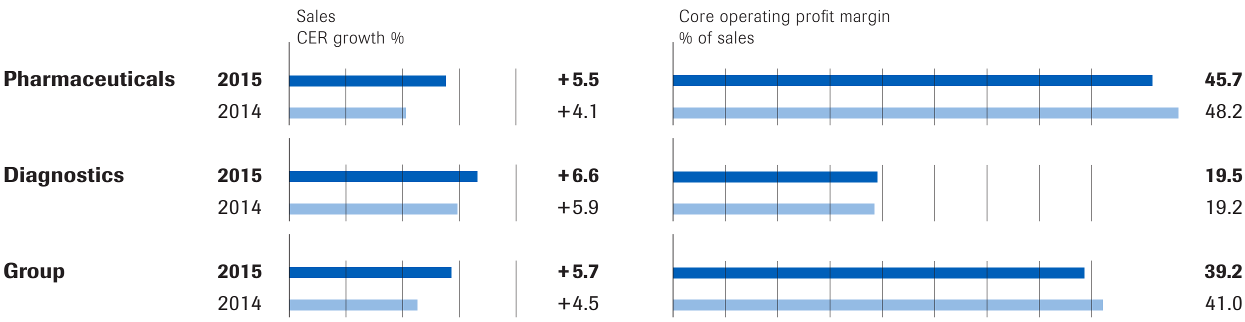
Roche

Half-Year Report 2015

Finance in brief

Key interim results



	Six months ended 30 June 2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)	% of sales 2015	% of sales 2014
IFRS results						
Sales	23,585	22,974	+3	+6		
Operating profit	7,710	8,152	–5	–1	32.7	35.5
Net income	5,249	5,641	–7	0	22.3	24.6
Net income attributable to Roche shareholders	5,154	5,533	–7	0	21.9	24.1
Diluted EPS (CHF)	5.98	6.41	–7	+1		
Core results						
Research and development	4,351	4,204	+3	+4	18.4	18.3
Core operating profit	9,236	9,410	–2	+2	39.2	41.0
Core EPS (CHF)	7.22	7.57	–5	+2		
Free cash flow						
Operating free cash flow	6,525	7,869	–17	–19	27.7	34.3
Free cash flow	(2,928)	(1,026)	+185	+216		

	30 June 2015 (CHF m)	31 December 2014 (CHF m)	% change (CHF)	% change (CER)
Net debt	(17,303)	(14,011)	+23	+35
Capitalisation	43,321	47,272	–8	–1
– Debt	24,103	25,714	–6	+1
– Equity	19,218	21,558	–11	–3

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconsolidating both the 2015 and 2014 results at constant exchange rates (the average rates for the year ended 31 December 2014).

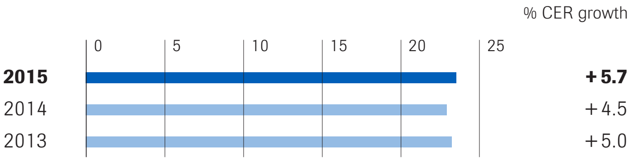
Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows a transparent assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 66–69 and reconciliations between the IFRS and core results are given there.

Contents

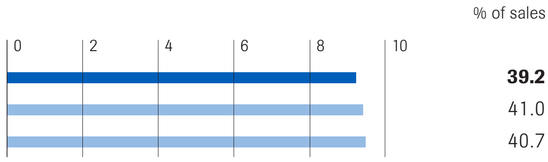
Financial Review

Group results

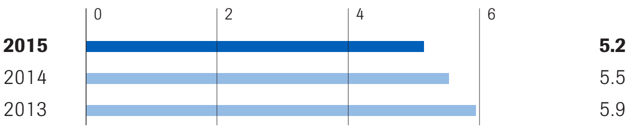
Sales in billions of CHF



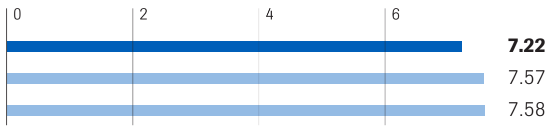
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



The Roche Group's results for the first half of 2015 showed sales growth of 6% at constant exchange rates, with both core operating profit and Core EPS growing at 2%. Sales increased driven by the oncology portfolio, especially the medicines for HER2-positive breast cancer, and by the Professional Diagnostics business. Core operating profit and Core EPS grew at a lower rate than sales due to the base effect for the one-time income from the divestment of the filgrastim franchise rights in 2014. Excluding this item, core operating profit and Core EPS grew at 7%. Operating free cash flow was 6.5 billion Swiss francs or 27.7% of sales, a decrease of 19% due to increased net working capital and capital expenditure.

