Roche Holdings, Inc.
Half-Year Report 2018

Roche Holdings, Inc. Interim Consolidated Financial Statements

Contents

Management Report

1. Review of the first six months ended June 30, 2018

Principal activities

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

RHI Group results

During the first half of 2018 the RHI Group had sales of USD 14.2 billion, a growth of 13%, and an operating profit of USD 6.2 billion, a growth of 49%. The RHI Group had a positive cash flow from operating activities of USD 4.2 billion.

Sales in the Pharmaceuticals Division increased by 14% to USD 12.4 billion with the growth led by neuroscience, immunology and oncology products. Sales growth was led by the continued uptake of Ocrevus, which was launched in April 2017. Sales in immunology increased by 10% mainly due to higher demand in Xolair and Actemra. In oncology, the HER2 franchise grew 15%, with sales increase of Perjeta in particular in the early breast cancer adjuvant setting as well as sales growth for Herceptin. Lucentis sales increased by 16% following the launch of prefilled syringes and driven by growth in all approved indications. Growth was partly offset by a decline in sales of Tarceva, Avastin and Tamiflu.

Diagnostics Division sales increased by 6% to USD 1.9 billion, with the major growth area being Centralised and Point of Care Solutions where sales increased by 6% led by its immunodiagnostics business.

The RHI Group's operating profit increased by 49% to USD 6.2 billion mainly due to increased sales and higher royalties and other operating income. The RHI Group's operating profit margin grew to 43.4% of sales. The RHI Group's net income increased to USD 4 billion driven by the higher operating results and reduced tax expense.

Pharmaceuticals Division

Pharmaceuticals Division sales increased by 14% to USD 12.4 billion, driven by Ocrevus which continued to have strong uptake since being launched in the US in April 2017. Ocrevus contributed USD 1 billion of new sales representing 52% of the division's growth. Sales in immunology increased due to higher demand for Xolair and Actemra with combined sales of USD 1.4 billion (+12%). In oncology, the HER2 franchise continue to grow (+15%), with sales of USD 2.5 billion, led by the 27% increase of Perjeta notably in the early breast cancer adjuvant setting. Herceptin sales increased by 12% up to USD 1.7 billion. Factors for this growth included lower sales reserves on new formulations and longer duration of treatment in combination with Perjeta. Alecensa sales grew by 87%. Rituxan sales increased by 3% up to USD 2.3 billion, with growth in both the immunology and oncology segments, also driven by the subcutaneous formulation. Lucentis sales grew by 16% driven by the launch of prefilled syringes and growth in all approved indications.

Sales growth was negatively impacted by a decline of Tarceva sales (-44%) primarily due to competitive pressure, Avastin sales (-5%) due to competition from immunotherapy medicines and Tamiflu sales (-10%) due to competition from generics, partly offset by a strong flu season in the US.

Mandatory discounts to hospitals under the 340B Drug Discount Program increased due to higher sales, notably for Ocrevus and oncology products.

The introduction of a generic, biosimilar or non-comparable biologic version of the same or a similar medicine typically results in a significant reduction in net sales for the relevant product, as other manufacturers typically offer their versions at lower prices.

2018 interim product sales affected by recent patent expiry

	2018 (USD m)	2017 (USD m)	% change	Comment
Tamiflu	170	189	-10	US patent expiry in 2016

The decline in Tamiflu sales due to competition from generic medicines was partly offset by a strong flu season in early 2018.

The intellectual property for biologic medicines can involve multiple patents and patent timelines for each individual product and therefore it is more difficult to give an exact date for patent expiry for biologics. The RHI Group currently estimates that some basic, primary patents for its major biologic medicines will begin to expire as follows:

- Rituxan: from around mid-2018.
- Herceptin: from around mid-2019.
- Avastin: from around mid-2019.
- Subcutaneous formulations of Rituxan and Herceptin: beyond 2025 (secondary patent rights).

There are still many uncertainties surrounding when specific biosimilar versions of the RHI Group's biologic medicines will be approved by the US Food and Drug Administration. We believe the first biosimilar versions of Rituxan could come to market around the beginning of 2019.

The RHI Group derives royalty income from US Patent No. 6,331,415 (known as the Cabilly patent). This patent expires in December 2018 and therefore, while there will be certain residual income after the expiry, the Group expects that royalty income in 2019 will be significantly lower than in 2018. Annual royalty income in 2017 from the Cabilly patent was USD 847 million.

Royalties and other operating income increased by 30% to USD 2.7 billion due to a net increase in sales across the royalty portfolio.

Cost of sales decreased by 10% to USD 4.4 billion. As a percentage of sales, cost of sales decreased by 9.6 percentage points to 35.5%. Costs include the amortisation of intangible assets, mainly related to the Esbriet product intangibles acquired in the InterMune acquisition of 2014. The 2017 results additionally included USD 983 million of impairment of these Esbriet intangibles. Royalty expenses were higher due to increased sales for certain products, notably Ocrevus.

Marketing and distribution costs increased by 21% to USD 1.5 billion due to Ocrevus and Hemlibra launches.

Research and development costs increased by 3% with continued investments, especially in the oncology area.

Pharmaceuticals Division – Research and development

Six months ended June 30,	2018 (USD m)	2017 (USD m)
Research and early development	(1,313)	(1,144)
Late stage development	(1,177)	(1,129)
Partnering, including Foundation Medicine	(21)	72
Restructuring plans	(23)	(1)
Amortisation of intangible assets	(39)	(38)
Impairment of intangible assets	(75)	(328)
Total	**(2,648)**	**(2,568)**
– of which related party	*(459)*	*(213)*

The oncology franchise remained the primary area of research and development with Tecentriq and the cancer immunotherapy portfolio being a key driver. Immunology and neuroscience also represent significant areas of spending. In the first half of 2018, intangible asset impairment charges were USD 75 million. The largest item relates to the Trophos acquisition with intangible asset impairment charges (USD 58 million) due to the decision to stop development of the compound acquired.

General and administration costs increased to USD 0.5 billion. Administration costs were higher mainly due to higher legal service costs. In 2017 income of USD 203 million arose from the release of legal provisions, notably the Accutane case. Business taxes and capital taxes declined by 28%, primarily due to decreased costs for the US Branded Prescription Drug Fee.

The Pharmaceuticals Division's operating profit increased by 50% to USD 6.1 billion, mainly driven by the sales growth and increased royalties and other operating income.

Diagnostics Division

Diagnostics Division sales increased by 6% to USD 1.9 billion. Centralised and Point of Care Solutions, with 6% sales growth, was the main contributor, led by its immunodiagnostics business. Diabetes Care sales to third parties increased offset by a decrease in sales to related parties. Molecular Diagnostics sales increased by 6%, with growth of 9% in the underlying molecular business, partially offset by a decrease of 12% in the sequencing business. The 10% growth in Tissue Diagnostics was driven by the advanced staining product portfolio.

Royalties and other operating income decreased by 36% to USD 70 million mainly due to the expiry in late 2017 of royalty-bearing patents in PCR (Polymerase Chain Reaction) and a decrease in out-licensing income due to the impact of the settlement of a patent dispute in the prior year.

Costs of sales increased by 6%, mainly due to higher sales volume resulting in higher manufacturing cost of goods sold and increased technical service costs. As a percentage of sales, cost of sales remain stable at 58%.

Marketing and distribution costs decreased by 5%, mainly due to a restructuring in Diabetes Care in the prior year.

Research and development costs remained stable at USD 0.3 billion, higher spending in Molecular Solutions was offset by lower spending in Diabetes Care.

General and administration costs increased to USD 72 million mainly due to an income in Business Taxes in 2017 from a settlement agreement for Medical Devices Excise Tax in prior year.

Acquisitions

During the first half of 2018 the RHI Group completed the acquisitions of Ignyta, previously announced in 2017, and Flatiron Health. The total cost of the acquired businesses was USD 3.5 billion in cash.

On February 8, 2018 the Pharmaceuticals Division acquired a 100% controlling interest in Ignyta, Inc. ('Ignyta') for USD 1.9 billion. With the acquisition, the RHI Group obtained rights to Ignyta's lead product candidate, entrectinib, an orally bioavailable, CNS-active tyrosine kinase inhibitor that is currently in pivotal phase 2 clinical trial for patients who have tumours that harbour ROS1 or NTRK fusions.

