programme euro- and sterling-denominated notes	-	15,785
Swiss franc-denominated bonds	-	5,755
Total	-	40,304

Currency swaps: Subsequent to the debt issuances, the proceeds of all of the European Medium term Note programme and all Swiss franc-denominated bonds were swapped into U.S. dollars by entering into derivative contracts with related parties. As a result, in these financial statements, the notes have economic characteristics equivalent to U.S. dollar-denominated notes.

Repayment and redemption of bonds and notes - 2010

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

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

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

	Six months ended June 30,	
	2010	2009
U.S. dollar-denominated notes	**3,000**	-
European Medium Term Note programme euro-denominated notes	**2,055**	-
Total	**5,055**	-

Early redemption of U.S. dollar-denominated notes: On June 29, 2010 the RHI Group resolved to exercise its option to call for redemption the U.S. dollar-denominated 4.50% fixed rate notes due March 1, 2012 with a principal of $2.5 billion. The RHI Group will redeem these notes on September 9, 2010 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 U.S. Treasury rate will be determined by an independent investment banker on the third business day preceding the redemption. A cash outflow of approximately $2,626 million plus accrued interest is expected on redemption. The RHI Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The revised carrying value of these notes at June 30, 2010 is $2,623 million. The increase in carrying value of $133 million is recorded within financing costs (see Note 4) as a loss on redemption. The effective interest rate of these notes before the redemption is 4.84%.

Subsequent to the end of the interim period, the RHI Group redeemed the Genentech Senior Notes with a due date of July 15, 2010 at the original issue amount plus accrued original issue discount ('OID'). The effective interest rate of these bonds was 4.53%. The cash outflow was $500 million and there was no gain or loss recorded on the redemption.

Repayment and redemption of bonds and notes - 2009

There were no repayments or redemptions of bonds and notes during the interim period of 2009.

Commercial paper

Roche Holdings, Inc., commercial paper program: In March 2009 the RHI Group established a commercial paper program under which it can issue up to $7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. Committed credit lines of 2.5 billion euro and $950 million are available as back-stop lines. Maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2010 unsecured commercial paper notes with a principal of $438 million and an interest rate of 0.20% were outstanding.

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

Six months ended June 30, 2010	
At January 1, 2010	**260**
Cash proceeds (payments), net	**178**
At June 30, 2010	**438**

Debt - related parties

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

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

Six months ended June 30, 2010	
At January 1, 2010	**9,815**
Cash inflows from debt issued by related parties	**4,085**
Cash outflows from debt repayments to related parties	**(635)**
At June 30, 2010	**13,265**

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

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

	Six months ended June 30,	
	2010	2009
Term note 5.52% issued March 16, 2009		800
Term note 2.25% issued March 16, 2009		10
Term note 2.25% issued March 16, 2009		78
Term note 0.85% issued June 29, 2009		75
Term note 0.94% issued February 25, 2010	**500**	
Term note 5.88% issued February 25, 2010	**1,500**	
Term note 0.83% issued March 04, 2010	**1,000**	
Term note 0.83% issued March 15, 2010	**100**	
Term note 0.83% issued March 15, 2010	**20**	
Term note 0.83% issued March 15, 2010	**45**	
Term note 0.87% issued April 29, 2010	**500**	
Term note 0.96% issued June 25, 2010	**420**	
Total	**4,085**	963

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

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

	Six months ended June 30,	
	2010	2009
Term note 1.75% due January 19, 2009, principal $150 million		150
Term note 2.10% due May 5, 2009, principal $55 million		55
Term note 2.25% due March 15, 2010, principal $22 million	**22**	
Term note 2.25% due March 15, 2010, principal $10 million	**10**	
Term note 2.25% due March 15, 2010, principal $78 million	**78**	
Term note 6.40% due June 25, 2010, principal $525 million	**525**	
Total	**635**	205

Guarantees to related parties

The company has issued guarantees for loans of certain RHI Group companies. The nominal amount outstanding at 30 June 2010 was $0.4 billion.

11. Equity

The RHI Group completed the purchase of the non-controlling interests in Genentech effective March 26, 2009, as described in Note 3. Based on the revised International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27), which was adopted by RHI in 2008, this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group was reduced in the interim period of 2009 by $46.6 billion, of which $7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. This accounting effect significantly impacts the RHI Group's net equity, but has no effect on the RHI Group's business. At June 30, 2010 the RHI Group had a negative equity of $28.9 billion.

Share capital

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

Dividends

There were no dividend payments in the interim period (2009: none).

Own equity instruments

RHI holds none of its own equity shares.

12. Related parties

Controlling shareholders

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

As a member of the Roche Group, all of the RHI Group's related party transactions are with Roche Group affiliates. The transactions include purchases of inventory and other materials, sales of inventory and other materials, allocation of research and development costs under cost-sharing agreements and collaborations, allocation of marketing and distribution costs under cost-sharing agreements, allocations 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,	
	2010	2009
Sales	**677**	540
Royalty income	**957**	881
Contract income	**65**	206
Purchases of inventory and other materials	**(388)**	(358)
Reimbursements received under marketing and distribution cost sharing agreements	**286**	1
Reimbursements received under research and development cost sharing and collaboration agreements	**448**	228
Payments issued under research and development cost sharing and collaboration agreements	**(263)**	(108)
Other operating transactions, net	**(7)**	(12)
Financial income – related parties		
Gains (losses) on foreign currency derivatives, net	**(289)**	603
Other financial income	**4**	29
Total financial income – related parties	**(285)**	632
Financing costs – related parties		
Interest expense	**(405)**	(293)
Guarantee fees	**(128)**	(102)
Other financial expense	**-**	(4)
Total financing costs – related parties	**(533)**	(399)

A net loss of $289 million (2009: net gain of $603 million) was made on foreign exchange forward contracts with related parties that were entered to hedge some of the foreign currency transaction exposure arising from bonds and notes issued in euro and Swiss francs. No hedge accounting was applied on those foreign exchange forward contracts. The net foreign exchange revaluation gain (2009: net losses) on the hedged bonds and notes are included in financial income (see Note 4).

Related party balances *in millions of USD*

	June 30, 2010	December 31, 2009
Accounts and loans receivable	**3,935**	6,852
Accounts and loans payable	**(14,879)**	(11,036)

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 $2.5 billion are immediately available and bear variable interest referenced to one month LIBOR.

Subsidiaries

2010

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

2009

On May 25, 2009, Genentech, Inc. sold Genentech Bermuda Ltd., together with its fully-controlled subsidiary, Genentech Singapore, Pte. Ltd., to F. Hoffmann-La Roche AG, Basel, a subsidiary of Roche Holding Ltd for $35 million in cash. As a result of the sale these entities are no longer part of the RHI Group. A loss of $4 million was recognized from this disposal and is included in the other financial expense in the related party transactions reported above.

Review Report of the Group Auditors

**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, 2010 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 5 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'. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements as at June 30, 2010 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG AG

J A Morris

John A. Morris

François Rouiller

Basel, July 19, 2010