Sales in the Pharmaceuticals Division rose by 5% to 18.4 billion Swiss francs. This increase was driven by the oncology portfolio, especially by the HER2 franchise which grew by 21%. There was a strong uptake for the recently acquired Esbriet, a medicine for idiopathic pulmonary fibrosis, with sales of 0.2 billion Swiss francs. Sales in immunology grew, with Actemra/RoActemra and Xolair increasing by 25% and 28% respectively. Sales of Xeloda declined sharply as it has been off-patent in the US and Europe since 2014. Regional growth was most significant in the US, Latin America and Japan. Diagnostics sales grew at 7%, consolidating the Division's leading market position. The major growth area was Professional Diagnostics, with sales increasing by 7%. Molecular Diagnostics and Tissue Diagnostics both increased by 12% while sales in Diabetes Care increased by 1%.

Core operating profit increased by 1% in the Pharmaceuticals Division and was up by 7% in the Diagnostics Division. Profit in Pharmaceuticals was above the prior period as growth in the underlying business in the first six months of 2015 more than compensated for the base effect of the divestment income of 428 million Swiss francs from the filgrastim franchise rights in 2014. Excluding this item, core operating profit in Pharmaceuticals increased by 6%. Manufacturing costs were higher due to capacity expansion in biologics and increased contract manufacturing usage, together with higher inventory write-offs. Marketing and distribution costs grew by 6% due to the launch and rollout of new products, notably for the recently acquired product Esbriet, and higher allowances for doubtful accounts. In research and development there were continued investments in oncology and the immunology, inflammation and respiratory therapeutic area. In Diagnostics the 7% sales growth fed directly into the core operating profit growth.

Operating free cash flow was 6.5 billion Swiss francs, a decrease of 19%. The continuous strong cash generation of the underlying operations was offset by the settlement of year-end payables, capital investments in manufacturing facilities and other site development projects, notably in Switzerland, the US and Germany, and by an increased level of in-licensing activities. The free cash outflow increased to 2.9 billion Swiss francs mainly driven by the lower operating free cash flow together with higher tax payments and higher annual dividend payments.

IFRS net income was stable at constant exchange rates compared to the increase of 1% in core net income. In addition to the items described above in the core results, the IFRS results include a considerable impact from the recent mergers and acquisitions activity, notably an increase in intangible asset amortisation to 527 million Swiss francs, net of tax, compared to 162 million Swiss francs in the first half of 2014. This was offset by the impairment of goodwill and intangible assets, net of tax, being 32 million Swiss francs compared to 482 million Swiss francs in the same period of 2014.

In the first half of 2015 compared to the first half of 2014, the Swiss franc appreciated against a number of currencies, in particular against the euro and the Japanese yen and against most Latin American and European currencies. These effects were partly offset by the stronger US dollar. The overall impact is negative on the results expressed in Swiss francs compared to constant exchange rates, with a 3 percentage point impact on sales, a 4 percentage point impact on core operating profit and a 7 percentage point impact on Core EPS.

On 15 January 2015 the Swiss National Bank (SNB) announced that it was discontinuing the minimum exchange rate of 1.20 Swiss francs per euro. As a consequence the value of the Swiss franc increased substantially. For the Roche Group, no fundamental impact is foreseen. The Group incurs less than 20% of its overall costs in Switzerland and key markets, such as the US, Europe and Japan, have complete value chains, meaning that costs are incurred in local currencies, not in Swiss francs. The currency translation sensitivity of the Group's results to movements in foreign currency exchange rates is included on page 25.