On April 5, 2018 the Pharmaceuticals Division acquired a 100% controlling interest in Flatiron Health, Inc. ('Flatiron Health') for USD 1.6 billion. Flatiron Health is a market leader in the curation and development of real-world evidence for cancer research as well as oncology-specific electronic health record software.

On June 18, 2018 the RHI Group entered into a merger agreement with Foundation Medicine, Inc. ('FMI') to acquire the outstanding shares of FMI's common stock not already owned by the RHI Group or a related party at a price of USD 137.00 per share in cash. This corresponds to a total transaction value of USD 2.4 billion on a fully diluted basis. FMI is a fully consolidated subsidiary of the RHI Group and at June 30, 2018 the interest in FMI held by RHI Group and a related party was 55.5% and 1.1%, respectively. A tender offer was launched on July 2, 2018 and the closing of the transaction is expected to take place in the second half of 2018 and will be subject to a majority of FMI's outstanding shares not already held by the RHI Group being tendered and other customary conditions. Upon closing the transaction will be accounted for in full as an equity transaction. Further details are given in Notes 6 and 13 to the RHI Interim Financial Statements.

Restructuring plans

During the six months ended June 30, 2018 the RHI Group continued with the implementation of various resourcing flexibility plans initiated in 2017 in its Pharmaceuticals Division to address various future challenges including biosimilar competition. The areas of the plans include biologics manufacturing and product development/strategy. The RHI Group also continued with the implementation of several major restructuring plans initiated in prior years, notably the strategic realignment of the Pharmaceuticals Division's manufacturing network, and programmes to address long-term strategy in the Diagnostics Division. The total amount of expenditure in the first half of 2018 was USD 125 million. Further details are given in Note 7 to the RHI Interim Financial Statements.

Impairment of goodwill and intangible assets

There were impairment charges of USD 75 million in the Pharmaceuticals Division. The largest item relates to the Trophos acquisition with intangible asset impairment charges (USD 58 million) due to the decision to stop development of the compound acquired. Other impairments in the Pharmaceuticals Division totalled USD 17 million. There were no impairments in the Diagnostics Division. Further details are given in Notes 8 and 9 to the RHI Interim Financial Statements.

Legal and environmental cases

Based on the development of the various litigations legal expenses of USD 20 million were incurred during the six months ended June 30, 2018. There were no significant developments in the six months ended June 30, 2018. Further details are given in Note 10 to the RHI Interim Financial Statements.

Treasury and taxation results

The RHI Group financed the Genentech transaction in 2009 by a combination of own funds, bonds, notes and commercial paper raising net proceeds of USD 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 remained stable at USD 0.3 billion in the first half of 2018. At June 30, 2018 debt was USD 43.2 billion compared to USD 40.0 billion at the end of 2017. This increase was mainly due to an increase in commercial paper and amounts due to related parties from issues of new term notes of USD 2.6 billion and USD 0.7 billion respectively. A full analysis of financing costs is given in Note 4 to the RHI Interim Financial Statements.

The RHI Group's effective tax rate for the six months ended June 30, 2018 decreased to 26.5% (six months ended June 30, 2017: 38.9%). This was mainly due to the impact from the US tax reform.

Cash flow

The cash inflows from operating activities decreased by USD 0.7 billion to USD 4.2 billion in the first half of 2018. This was mainly due to a higher increase in net working capital compared to the increase in cash generated from operations. The cash outflows from investing activities increased by USD 3.9 billion to USD 4.4 billion mainly due to cash outflows for the Ignyta and Flatiron Health acquisitions of USD 3.4 billion and higher capital expenditures. The cash inflows from financing activities increased by USD 4.6 billion compared to the first half of 2017 mainly due to proceeds from issuance of related party debt of USD 4.1 billion, an increase in commercial paper of USD 2.8 billion and a decrease of the cash pool balance with related parties of USD 1 billion. This was partly offset by higher dividend payments of USD 2 billion and higher repayments of related party debt of USD 1.7 billion.

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, 2018 the RHI Group had a negative equity of USD 21.1 billion (December 31, 2017: USD 22.7 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 USD 15.5 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Total assets increased by USD 4.4 billion to USD 35.8 billion at June 30, 2018 mainly due to increase in goodwill and intangible assets due to the acquisitions of Ignyta and Flatiron Health. Trade receivables were higher due to higher sales and due to extended payment terms for Ocrevus. Total liabilities increased by USD 2.9 billion to USD 56.9 billion at June 30, 2018 mainly due to increase in short-term debt, including debt to related parties. At June 30, 2018 the carrying value of debt was USD 43.2 billion (December 31, 2017: USD 40.0 billion), of which USD 27.3 billion (December 31, 2017: USD 26.7 billion) is due to related parties. The increase in debt was partly offset by decrease in trade payables due to the settlement of prior year-end positions.

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 28 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 10 to the RHI Interim Financial Statements.

3. International Financial Reporting Standards

New and revised standards applied in 2018

IFRS 9 'Financial Instruments'. The RHI Group has implemented the new standard effective January 1, 2018 and has applied the exemption from full retrospective application for the classification and measurement requirements, including impairment, meaning that the comparative 2017 results have not been restated. The standard deals with the classification, recognition and measurement (including impairment) of financial instruments, the impairment of financial assets, including trade and lease receivables and also introduces a new hedge accounting model.

IFRS 15 'Revenue from Contracts with Customers'. The RHI Group has implemented the new standard effective January 1, 2018 and has applied the full retrospective method for the transition. Since the new standard does not change the amounts of revenue recognised for 2017 no restatements of the comparative 2017 results are necessary. The new standard contains a new set of principles on when and how to recognise and measure revenue as well as new requirements related to presentation. The core principle in that framework is that revenue should be recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services.

Neither of these new standards have a material impact on the RHI Group's overall results and financial position. As a result of implementing IFRS 15, the RHI Group has also made a presentational change to the income statement to include a subtotal 'Revenue', and has created a new note to the Interim Financial Statements for 'Revenue'.

See Notes 1 and 3 to the RHI Interim Financial Statements for further details of these matters.

New and revised standards that will be applied in 2019

IFRS 16 'Leases'**.** The RHI Group will implement the new standard effective January 1, 2019 and will apply the cumulative catch-up method option for the transition, meaning that the comparative 2018 results will not be restated when the new standard is applied. The main impact of the new standard will be to bring operating leases onto the balance sheet. The RHI Group is assessing the potential impact, but currently anticipates that the new standard will result in the carrying value of leased assets being increased by approximately USD 0.3 billion, with lease liabilities increased by a similar amount at the date of implementation. The application of the new standard will result in part of what is currently reported as operating lease costs being recorded as interest expenses. Given the leases involved and the prevailing low interest rate environment the RHI Group does not currently expect this effect to be material. See Note 31 to the 2017 RHI Annual Financial Statements for further details.

4. 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 28, 2018:

- the Interim Consolidated Financial Statements at June 30, 2018, 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	Sean A. Johnston 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 33.