Income statement

	Six months ended 30 June 2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	23,585	22,974	+3	+6
Royalties and other operating income	1,245	1,398	-11	-15
Cost of sales	(7,249)	(6,311)	+15	+17
Marketing and distribution	(4,092)	(3,922)	+4	+7
Research and development	(4,493)	(4,463)	+1	+1
General and administration	(1,286)	(1,524)	-16	-16
Operating profit	**7,710**	**8,152**	**-5**	**-1**
Financing costs	(574)	(695)	-17	-19
Other financial income (expense)	(56)	37	–	–
Profit before taxes	**7,080**	**7,494**	**-6**	**0**
Income taxes	(1,831)	(1,853)	-1	-2
Net income	**5,249**	**5,641**	**-7**	**0**
Attributable to				
– Roche shareholders	5,154	5,533	-7	0
– Non-controlling interests	95	108	-12	-3
EPS – Basic (CHF)	6.06	6.52	-7	+1
EPS – Diluted (CHF)	5.98	6.41	-7	+1
Core results				
Sales	23,585	22,974	+3	+6
Royalties and other operating income	1,245	1,398	-11	-15
Cost of sales	(6,198)	(5,876)	+5	+8
Marketing and distribution	(4,021)	(3,873)	+4	+7
Research and development	(4,351)	(4,204)	+3	+4
General and administration	(1,024)	(1,009)	+1	+2
Operating profit	**9,236**	**9,410**	**-2**	**+2**
Financing costs	(553)	(695)	-20	-22
Other financial income (expense)	(72)	37	–	–
Profit before taxes	**8,611**	**8,752**	**-2**	**+3**
Income taxes	(2,291)	(2,111)	+9	+8
Net income	**6,320**	**6,641**	**-5**	**+1**
Attributable to				
– Roche shareholders	6,220	6,533	-5	+1
– Non-controlling interests	100	108	-7	+2
Core EPS – Basic (CHF)	7.31	7.70	-5	+1
Core EPS – Diluted (CHF)	7.22	7.57	-5	+2

Sales

In the first half of 2015 sales increased by 6% at constant exchange rates (+3% in Swiss francs; -3% in US dollars) to 23.6 billion Swiss francs. Sales in the Pharmaceuticals Division rose 5% to 18.4 billion Swiss francs, driven by strong growth in medicines for HER2-positive breast cancer, as well as by Avastin, Esbriet and MabThera/Rituxan. Sales grew in all regions, and particularly in the US where the HER2 franchise grew by 22%. Valcyte/Cymevene and Xeloda sales declined as both products are now off-patent in the US, with Xeloda additionally off-patent in Europe. The Diagnostics Division recorded sales of 5.2 billion Swiss francs, an increase of 7% at constant exchange rates, consolidating its leading market position. The major growth area was Professional Diagnostics, which represents more than half of the Division's sales and grew by 7%, led by the immunodiagnostics business. Sales in Molecular Diagnostics and Tissue Diagnostics both increased by 12%. Diabetes Care sales increased by 1% despite continued US reimbursement cuts and pricing pressure.

Divisional operating results for the six months ended 30 June 2015

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
Sales	18,350	5,235	–	23,585
Core operating profit	8,392	1,021	(177)	9,236
– margin, % of sales	45.7	19.5	–	39.2
Operating profit	7,147	741	(178)	7,710
– margin, % of sales	38.9	14.2	–	32.7
Operating free cash flow	6,645	146	(266)	6,525
– margin, % of sales	36.2	2.8	–	27.7

Divisional operating results – Development of results compared to the six months ended 30 June 2014

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase CER	+5	+7	–	+6
Core operating profit				
– % increase CER	+1	+7	0	+2
– margin: percentage point change	–2.0	+0.1	–	–1.4
Operating profit				
– % increase CER	–7	+209	+2	–1
– margin: percentage point change	–5.4	+9.3	–	–2.2
Operating free cash flow				
– % increase CER	–15	–58	+41	–19
– margin: percentage point change	–8.0	–7.5	–	–8.2

Core operating results

Pharmaceuticals Division. The Division's core operating profit increased 1% at constant exchange rates, below the 5% sales increase, driven by lower income from product disposals and higher cost of sales and marketing and distribution costs. The lower royalties and other income were driven by the one-off income of 428 million Swiss francs in the first half of 2014 for the divestment of the filgrastim franchise rights. Excluding this income, the Division's core operating profit grew at 6%.