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2018 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2, 3]	12,386	1,854	-	14,240
Royalties and other operating income [2, 3]	2,668	70	-	2,738
Revenue [2, 3]	**15,054**	**1,924**	**-**	**16,978**
Cost of sales	(4,393)	(1,086)	-	(5,479)
Marketing and distribution	(1,474)	(370)	-	(1,844)
Research and development	(2,648)	(256)	-	(2,904)
General and administration	(477)	(72)	(25)	(574)
Operating profit [2]	**6,062**	**140**	**(25)**	**6,177**
Financing costs [4]				(297)
Financing costs – related parties [16]				(519)
Other financial income (expense) [4]				16
Other financial income (expense) – related parties [16]				8
Profit before taxes				**5,385**
Income taxes [5]				(1,428)
Net income				**3,957**
Attributable to				
- Roche Holdings, Inc. shareholder				3,968
- Non-controlling interests				(11)

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2017 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2, 3]	10,882	1,749	-	12,631
Royalties and other operating income [2, 3]	2,049	109	-	2,158
Revenue [2, 3]	**12,931**	**1,858**	**-**	**14,789**
Cost of sales	(4,904)	(1,020)	-	(5,924)
Marketing and distribution	(1,215)	(390)	-	(1,605)
Research and development	(2,568)	(264)	-	(2,832)
General and administration	(207)	(57)	(11)	(275)
Operating profit [2]	**4,037**	**127**	**(11)**	**4,153**
Financing costs [4]				(296)
Financing costs – related parties [16]				(520)
Other financial income (expense) [4]				79
Other financial income (expense) – related parties [16]				21
Profit before taxes				**3,437**
Income taxes [5]				(1,338)
Net income				**2,099**
Attributable to				
- Roche Holdings, Inc. shareholder				2,143
- Non-controlling interests				(44)

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

	Six months ended June 30,	
	2018	2017
Net income recognised in income statement	**3,957**	**2,099**
Other comprehensive income (OCI)		
Remeasurements of defined benefit plans	201	(13)
Items that will never be reclassified to the income statement	**201**	**(13)**
Available-for-sale investments	n/a	(35)
Fair value changes on debt investments at fair value through OCI	1	n/a
Cash flow hedges	1	3
Currency translation of foreign operations	(9)	30
Items that are or may be reclassified to the income statement	**(7)**	**(2)**
Other comprehensive income, net of tax	**194**	**(15)**
Total comprehensive income	**4,151**	**2,084**
Attributable to		
- Roche Holdings, Inc. shareholder	4,162	2,128
- Non-controlling interests	(11)	(44)
Total	**4,151**	**2,084**

The statement of comprehensive income has been adjusted to reflect the presentational changes required as a result from implementing IFRS 9 'Financial Instruments' as described in Note 1.

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

	June 30, 2018	December 31, 2017
Non-current assets		
Property, plant and equipment	6,916	6,873
Goodwill [8]	9,218	7,761
Intangible assets [9]	9,431	7,275
Deferred tax assets	0	0
Defined benefit plan assets	144	143
Other non-current assets	479	483
Other non-current assets – related parties [16]	0	0
Total non-current assets	**26,188**	**22,535**
Current assets		
Inventories	2,810	2,344
Accounts receivable – trade and other	3,706	2,977
Accounts receivable – related parties [16]	2,208	2,756
Current income tax assets	0	0
Other current assets	819	694
Other current assets – related parties [16]	0	0
Marketable securities	1	0
Cash and cash equivalents	28	43
Total current assets	**9,572**	**8,814**
Total assets	**35,760**	**31,349**
Non-current liabilities		
Long-term debt [11]	(12,443)	(12,481)
Long-term debt – related parties [16]	(23,265)	(23,215)
Deferred tax liabilities	(1,039)	(590)
Defined benefit plan liabilities	(1,615)	(1,924)
Provisions [10]	(520)	(505)
Other non-current liabilities	(44)	(45)
Other non-current liabilities – related parties [16]	(136)	(243)
Total non-current liabilities	**(39,062)**	**(39,003)**
Current liabilities		
Short-term debt [11]	(3,423)	(790)
Short-term debt – related parties [16]	(4,085)	(3,487)
Current income tax liabilities	(1,986)	(1,507)
Provisions [10]	(1,283)	(1,161)
Accounts payable – trade and other	(802)	(959)
Accounts payable – related parties [16]	(734)	(1,084)
Other current liabilities	(4,929)	(5,086)
Other current liabilities – related parties [16]	(587)	(957)
Total current liabilities	**(17,829)**	**(15,031)**
Total liabilities	**(56,891)**	**(54,034)**
Total net liabilities	**(21,131)**	**(22,685)**
Equity		
Capital and reserves attributable to Roche Holdings, Inc. shareholder	(21,251)	(22,809)
Equity attributable to non-controlling interests	120	124
Total equity	**(21,131)**	**(22,685)**

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

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities		
Cash generated from operations [14]	7,677	6,769
(Increase) decrease in net working capital	(1,458)	(670)
(Increase) decrease in net working capital - related parties	(705)	185
Payments made for defined benefit plans	(139)	(103)
Utilisation of provisions	(151)	(142)
Disposal of products	5	1
Other operating cash flows	0	(1)
Cash flows from operating activities, before income taxes paid	**5,229**	**6,039**
Income taxes paid	(997)	(1,149)
Total cash flows from operating activities	**4,232**	**4,890**
Cash flows from investing activities		
Purchase of property, plant and equipment	(669)	(402)
Purchase of intangible assets	(160)	(108)
Disposal of property, plant and equipment	5	1
Disposal of intangible assets	0	3
Business combinations [6]	(3,375)	(98)
Divestment of subsidiaries	0	8
Interest received	1	1
Interest received from related parties	23	11
Sales of equity securities and debt securities	62	90
Sales (purchases) of money market instruments and time accounts over three months, net	7	0
Purchases of equity securities and debt securities	0	0
Other investing cash flows	(247)	28
Total cash flows from investing activities	**(4,353)**	**(466)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [11]	0	0
Proceeds from issue of related party debt [11]	4,050	0
Redemption and repurchase of bonds and notes [11]	0	0
Repayment of related party debt [11]	(3,400)	(1,675)
Increase (decrease) in commercial paper [11]	2,633	(153)
Increase (decrease) in other debt [11]	0	0
Hedging arrangements	0	0
Hedging arrangements - related parties	17	(1)
Changes in non-controlling interests	0	0
Interest paid	(304)	(283)
Dividends paid to related parties [12]	(3,000)	(1,000)
Interests and other financing - related parties	(170)	(539)
Recharges and prepayments to related parties for equity compensation plans	(209)	(381)
(Increase) decrease of cash pool balance with related parties [16]	489	(479)
Total cash flows from financing activities	**106**	**(4,511)**
Net effect of currency translation on cash and cash equivalents	0	1
Increase (decrease) in cash and cash equivalents	**(15)**	**(86)**
Cash and cash equivalents at beginning of period	43	70
Cash and cash equivalents at end of period [a)]	**28**	**(16)**

a) Cash overdrafts of USD 0 million (June 30, 2017: USD 16 million) are included within other 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 reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended June 30, 2017								
At January 1, 2017	**1**	**(21,368)**	**43**	**43**	**(20)**	**(21,301)**	**187**	**(21,114)**
Net income recognised in income statement	–	2,143	–	–	–	2,143	(44)	2,099
Available-for-sale investments	–	–	(35)	–	–	(35)	0	(35)
Cash flow hedges	–	–	–	3	–	3	0	3
Currency translation of foreign operations	–	–	–	–	30	30	0	30
Remeasurements of defined benefit plans		(13)	–	–	–	(13)	0	(13)
Total comprehensive income	**–**	**2,130**	**(35)**	**3**	**30**	**2,128**	**(44)**	**2,084**
Dividends	–	(1,000)	–	–	–	(1,000)	0	(1,000)
Equity compensation plans	–	(174)	–	–	–	(174)	5	(169)
Changes in non-controlling interests	–	(4)	–	–	–	(4)	4	–
At June 30, 2017	**1**	**(20,416)**	**8**	**46**	**10**	**(20,351)**	**152**	**(20,199)**
Six months ended June 30, 2018								
At January 1, 2018	**1**	**(22,882)**	**8**	**61**	**3**	**(22,809)**	**124**	**(22,685)**
Net income recognised in income statement	–	3,968	–	–	–	3,968	(11)	3,957
Net change in fair value – financial assets at fair value through OCI	–	–	1	–	–	1	0	1
Cash flow hedges	–	–	–	1	–	1	0	1
Currency translation of foreign operations	–	–	1	–	(10)	(9)	0	(9)
Remeasurements of defined benefit plans	–	201	–	–	–	201	0	201
Total comprehensive income	**–**	**4,169**	**2**	**1**	**(10)**	**4,162**	**(11)**	**4,151**
Dividends	–	(3,000)	–	–	–	(3,000)	0	(3,000)
Equity compensation plans	–	398	–	–	–	398	5	403
Changes in non-controlling interests	–	(2)	–	–	–	(2)	2	–
At June 30, 2018	**1**	**(21,317)**	**10**	**62**	**(7)**	**(21,251)**	**120**	**(21,131)**

The statement of changes in equity has been adjusted to reflect the presentational changes required as a result from implementing IFRS 9 'Financial Instruments' as described in Note 1.