Diagnostics Division. Core operating profit increased by 7%, the same rate as the sales growth. The increased costs from the recently acquired companies were compensated by a favourable product mix, with lower instrument sales and higher reagent and test sales, which improved the gross profit. The Division has continued the restructuring of the Diabetes Care business.

Mergers and acquisitions

During the first six months of 2015 the Roche Group completed the acquisition of several companies, including some previously announced in 2014. The total cost of the acquired assets was 1.6 billion Swiss francs in cash and 0.4 billion Swiss francs from the fair value of contingent consideration arrangements.

On 7 April 2015 the Pharmaceuticals Division completed the acquisition of a 61.3% controlling interest in Foundation Medicine ('FMI') for 1.0 billion US dollars. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The Pharmaceuticals Division also completed the acquisition of Trophos. In Diagnostics the Division completed the acquisitions of Ariosa Diagnostics, Signature Diagnostics and CAPP Medical in the sequencing business.

On 29 September 2014 the Pharmaceuticals Division acquired a 100% controlling interest in InterMune for 8.8 billion US dollars. The acquisition added a new medicine for idiopathic pulmonary fibrosis, Esbriet, to the Roche portfolio. Non-core costs included intangible asset amortisation of 525 million Swiss francs and an expense of 223 million Swiss francs from the release of the inventory fair value adjustment. The Group issued 5.75 billion US dollars of debt in 2014 to finance the transaction.

In the 2014 Annual Financial Statements the accounting for the InterMune, Dutalys and Bina acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations have been finalised in 2015 and as a result the comparative balance sheet information at 31 December 2014 has been restated. The contingent consideration provisions were increased by 173 million Swiss francs in the first half of 2015 mainly due to the progression of the lead product candidate from the Seragon acquisition. This was recorded as a general and administration expense.

See Notes 5 and 15 to the Interim Financial Statements for more details on these matters.

Global restructuring plans

During the first half of 2015 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division.

Global restructuring plans: costs incurred for the six months ended 30 June 2015 in millions of CHF

	Diagnostics [1]	Site consolidation [2]	Other plans [3]	Total
Global restructuring costs				
– Employee-related costs	20	35	47	102
– Site closure costs	1	25	0	26
– Divestment of products and businesses	0	0	23	23
– Other reorganisation expenses	95	0	21	116
Total costs	**116**	**60**	**91**	**267**

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes plans for Pharmaceuticals Division research and development strategic realignment and InterMune integration.

Diagnostics Division. On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care's specific requirements, speed up processes and decision-making and drive efficiencies. In the first half of 2015 total costs of 74 million Swiss francs were incurred, mainly for consultancy and IT-related costs as well as employee-related costs. Spending on other smaller plans within the Division was 42 million Swiss francs and included costs related to certain IT projects and the restructuring of the former Applied Science business.

Site Consolidation. Additional costs were recorded in the Pharmaceuticals Division for the outsourcing of logistics at the Rosny site in France and the closure of the manufacturing site at Toluca, Mexico. The divestment plans for the Nutley site are on track.

Other global restructuring plans. The major item was 58 million Swiss francs from the Pharmaceuticals Division research and development strategic realignment, which includes a loss on disposal of 23 million Swiss francs on the divestment of the Marcadia subsidiary, and 22 million Swiss francs for the InterMune integration.

Impairment of goodwill and intangible assets

There were only minor impairments in the interim period. In the Pharmaceuticals Division impairment charges totalled 45 million Swiss francs relating to decisions to stop development of two compounds with different alliance partners. There were no impairments in the Diagnostics Division.

Legal and environmental matters

There were no significant developments in the first half of 2015. See Note 9 to the Interim Financial Statements for more details on these matters.

Treasury and taxation

Financing costs were 0.6 billion Swiss francs, a decrease of 22%, mainly due to the losses on debt redemption in the prior period. Other financial expenses were at 0.1 billion Swiss francs, reflecting a net foreign exchange result loss of 94 million Swiss francs. Core tax expenses increased by 8% to 2.3 billion Swiss francs and the Group's effective core tax rate increased to 26.6% compared to 24.1% in the first half of 2014. This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with higher local tax rates than the average Group tax rate, notably in the US.