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, 2018 (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, 2017 (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 27, 2018.

Statement of compliance

The Interim Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union (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), 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 USD 46.6 billion, of which USD 7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At June 30, 2018 the RHI Group had a negative equity of USD 21.1 billion (December 31, 2017: USD 22.7 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 USD 15.5 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 2018 interim period, the RHI Group generated an operating profit of USD 6.2 billion and a positive operating cash flow of USD 4.2 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, except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 and IFRS 15, which are described in the section 'Changes in accounting policies' below.

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 ending December 31, 2018.

Changes in accounting policies

In 2018 the RHI Group implemented the following new standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2018.

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

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

None of the new standards, revised standards, or interpretations have a material impact on the RHI Group's overall results and financial position. The nature and the effects of the changes most relevant to the RHI Group's financial statements are given below.

IFRS 9 'Financial Instruments'

Effective January 1, 2018 the RHI Group has implemented IFRS 9 'Financial Instruments'. The new standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard deals with the classification, recognition and measurement (including impairment) of financial instruments and also introduces a new hedge accounting model. The new standard results in an increased volume of disclosure information in the Annual Financial Statements.

Classification and measurement of financial instruments. Previously all marketable securities were classified as available-for-sale under IAS 39. Under the new standard, equity securities are classified at fair value through profit and loss, debt securities and money market instruments at fair value through other comprehensive income (OCI) and time accounts over three months at amortised cost.

Impairment of financial assets. On January 1, 2018 the RHI Group changed the methodology of assessing impairment of its financial assets from the incurred loss model (used in IAS 39) to the expected credit loss model (used in IFRS 9). There was no impact on the RHI Group's financial position and equity from applying the new impairment model as of January 1, 2018.

Hedge accounting. The new standard also introduces a new hedge accounting model, which requires hedge accounting relationships to be based upon the RHI Group's own risk management strategy and objectives and to be discontinued only when the relationships no longer qualify for hedge accounting. The RHI Group has applied the revised hedge accounting guidance to its hedging relationships prospectively with effect from January 1, 2018. All hedge accounting relationships designated under the previous IAS 39 guidance have continued to be valid hedge accounting relationships in accordance with IFRS 9.

Transition approach. The RHI Group has applied the exemption from full retrospective application for the classification and measurement requirements, including impairment, meaning that the comparative 2017 results have not been restated. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

Presentational changes. As a result of implementing IFRS 9, the RHI Group has made a number of presentational changes to the statement of comprehensive income, statement of changes in equity, Note 4 within 'Other financial income (expense)' and Note 15 within 'Fair Value Hierarchy'.

Impact from the initial application of IFRS 9. There was no impact on the RHI Group's consolidated equity from the initial application of IFRS 9.

IFRS 15 'Revenue from Contracts with Customers'

Effective January 1, 2018 the RHI Group has implemented IFRS 15 'Revenue from contracts with customers'. The new standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts'. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, and also contains new requirements related to presentation. The core principle in the framework is that revenue should be recognised dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations,

determining transaction prices, allocating transaction prices to performance obligations, and recognising revenue when or as performance obligations are satisfied. Judgement will need to be applied, including making estimates and assumptions, for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation and to lease components (if any), particularly in the Diagnostics business and for out-licensing agreements. The new standard results in an increased volume of disclosure information in the Annual Financial Statements.

Changes introduced by the standard relevant to the RHI Group. The new standard provides additional requirements and guidance that are relevant to the RHI Group, notably on the following areas:

- Revenue from licences of intellectual property, including sales-based royalties, on constraining estimates of variable consideration such as e.g. development milestones, and on providing a material right to receive additional goods free of charge under certain patient access programs that may be regarded as a separate performance obligation. There is no material impact from these changes.
- The new standard also clarifies how to allocate sales, including the treatment of discounts, to each element in multiple-elements contracts and when to recognise sales for each of those elements. Such contracts are entered into in the Diagnostics Division which typically include obligations for instruments (including those provided under leasing arrangements), reagents and other consumables, and services. It requires the use of estimates and assumptions and some judgement to apply this guidance in practice. There is no material impact from this guidance.
- Out-licensing contracts in the Pharmaceuticals Division may be entered into with no further obligation or may include commitments to research, late-stage development, regulatory approval, co-marketing or manufacturing. These may be settled by a combination of up-front payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15, is not straightforward and requires some judgement. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognised at once or spread over the term of a longer performance obligation. The answers under the new standard may be different from those currently used. The new standard provides an exemption for sales-based royalties for licences of intellectual property which will continue to be recognised as revenue as underlying sales are incurred.

Transition approach and use of practical expedients. The RHI Group has applied the full retrospective method for the transition. Certain practical expedients permitted by the standard during the transition have also been used, notably:

- the relief to not restate contracts that began and were completed in 2017 or were completed before 1 January 2017; and
- the relief to not provide in 2018 the disclosure requirement as per IFRS 15 paragraph 120 for the comparative 2017 period ('amount of the transaction price allocated to the remaining performance obligations').

Since the new standard, including the use of practical expedients, has not modified the timing or amounts of revenue recognised for 2017, no restatement has been necessary.

Presentational changes. As a result of implementing IFRS 15, the RHI Group has also made a presentational change to the income statement to include a subtotal 'Revenue', and has created a new note for 'Revenue' as Note 3.

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, 2019, notably IFRS 16 'Leases' as summarised in Note 31 to the Annual Financial Statements.

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*

Six months ended June 30,	Pharmaceuticals 2018	Pharmaceuticals 2017	Diagnostics 2018	Diagnostics 2017	Corporate 2018	Corporate 2017	RHI Group 2018	RHI Group 2017
Revenue from external customers and related parties								
Sales	12,386	10,882	1,854	1,749	–	–	14,240	12,631
Royalties and other operating income	2,668	2,049	70	109	–	–	2,738	2,158
Total	**15,054**	**12,931**	**1,924**	**1,858**	**–**	**–**	**16,978**	**14,789**
Segment results								
Operating profit	6,062	4,037	140	127	(25)	(11)	6,177	4,153

Net operating assets *in millions of USD*

	Assets June 30, 2018	Assets December 31, 2017	Liabilities June 30, 2018	Liabilities December 31, 2017	Net assets June 30, 2018	Net assets December 31, 2017
Pharmaceuticals	26,492	21,560	(5,789)	(6,711)	20,703	14,849
Diagnostics	8,134	8,252	(1,795)	(1,801)	6,339	6,451
Corporate	117	26	(178)	(136)	(61)	(110)
Total operating	**34,743**	**29,838**	**(7,762)**	**(8,648)**	**26,981**	**21,190**
Non-operating	1,017	1,511	(49,129)	(45,386)	(48,112)	(43,875)
RHI Group	**35,760**	**31,349**	**(56,891)**	**(54,034)**	**(21,131)**	**(22,685)**

3. Revenue

Disaggregated revenue information

Disaggregation of revenue from external customers and related parties *in millions of USD*

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Revenue from contracts with customers	Revenue from other sources	Total	Revenue from contracts with customers	Revenue from other sources	Total
Pharmaceuticals Division						
Sales by therapeutic area						
Oncology	6,627	–	6,627	6,397	–	6,397
Immunology	2,754	–	2,754	2,506	–	2,506
Neuroscience	1,004	–	1,004	210	–	210
Ophthalmology	863	–	863	744	–	744
Infectious diseases	219	–	219	251	–	251
Other therapeutic areas	919	–	919	774	–	774
Sales – Pharmaceuticals Division	**12,386**	**–**	**12,386**	**10,882**	**–**	**10,882**
Diagnostics Division						
Sales by business area						
Centralised and Point of Care Solutions	729	29	758	687	28	715
Molecular Diagnostics	476	12	488	454	8	462
Tissue Diagnostics	376	13	389	338	13	351
Diabetes Care	219	0	219	221	0	221
Sales – Diagnostics Division	**1,800**	**54**	**1,854**	**1,700**	**49**	**1,749**
Total sales	**14,186**	**54**	**14,240**	**12,582**	**49**	**12,631**
Royalty income	827	–	827	757	–	757
Royalty income from related parties [16]	1,759	–	1,759	1,268	–	1,268
Income from out-licensing agreements	12	–	12	44	–	44
Income from disposal of products and other	5	135	140	1	88	89
Total Royalties and other operating income	**2,603**	**135**	**2,738**	**2,070**	**88**	**2,158**
Total	**16,789**	**189**	**16,978**	**14,652**	**137**	**14,789**

Sales represent amounts received and receivable for goods supplied and for services as services are performed. Royalties and other operating income are recorded as earned or as services are performed. Other operating income mainly includes milestone and other upfront receipts from licensing agreements as well as from the income from product disposals. Revenue from other sources primarily relates to lease rental income and collaboration income for which the counterparty is not considered a customer such as income from profit-sharing arrangements.

Revenues from product sales are recorded net of allowances for estimated rebates, chargebacks, cash discounts and estimates of product returns, all of which are established at the time of sale. All product sales allowances are based on estimates of the amounts earned or to be claimed on the related sales. These estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends such as competitive pricing and new product introductions, estimated inventory levels, and the shelf life of products. If actual future results vary, these estimates are adjusted and may have an effect on sales and earnings in the period of the adjustment.

Gross-to-net-sales reconciliation for the Pharmaceuticals Division

The gross-to-net sales reconciliation for the Pharmaceuticals Division is shown in the table below. The companies in the Diagnostics Division have similar reconciling items, but at much lower amounts.

Pharmaceuticals Division sales gross-to-net reconciliation *in millions of USD*

	Six months ended June 30,	
	2018	2017
Gross sales	15,501	13,291
Government and regulatory mandatory price reductions	(2,787)	(2,293)
Contractual price reductions	(633)	(498)
Cash discounts	(64)	(117)
Customer returns reserves	(109)	(30)
Others	(136)	(116)
Net sales to third parties	**11,772**	**10,237**
Net sales to related parties	614	645
Net sales	**12,386**	**10,882**

Government and regulatory mandatory price reductions. These consist of mandatory price reductions. The major elements are 340B Drug Discount Program, Medicaid and other plans in the US.

Contractual price reductions. These include rebates and chargebacks that are the result of contractual agreements that are primarily volume-based and performance-based.

Cash discounts. These include credits offered to wholesalers for remitting payment on their purchases within contractually defined incentive periods.

Customer returns reserves. These are allowances established for expected product returns.

Sales reductions that are expected to be withheld by the customer upon settlement, such as contractual price reductions and cash discounts, are recorded in the balance sheet as a deduction from trade receivables. Sales reductions that are separately payable to customers, governmental health authorities or healthcare regulatory authorities are recorded in the balance sheet as accrued liabilities. Provisions for sales returns are recorded in the balance sheet as other provisions.

4. Net financial expense

Upon transition to IFRS 9 the Group has elected not to restate comparative information. As a result the comparative information provided below is on IAS 39 basis and information for the current period is on IFRS 9 basis.

Financing costs *in millions of USD*

	Six months ended June 30,	
	2018	2017
Interest expense	(254)	(249)
Amortisation of debt discount [11]	(5)	(5)
Net gains (losses) on redemption and repurchase of bonds and notes [11]	0	0
Discount unwind	(8)	(9)
Net interest cost of defined benefit plans	(30)	(33)
Total financing costs	**(297)**	**(296)**

Other financial income (expense) *in millions of USD*

	Six months ended June 30,	
	2018	2017
Net gains (losses) on sale of equity securities (IAS 39)	n/a	81
Net gains (losses) on equity investments/ securities at fair value through profit or loss (IFRS 9)	2	n/a
Write-downs and impairments of equity securities (IAS 39)	n/a	0
Net interest income (available-for-sale debt securities and amortised cost – IAS 39)	n/a	1
Net interest income (fair value through OCI debt securities and amortised cost – IFRS 9)	1	n/a
Write-downs and impairments of debt securities	0	0
Foreign exchange gains (losses)	11	(10)
Net other financial income (expense)	2	7
Total other financial income (expense)	**16**	**79**

Other financial income (expense) has been adjusted to reflect the presentational changes required as a result from implementing IFRS 9 'Financial Instruments' as described in Note 1.

Net financial expense *in millions of USD*

	Six months ended June 30,	
	2018	2017
Financing costs	(297)	(296)
Other financial income (expense)	16	79
Net financial expense	**(281)**	**(217)**
Financial result from Treasury management	(251)	(184)
Financial result from Pension management	(30)	(33)
Net financial expense	**(281)**	**(217)**

5. 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, 2018.

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2018	2017
Current income taxes	(1,496)	(1,973)
Deferred taxes	68	635
Total income tax (expense)	**(1,428)**	**(1,338)**

The RHI Group's effective tax rate for the six months ended June 30, 2018 decreased to 26.5% (six months ended June 30, 2017: 38.9%). This was mainly due to the impact from the US tax reform.

6. Business combinations

Acquisitions – 2018

Ignyta, Inc. On February 8, 2018 the RHI Group acquired a 100% controlling interest in Ignyta, Inc. ('Ignyta'), a publicly owned US company based in San Diego, California, that had been listed on Nasdaq. With the acquisition, the RHI Group obtained rights to Ignyta's lead product candidate, entrectinib, an orally bioavailable, CNS-active tyrosine kinase inhibitor that is currently in phase 2 clinical trial for patients who have tumours that harbour ROS1 or NTRK fusions. Ignyta is reported in the Pharmaceuticals Division. The total consideration was USD 1,949 million, which was paid in cash.

Flatiron Health, Inc. On April 5, 2018 the RHI Group acquired a 100% controlling interest in Flatiron Health, Inc. ('Flatiron Health'), a US privately owned company based in New York City. Flatiron Health is a market leader in the curation and development of real-world evidence for cancer research as well as in oncology-specific electronic health record software. Flatiron Health is reported in the Pharmaceuticals Division. The total consideration was USD 1,616 million, which was paid in cash.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts are provisional based on preliminary information and valuations of the assets and liabilities and subject to adjustment during the second half of 2018.

Pharmaceuticals acquisitions – 2018: net assets acquired in *millions of USD*

	Ignyta	Flatiron	Total
Intangible assets			
- Product intangibles: in use [9]	–	633	633
- Product intangibles: not available for use [9]	1,785	–	1,785
- Marketing intangibles: in use [9]	–	90	90
Deferred tax assets	119	34	153
Cash and cash equivalents	174	22	196
Deferred tax liabilities	(393)	(166)	(559)
Other net assets (liabilities)	(19)	79	60
Net identifiable assets	**1,666**	**692**	**2,358**
Fair value of previously held interest	–	(250)	(250)
Goodwill [8]	283	1,174	1,457
Total consideration	**1,949**	**1,616**	**3,565**
Cash	1,949	1,616	3,565
Total consideration	**1,949**	**1,616**	**3,565**

The fair value of Ignyta's intangible asset and Flatiron Health's technology platform was 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 9.3% for Ignyta and 10.4% for Flatiron Health. The valuations were performed by independent valuers.

The Flatiron Health accounts receivable is comprised of gross contractual amounts due of USD 31 million which were all expected to be collectable at the date of the acquisition.

For Ignyta the 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. None of the goodwill is expected to be deductible for income tax purposes.

For Flatiron Health the goodwill represents the value of accelerating progress towards data-driven personalised healthcare in cancer and to advance the use of real-world evidence to set new industry standards for oncology research and development. It also represents a control premium, the acquired work force and expected synergies. None of the goodwill is expected to be deductible for income tax purposes.

The fair value of the 12% interest in Flatiron Health held by the RHI Group prior to the transaction equalled to the carrying amount and there was no financial gain/loss at the acquisition date.

Directly attributable transaction costs of USD 10 million were reported in the Pharmaceuticals operating segment within general and administration expenses.