Net income and Earnings per share

IFRS net income and diluted EPS both decreased by 7% in Swiss franc terms. At constant exchange rates IFRS income was stable and diluted EPS increased by 1%. Core net income increased by 1% and Core EPS increased by 2% at constant exchange rates. The core basis excludes non-core items such as global restructuring costs, amortisation and impairment of goodwill and intangible assets and alliance and business combination costs. Excluding the income in the first half of 2014 from the divestment of the filgrastim franchise rights of 428 million Swiss francs and the related tax effects of 93 million Swiss francs, underlying Core EPS grew at 7% at constant exchange rates.

Net income

	Six months ended 30 June 2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS net income	**5,249**	**5,641**	**–7**	**0**
Reconciling items (net of tax) – see also pages 66–69				
– Global restructuring	208	209		
– Intangible asset amortisation	527	162		
– Goodwill and intangible asset impairment	32	482		
– Alliances and business combinations	285	3		
– Legal and environmental settlements	9	142		
– Pension plan settlements	(2)	–		
– Normalisation of equity compensation plan tax benefit	12	2		
Core net income	**6,320**	**6,641**	**–5**	**+1**

Supplementary net income and EPS information is given on pages 66–69. This includes calculations of Core EPS and reconciles the core results to the Group's published IFRS results.

Financial position

	30 June 2015 (CHF m)	31 December 2014[1] (CHF m)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	6,352	5,888	+8	+17
Long-term net operating assets	24,902	25,060	–1	+6
Diagnostics				
Net working capital	2,940	2,742	+7	+21
Long-term net operating assets	11,206	11,378	–2	+7
Corporate				
Net working capital	(63)	(96)	–34	–35
Long-term net operating assets	(308)	(418)	–26	–14
Net operating assets	**45,029**	**44,554**	**+1**	**+9**
Net debt	(17,303)	(14,011)	+23	+35
Pensions	(7,018)	(8,303)	–15	–7
Income taxes	(1,000)	(47)	Over +500	–
Other non-operating assets, net	(490)	(635)	–23	–18
Total net assets	**19,218**	**21,558**	**–11**	**–3**

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

Compared to the start of the year the Swiss franc appreciated against most currencies, notably the euro, the Japanese yen and the Brazilian real, which resulted in a negative translation impact on balance sheet positions. The appreciation of the Swiss franc against the US dollar during the first half of 2015 led to a negative translation impact on the net operating assets, which was offset at Group level by the natural hedge from the Group's US dollar-denominated debt. The exchange rates used are given on page 25.

In the Pharmaceuticals Division net working capital increased significantly by 17% at constant exchange rates due to a decrease in payables since the end of 2014 as a result of the settlement of year-end payables. Receivables decreased slightly, notably in Japan, while inventory levels rose mainly due to timing effects of production schedules and deliveries from external partners. Underlying inventory levels also rose to support higher sales volumes in new and established products. Long-term net operating assets increased as a result of the goodwill and intangible assets from the Foundation Medicine and Trophos acquisitions and higher capital expenditure. In Diagnostics the increase in net working capital of 21% was driven by an increase in inventories, higher other receivables and a decrease in trade payables. Trade receivables increased by 4%. Other payables decreased mainly as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits. Long-term net operating assets increased due to the goodwill and intangible assets from the Ariosa acquisition.

The increase in net debt was mainly due to the negative free cash flow of 2.9 billion Swiss francs, which includes the annual dividend payment of 6.9 billion Swiss francs, and also due to the Foundation Medicine, Trophos and Ariosa acquisitions. The net pension liability decreased by 1.3 billion Swiss francs mainly due to higher discount rates in Germany and the US and the translation of the euro-denominated unfunded plans in Germany into Swiss francs on consolidation. The net tax liabilities increased mainly due to the deferred tax effects from the acquisition accounting and decreased net pension liabilities.