In the five months to June 30, 2018 Ignyta contributed no revenue and a net loss (net of tax) of USD 46 million to the results reported for the Pharmaceuticals Division and the RHI Group. In the three months to June 30, 2018 Flatiron Health contributed revenue of USD 12 million and a net loss (after tax) of USD 48 million to the results reported for the Pharmaceuticals Division and the RHI Group. If the acquisitions had occurred on January 1, 2018 management estimates that both acquisitions combined would have contributed revenue of USD 36 million and a net loss (after tax) of USD 119 million during the six months ended June 30, 2018. This information is provided for illustrative purposes only and is not necessarily indicative of the results of the RHI Group that would have occurred has Ignyta and Flatiron actually been acquired at the beginning of the year, or indicative of the future results of the RHI Group.

Foundation Medicine transaction

Foundation Medicine, Inc. On June 18, 2018 the RHI Group entered into a merger agreement with Foundation Medicine, Inc. ('FMI') to acquire the outstanding shares of FMI's common stock not already owned by the RHI Group or a related party at a price of USD 137.00 per share in cash. This corresponds to a total transaction value of USD 2.4 billion on a fully diluted basis. Previously, on April 7, 2015 the RHI Group had acquired a 60.1% controlling interest in FMI, which has been treated as a fully consolidated subsidiary of the Group since that date. At June 30, 2018 the interest in FMI held by RHI Group and a related party was 55.5% and 1.1%, respectively. The common stock of FMI is publicly traded and is listed on the Nasdaq under the stock code 'FMI'. The merger agreement has been approved by the board of Roche and a Special Committee of the independent directors of FMI and by its full board of directors. A tender offer was launched on July 2, 2018 and the closing of the transaction is expected to take place in the second half of 2018, subject to a majority of FMI's outstanding shares not already held by the RHI Group being tendered and other customary conditions. All current members of the FMI board have indicated that they intend to tender their FMI shares in the tender offer. Upon closing the transaction will be accounted for in full as an equity transaction.

Acquisitions – 2017

The RHI Group did not complete any business combinations during the six months ended June 30, 2017.

Cash flows from business combinations

Acquisitions: net cash outflow *in millions of USD*

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	(3,565)	0	(3,565)	0	0	0
Deferred consideration paid	0	(1)	(1)	0	0	0
Contingent consideration paid [15]	0	(5)	(5)	0	(98)	(98)
Cash in acquired company	196	0	196	0	0	0
Total net cash outflow	**(3,369)**	**(6)**	**(3,375)**	**0**	**(98)**	**(98)**

During the six months ended June 30, 2018 transaction costs for business combinations and other acquisitions amounted to USD 10 million (six months ended June 30, 2017: USD 0 million) and are included in the cash flow from operating activities.

7. Restructuring plans

During the six months ended June 30, 2018 the RHI Group continued with the implementation of various resourcing flexibility plans initiated in 2017 in its Pharmaceuticals Division to address various future challenges including biosimilar competition. The areas of the plans include biologics manufacturing and product development/strategy. The RHI Group also continued with the implementation of several major restructuring plans initiated in prior years, notably the strategic realignment of the Pharmaceuticals Division's manufacturing network, and programmes to address long-term strategy in the Diagnostics Division.

Restructuring plans: costs incurred *in millions of USD*

	Diagnostics	Site consolidation	Other Plans	Total
Six months ended June 30, 2018				
Restructuring costs				
- Employee-related costs	20	26	51	97
- Site closure costs	9	6	5	20
- Divestment of products and businesses	(2)	0	0	(2)
- Other reorganisation expenses	2	2	6	10
Total restructuring costs	**29**	**34**	**62**	**125**
Six months ended June 30, 2017				
Restructuring costs				
- Employee related costs	31	2	3	36
- Site closure costs	4	6	0	10
- Divestment of products and businesses	0	3	0	3
- Other reorganisation expenses	8	2	2	12
Total restructuring costs	**43**	**13**	**5**	**61**

Diagnostics Plans. During the six months ended June 30, 2018 the major item was USD 26 million for a reorganisation in the Molecular Diagnostics business.

Site consolidation. On February 8, 2018 the RHI Group acquired a 100% controlling interest in Ignyta, Inc. ('Ignyta'), a publicly owned US company based in San Diego, California that had been listed on Nasdaq. Costs from this plan during the six months ended June 30, 2018 were USD 18 million. Other plans include the resourcing flexibility in the biologics manufacturing network with costs of USD 11 million.

Other restructuring plans. During the six months ended June 30, 2018 the resourcing flexibility plans in the Pharmaceuticals Division incurred costs of USD 34 million. The remaining USD 28 million includes plans for the outsourcing of IT and other functions to shared service centres and external providers.

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

	Six months ended June 30,	
	2018	2017
- Termination costs	78	32
- Other employee-related costs	19	4
Total employee-related costs	**97**	**36**
- Impairment of property, plant and equipment	0	2
- (Gains) losses on disposal of property, plant and equipment	3	0
- Other site closure costs	17	8
Total site closure costs	**20**	**10**
(Gains) losses on divestment of products	(2)	0
Loss on divestment of subsidiary	0	3
Total costs on divestment of products and businesses	**(2)**	**3**
Other reorganisation expenses	10	12
Total restructuring costs	**125**	**61**

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

	Six months ended June 30, 2018			Six months ended June 30, 2017		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Royalties and other operating income						
- Pharmaceuticals	-	0	0	-	0	0
- Diagnostics	-	(2)	(2)	-	0	0
Cost of sales						
- Pharmaceuticals	0	16	16	1	8	9
- Diagnostics	0	12	12	1	14	15
Marketing and distribution						
- Pharmaceuticals	0	20	20	0	0	0
- Diagnostics	0	4	4	0	23	23
Research and development						
- Pharmaceuticals	0	23	23	0	1	1
- Diagnostics	0	12	12	0	4	4
General and administration						
- Pharmaceuticals	0	12	12	0	7	7
- Diagnostics	0	3	3	0	1	1
- Corporate	0	25	25	0	1	1
Total	**0**	**125**	**125**	**2**	**59**	**61**
Total by operating segment						
- Pharmaceuticals	0	71	71	1	16	17
- Diagnostics	0	29	29	1	42	43
- Corporate	0	25	25	0	1	1
Total	**0**	**125**	**125**	**2**	**59**	**61**

8. Goodwill

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

Six months ended June 30, 2018	
At January 1, 2018	7,761
Business combinations [6]	1,457
Impairment charge	0
At June 30, 2018	**9,218**
Allocated by operating segment	
Pharmaceuticals	5,890
Diagnostics	3,328
Total RHI Group	**9,218**

Impairment charges – 2018

There were no impairments of goodwill during the first six months ended 30 June 2018.

Impairment charges – 2017

There were no impairments of goodwill during the first six months ended 30 June 2017.

9. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Six months ended June 30, 2018					
At January 1, 2018	5,080	2,058	11	126	7,275
Business combinations [6]	633	1,785	90	0	2,508
Additions	32	254	0	35	321
Disposals	0	0	0	0	0
Transfers	16	(16)	-	-	0
Amortisation charge	(555)	-	(8)	(25)	(588)
Impairment charge	(6)	(69)	0	0	(75)
Currency translation effects	(10)	0	0	0	(10)
At June 30, 2018	**5,190**	**4,012**	**93**	**136**	**9,431**
Allocated by operating segment					
Pharmaceuticals	3,948	3,467	83	115	7,613
Diagnostics	1,242	545	10	21	1,818
Total RHI Group	**5,190**	**4,012**	**93**	**136**	**9,431**

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

	Amortisation		Impairment	
Six months ended June 30,	2018	2017	2018	2017
Cost of sales				
- Pharmaceuticals	(471)	(660)	0	(983)
- Diagnostics	(63)	(91)	0	0
Marketing and distribution				
- Pharmaceuticals	(7)	0	0	0
- Diagnostics	(1)	(1)	0	0
Research and development				
- Pharmaceuticals	(40)	(38)	(75)	(328)
- Diagnostics	(6)	(2)	0	0
Total	**(588)**	**(792)**	**(75)**	**(1,311)**

Impairment charges – 2018

Pharmaceuticals Division. Impairment charges totalling USD 75 million were recorded which related to:

- A charge of USD 58 million due to the decision to stop the development of the compound acquired as part of the Trophos acquisition. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 11 million due to the decision to stop the development of one compound with an alliance partner. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 6 million due to the decision to not opt into the development of one compound with an alliance partner. The asset concerned, which was being amortised, was fully written down

Impairment charges – 2017

Pharmaceuticals Division. Impairment charges totalling USD 1,311 million were recorded related to:

- A charge of USD 983 million for the partial impairment of the product intangible in use acquired as part of the InterMune acquisition. The asset concerned was written down to its estimated recoverable value of USD 4,145 million as at June 30, 2017. The main factor leading to this was lower-than-expected sales of Esbriet in the first half of 2017 relative to the most recent long-term forecasts. In the meantime the intangible asset continues to be amortised over its remaining estimated useful life of four years.
- A charge of USD 140 million due to the decision to stop development of one compound with an alliance partner following an assessment of clinical and non-clinical data. The asset concerned, which was not yet being amortised, was fully written down.

- A charge of USD 111 million due to the launch of a competitor product for the compound acquired as part of the Trophos acquisition. The asset concerned, which was not yet being amortised, was written down to its estimated recoverable value of USD 58 million.
- A charge of USD 34 million due to the decision to stop development of one compound acquired as part of the Dutalys acquisition. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 23 million due to the decision to stop development of one compound with an alliance partner. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 20 million due to the decision to stop development of one compound acquired as part of the Santaris acquisition following a clinical data assessment. The asset concerned, which was not yet being amortised, was fully written down.

10. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2018	December 31, 2017
Legal provisions	435	430
Environmental provisions	162	175
Restructuring provisions	142	93
Contingent consideration provisions [15]	336	339
Other provisions	728	629
Total provisions	**1,803**	**1,666**
Current	1,283	1,161
Non-current	520	505
Total provisions	**1,803**	**1,666**

During the six months ended June 30, 2018 USD 157 million of provisions were utilised (six months ended June 30, 2017: USD 240 million), of which USD 151 million (six months ended June 30, 2017: USD 142 million) are included in the cash flow from operating activities and mainly related to the utilisation of restructuring, environmental and other provisions, and USD 6 million (six months ended June 30, 2017: USD 98 million) are included in the cash flows from business combinations for payments made from deferred and contingent consideration arrangements (see Note 6).

Further information on the contingent consideration provisions is disclosed in Note 15.

Based on the development of the various litigations, legal expenses of USD 20 million were incurred during the six months ended June 30, 2018 (six months ended June 30, 2017: net income of USD 169 million).

Other than as described below, no significant changes in the RHI Group's contingent liabilities or provisions for legal cases 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. On April 23, 2018 the New Jersey Supreme Court heard oral argument on Hoffmann-La Roche Inc.'s petitions for review on the issues of the adequacy of the post 2002 label and the standard for expert admissibility. A decision is expected in the second half of 2018. At June 30, 2018 Hoffmann-La Roche Inc. was defending approximately 2,500 actions involving approximately 2,500 plaintiffs brought in various state courts throughout the US for personal injuries allegedly resulting from their use of Accutane. In addition, there are approximately 3,618 cases on appeal. If any cases survive the appeals, additional trials may be scheduled. Individual trial results depend on a variety of factors, including many that are unique to the particular case and therefore the trial results to date may not be predictive of future trial results. The Group continues to defend vigorously the remaining personal injury cases and claims.

In addition, the matters listed below do not currently have provisions recorded, but there are potential future obligations which will be confirmed only by the occurrence or non-occurrence of uncertain future events, or present obligations which cannot be measured with sufficient reliability.

Hemlibra (emicizumab) litigation. On May 4, 2017 Baxalta Inc. and Baxalta GmbH (both together 'Baxalta'), subsidiaries of Shire plc., filed a patent infringement and declaratory judgment of patent infringement suit in the US District Court for the District of Delaware, alleging that Genentech, Inc. and Chugai Pharmaceutical Co., Ltd. currently or imminently would manufacture, use, sell, offer for sale, or import into the US Hemlibra (emicizumab), which would infringe Baxalta's US Patent No. 7,033,590. Baxalta is seeking a judgment of infringement, injunctive and monetary relief, attorneys' fees, costs and expenses. On May 11, 2017 Genentech was served with the complaint. Genentech's response and counterclaims to the complaint were filed on June 30, 2017. On June 19, 2017 Chugai waived service. On September 13, 2017 Chugai filed a motion to dismiss the complaint for lack of personal jurisdiction. On November 16, 2017 the Food and Drug Administration ('FDA') approved Hemlibra (emicizumab) for haemophilia A with inhibitors for use in the US. On December 14, 2017 Baxalta filed a request for a preliminary injunction against Genentech only, in which some inhibitor patients would not be subject to any injunction. A hearing was held in the US District Court for the District of Delaware June 13 and 14, 2018 and during that hearing Baxalta withdrew its request for a preliminary injunction as to the inhibitor patients. On June 25, 2018 Baxalta submitted a new proposed preliminary injunction order, in which Genentech would be permitted to sell Hemlibra to all inhibitor patients, all non-inhibitor patients currently on Hemlibra whether through clinical trials or not, and selected non-inhibitor patients who have an additional 'medically diagnosed condition' which rendered Factor VIII therapies impracticable. Approval by the FDA in the non-inhibitor population is expected to be no later than October 4, 2018. On March 28, 2018, in the case brought by Baxalta against Chugai in Japan, the Tokyo District Court ruled in favour of Chugai, notably that Hemlibra does not infringe Baxalta's patent. On May 10, 2018 Baxalta appealed this decision. The outcome of this matter cannot be determined at this time.

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

11. Debt

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

Six months ended June 30, 2018	
At January 1, 2018	**39,973**
Proceeds from issue of bonds and notes	0
Redemption and repurchase of bonds and notes	0
Increase (decrease) in commercial paper	2,633
Increase (decrease) in amounts due to related parties	650
Increase (decrease) in other debt	0
Changes from financing cash flows	**3,283**
Net (gains) losses on redemption and repurchase of bonds and notes [4]	0
Amortisation of debt discount [4]	5
Financing costs	**5**
Net foreign exchange (gains) losses	(43)
Currency translation effects	(2)
Changes in foreign exchange rates	**(45)**
Changes in fair values of hedging instruments	0
Other changes	0
At June 30, 2018	**43,216**
Bonds and notes	12,443
Commercial paper	3,423
Amounts due to related parties [16]	27,350
Total debt	**43,216**
Long-term debt	35,708
Short-term debt	7,508
Total debt	**43,216**

Issuance of bonds and notes – 2018

The RHI Group did not issue any bonds or notes during the six months ended June 30, 2018.

Issuance of bonds and notes – 2017

The RHI Group did not issue any bonds or notes during the six months ended June 30, 2017.

Redemption and repurchase of bonds and notes – 2018

The RHI Group did not redeem any bonds or notes during the six months ended June 30, 2018.

Redemption and repurchase of bonds and notes – 2017

The RHI Group did not redeem any bonds or notes during the six months ended June 30, 2017.

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,	
	2018	2017
US dollar notes	0	0
Total cash inflows from issuance of bonds and notes	**0**	**0**

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

	Six months ended June 30,	
	2018	2017
Euro Medium Term Note programme – Euro notes	0	0
US dollar notes	0	0
Total cash outflows from redemption and repurchase of bonds and notes	**0**	**0**

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to USD 7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of USD 7.5 billion 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, 2018 unsecured commercial paper notes with a principal amount of USD 3.4 billion and an average interest rate of 1.98% were outstanding.