Free cash flow

	Six months ended 30 June			
	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
Pharmaceuticals	6,645	7,424	–10	–15
Diagnostics	146	632	–77	–58
Corporate	(266)	(187)	+42	+41
Operating free cash flow	**6,525**	**7,869**	**–17**	**–19**
Treasury activities	(713)	(691)	+3	–2
Taxes paid	(1,846)	(1,542)	+20	+20
Dividends paid	(6,894)	(6,662)	+3	+4
Free cash flow	**(2,928)**	**(1,026)**	**+185**	**+216**

The Group's operating free cash flow for the first six months of 2015 was 6.5 billion Swiss francs, a decrease of 19%. The underlying cash generation of the business was reduced by the increase in net working capital, higher investments in property, plant and equipment for site infrastructure and office development projects and expansion of manufacturing facilities, as well as increased in-licensing arrangements in the Pharmaceuticals Division. The free cash flow in the first half of 2015 shows a net cash outflow of 2.9 billion Swiss francs driven by the annual dividend payments. The free cash outflow increased significantly compared to the first half of 2014, due to the decrease in operating free cash flow and higher tax payments and the increase in the annual dividend.

Pharmaceuticals operating results

Pharmaceuticals Division interim operating results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	18,350	17,834	+3	+5
Royalties and other operating income	1,174	1,334	–12	–16
Cost of sales	(4,748)	(3,661)	+30	+30
Marketing and distribution	(2,837)	(2,723)	+4	+6
Research and development	(3,950)	(3,963)	0	0
General and administration	(842)	(746)	+13	+12
Operating profit	**7,147**	**8,075**	**–11**	**–7**
– margin, % of sales	38.9	45.3	–6.4	–5.4
Core results [1]				
Sales	18,350	17,834	+3	+5
Royalties and other operating income	1,174	1,334	–12	–16
Cost of sales	(3,895)	(3,557)	+10	+11
Marketing and distribution	(2,801)	(2,703)	+4	+6
Research and development	(3,811)	(3,712)	+3	+3
General and administration	(625)	(595)	+5	+5
Core operating profit	**8,392**	**8,601**	**–2**	**+1**
– margin, % of sales	45.7	48.2	–2.5	–2.0
Financial position				
Net working capital	6,352	5,888	+8	+17
Long-term net operating assets	24,902	25,060	–1	+6
Net operating assets	**31,254**	**30,948**	**+1**	**+8**
Free cash flow				
Operating free cash flow	6,645	7,424	–10	–15
– margin, % of sales	36.2	41.6	–5.4	–8.0

1) See pages 66–69 for definition of core results and Core EPS.

Sales overview

Pharmaceuticals Division – Interim sales by therapeutic area

Therapeutic area	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Oncology	11,656	11,135	+8	64	62
Immunology	2,932	2,389	+23	16	13
Infectious diseases	1,106	1,555	–27	6	9
Ophthalmology	769	828	–13	4	5
Neuroscience	326	350	+2	2	2
Other therapeutic areas	1,561	1,577	+2	8	9
Total sales	**18,350**	**17,834**	**+5**	**100**	**100**

Pharmaceuticals Division sales increased by 5% at constant exchange rates, with strong growth in oncology and immunology products. Sales growth was primarily driven by the following products: Herceptin, Avastin, Perjeta, Esbriet, MabThera/Rituxan and Kadcyla. These products together contributed 1.5 billion Swiss francs at constant exchange rates to sales growth in the first half of 2015. Sales of Pegasys and Xeloda both declined due to competition from a new generation of treatment and generic competition respectively.

The strong growth of 21% in the HER2 franchise resulted from increased demand for Perjeta and Herceptin in combination therapy and continued uptake of Kadcyla. Avastin sales grew in all regions driven by increased use in recently launched indications. MabThera/Rituxan grew strongly in the US. Sales in immunology increased due to demand for Esbriet and growth in all regions of Actemra/RoActemra in its subcutaneous formulation. Xolair continued to grow significantly after its approval for an additional indication in 2014.