Movements in commercial paper obligations *in millions of USD*

Six months ended June 30, 2018	
At January 1, 2018	790
Net cash proceeds (payments)	2,633
At June 30, 2018	**3,423**

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, 2018	
At January 1, 2018	26,702
Cash inflows from related parties	4,050
Cash outflows to related parties	(3,400)
Currency translation of foreign operations	(2)
At June 30, 2018	**27,350**

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,	
	2018	2017
Term note 2.35% issued February 07, 2018	1,000	-
Term note 2.35% issued February 12, 2018	3,000	-
Term note 6.5% issued March 20, 2018	30	-
Term note 6.5% issued June 1, 2018	20	-
Total	**4,050**	**-**

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,	
	2018	2017
Term note 2.27% due April 6, 2017	-	(875)
Term note 2.39% due June 14, 2017	-	(800)
Term note 5.8% due February 12, 2018	(100)	-
Term note 5.8% due February 12, 2018	(1,900)	-
Term note 5.8% due February 12, 2018	(1,400)	-
Total	**(3,400)**	**(1,675)**

12. 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), 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 USD 46.6 billion, of which USD 7.6 billion was allocated to eliminate the book value of Genentech non-controlling interest. At June 30, 2018 the RHI Group had a negative equity of USD 21.1 billion (December 31, 2017: USD 22.7 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, 2018 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 USD 1,000 each and has not changed during the first half of 2018. All shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On June 22, 2018 the Board of Directors of RHI resolved to declare a dividend of USD 3.0 million per share to RHI's sole stockholder, Roche Finance Ltd, which has been paid in the first half of 2018.

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 USD 3,968 million (six months ended June 30, 2017: USD 2,143 million) and the dividend payments described above, retained earnings also includes gains on remeasurements of defined benefit plans of USD 201 million, after tax (six months ended June 30, 2017: losses of USD 13 million, after tax).

13. Subsidiaries

Foundation Medicine, Inc.

On June 18, 2018 the RHI Group entered into a merger agreement with Foundation Medicine, Inc. ('FMI') to acquire the outstanding shares of FMI's common stock not already owned by the RHI Group or a related party at a price of USD 137.00 per share in cash. This corresponds to a total transaction value of USD 2.4 billion on a fully diluted basis. Previously, on April 7, 2015 the RHI Group had acquired a 60.1% controlling interest in FMI, which has been treated as a fully consolidated subsidiary of the RHI Group since that date. At June 30, 2018 the interest in FMI held by RHI Group and a related party was 55.5% (December 31, 2017: 56.4%) and 1.1% (December 31, 2017: 1.1%), respectively. 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 US GAAP that are filed on a quarterly basis with the SEC. Upon closing, which is expected to take place in the second half of 2018, the transaction will be accounted for in full as an equity transaction.

14. Statement of cash flows

Cash generated from operations *in millions of USD*

	Six months ended June 30,	
	2018	2017
Net income	3,957	2,099
Add back non-operating (income) expense		
- Financing costs [4]	297	296
- Financing costs – related parties [16]	519	520
- Other financial (income) expense [4]	(16)	(79)
- Other financial (income) expense – related parties [16]	(8)	(21)
- Income taxes [5]	1,428	1,338
Operating profit	**6,177**	**4,153**
Depreciation of property, plant and equipment	311	288
Amortisation of intangible assets	588	792
Impairment of goodwill	0	0
Impairment of intangible assets	75	1,311
Impairment of property, plant and equipment	1	3
Operating (income) expense for defined benefit plans	55	64
Operating expense for equity-settled equity compensation plans	175	165
Net (income) expense for provisions	282	(110)
Bad debt (reversal) expense	7	0
Inventory write-downs	7	99
Net (gain) loss on disposal of products	(5)	(1)
Other adjustments	4	5
Cash generated from operations	**7,677**	**6,769**

15. Financial risk management

The RHI Group's financial risk management objectives and policies are consistent with those disclosed in Note 28 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, 2018 (IFRS 9)				
Marketable securities				
- Equity securities at fair value through profit or loss	1	-	-	1
- Debt securities at fair value through OCI	0	0	-	0
Derivative financial instruments – related parties [16]	-	0	-	0
Equity investments / securities at fair value through profit or loss	0	15	-	15
Financial assets recognised at fair value	**1**	**15**	**-**	**16**
Derivative financial instruments	-	0	-	0
Derivative financial instruments – related parties [16]	-	(67)	-	(67)
Contingent consideration	-	-	(336)	(336)
Financial liabilities recognised at fair value	**-**	**(67)**	**(336)**	**(403)**

The fair value hierarchy has been adjusted to reflect the presentational changes required as a result from implementing IFRS 9 'Financial Instruments' as described in Note 1.

At June 30, 2018 Level 1 financial assets consist of quoted shares. Level 2 financial assets consist primarily of equity investments.

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.

The RHI Group recognises transfers between levels of the fair value hierarchy at 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, 2018.

Level 3 fair values

Details of the determination of Level 3 fair value measurements are set out below.

Contingent consideration arrangements *in millions of USD*

Six months ended June 30, 2018	
At January 1, 2018	(339)
Utilised for settlements [6]	5
Total unrealised gains and losses included in the income statement	
- Unused amounts reversed – recorded within general and administration	4
- Additional amounts created – recorded within general and administration	0
- Discount unwind included in financing costs	(6)
At June 30, 2018	**(336)**

During the six months ended June 30, 2018 contingent consideration provisions decreased mainly due to the reversal of some of the provisions and to the payment of milestones.

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from business combinations. The fair values are determined considering the expected payments, discounted to present value using risk-adjusted discount rate of 3.8% at June 30, 2018 (December 31, 2017: 3.8%). 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 rates were higher or the risk-adjusted discount rate was lower. At June 30, 2018 the total payments under contingent consideration arrangements could be up to USD 0.5 billion (December 31, 2017: USD 0.6 billion).

Carrying value and fair value

At June 30, 2018 the carrying value of bonds and notes is USD 12.4 billion compared to a fair value of USD 13 billion and the carrying value of total debt is USD 43.2 billion compared to a fair value of USD 43.8 billion. The carrying values of financial assets are a reasonable approximation of the fair values at June 30, 2018.

16. 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, services received and rendered, 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 US business and the payment and receipt of royalties.

Related party transactions *in millions of USD*

	Six months ended June 30,	
	2018	2017
Sales	948	971
Royalty income	1,759	1,268
Contract revenue	0	4
Purchases of inventory and other materials	(335)	(255)
Reimbursements received under research and development cost-sharing and collaboration agreements	390	399
Payments issued under research and development cost-sharing and collaboration agreements	(738)	(573)
Reimbursements received under marketing and distribution cost-sharing and collaboration agreements	36	182
Services rendered	79	87
Services received	(83)	(71)
Other income (expense)	8	9
Financing costs – related parties		
Interest expense	(496)	(494)
Guarantee fees	(23)	(26)
Total financing costs – related parties	**(519)**	**(520)**
Other financial income (expense) – related parties		
Net gains (losses) on foreign currency derivatives	(15)	10
Other financial income (expense)	23	11
Total other financial income (expense) – related parties	**8**	**21**

Related party balances *in millions of USD*

	June 30, 2018	December 31, 2017
Other non-current assets	0	0
Other current assets	0	0
Accounts receivable	2,208	2,756
- of which derivative financial assets	0	*4*
- other financial assets	*0*	*0*
Total receivable – related parties	**2,208**	**2,756**
Long-term debt	(23,265)	(23,215)
Short-term debt	(4,085)	(3,487)
Total debt – related parties	**(27,350)**	**(26,702)**
Other non-current liabilities	(136)	(243)
Other current liabilities	(587)	(957)
Accounts payable	(734)	(1,084)
- of which derivative financial liabilities	(67)	*(9)*
- interest payables	*(356)*	*(8)*
Total payable – related parties	**(1,457)**	**(2,284)**

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 USD 0.8 billion (December 31, 2017: USD 1.3 billion) are immediately available and bear variable interest referenced to one month LIBOR.

Independent Auditor's Report on the Review of Interim Consolidated Financial Statements

To the Board of Directors of Roche Holdings, Inc., Wilmington, Delaware

Introduction

We have been engaged to review the accompanying consolidated balance sheet of Roche Holdings, Inc., as at 30 June 2018 and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for the six-month period then ended, and selected explanatory notes (the interim consolidated financial statements) on pages 8 to 32. 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 the 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 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

KPMG AG

Mark Baillache
Licensed Audit Expert

Marc Ziegler
Licensed Audit Expert

Basel, 27 July 2018