Product sales

Pharmaceuticals Division – Interim sales

	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Oncology					
Herceptin	3,265	3,082	+11	18	17
Avastin	3,263	3,097	+9	18	17
MabThera/Rituxan [1]	2,813	2,739	+5	15	15
Perjeta	659	388	+72	4	2
Tarceva	602	651	–7	3	4
Kadcyla	362	227	+65	2	1
Xeloda	260	474	–44	1	3
Zelboraf	106	155	–25	1	1
Others	326	322	+6	2	2
Total Oncology	**11,656**	**11,135**	**+8**	**64**	**62**
Immunology					
MabThera/Rituxan [1]	683	621	+10	4	3
Actemra/RoActemra	675	568	+25	4	3
Xolair	593	437	+28	3	2
CellCept	388	413	–4	2	2
Pulmozyme	306	278	+9	2	2
Esbriet	229	–	–	1	–
Others	58	72	–15	0	1
Total Immunology	**2,932**	**2,389**	**+23**	**16**	**13**
Infectious diseases					
Tamiflu	417	372	+10	2	2
Pegasys	285	582	–49	2	3
Valcyte/Cymevene	187	353	–44	1	2
Rocephin	142	133	+9	1	1
Others	75	115	–30	0	1
Total Infectious diseases	**1,106**	**1,555**	**–27**	**6**	**9**
Ophthalmology					
Lucentis	769	828	–13	4	5
Total Ophthalmology	**769**	**828**	**–13**	**4**	**5**
Neuroscience					
Madopar	134	135	+9	1	1
Others	192	215	–2	1	1
Total Neuroscience	**326**	**350**	**+2**	**2**	**2**
Other therapeutic areas					
Activase/TNKase	437	359	+15	2	2
Mircera	222	203	+17	1	1
NeoRecormon/Epogin	182	231	–14	1	1
Nutropin	106	111	–10	1	1
Others	614	673	–2	3	4
Total other therapeutic areas	**1,561**	**1,577**	**+2**	**8**	**9**
Total sales	**18,350**	**17,834**	**+5**	**100**	**100**

1) Total MabThera/Rituxan sales of 3,496 million Swiss francs (2014: 3,360 million Swiss francs) split between oncology and immunology franchises.

MabThera/Rituxan. For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL), follicular lymphoma (FL) and rheumatoid arthritis (RA) as well as certain types of ANCA-associated vasculitis. Sales were 6% higher, with strong growth in the US (+9%) for oncology and immunology. International markets sales grew 7%, driven by public sector sales in Latin America and growth in the Eastern Europe, Middle East and Africa sub-region.

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer. Overall growth in the HER2 franchise was 21%. Herceptin sales grew 11% with continued strong growth in the US (+18%) resulting from increased usage in the treatment of breast cancer in combination with Perjeta. Demand in the International region grew strongly (+18%) with growth in all sub-regions. In Europe sales were stable. Perjeta itself grew in all regions, particularly in the US (+50%) and Europe (+132%) with demand in pre-surgical treatment, as well as in advanced breast cancer. Kadcyla sales grew strongly in Europe and there was positive uptake in the International region and Japan.

Avastin. For advanced colorectal, breast, lung, kidney, cervical and ovarian cancer, and relapsed glioblastoma (a type of brain tumour). Demand was strong, with sales growth in all regions. US sales grew (+9%) driven by expanded use in the more recently launched indications, cervical and ovarian cancers. In Europe sales grew (+3%) as a result of increasing treatment of ovarian and colorectal cancer. In the International region growth of 19% was driven mainly by phasing of deliveries to the public sector. In Japan sales increased by 16%, with increasing demand for use in breast and ovarian cancers and in the treatment of glioblastoma.

Lucentis. For wet age-related macular degeneration (wAMD), macular edema following retinal vein occlusion (RVO) and diabetic macular edema (DME). Sales of Lucentis declined by 13% due to competition in the wAMD and DME segments. In February 2015 Lucentis was approved in an additional indication for treatment of diabetic retinopathy with DME.

Pegasys. For hepatitis B and C. Sales decreased by 49%, declining in all regions due to the expected competition from interferon-free medicines.

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis and polyarticular juvenile idiopathic arthritis. Sales increased by 25%, with growth in all regions including Japan, notably in the US (+32%) and Europe (+23%). This was driven by increased demand for both the early treatment of rheumatoid arthritis and in monotherapy. There was a strong take-up of the subcutaneous formulation, which represented 27% of the total Actemra/RoActemra sales.

Other products. There was strong demand for the recently acquired Esbriet, a medicine for idiopathic pulmonary fibrosis, with sales of 229 million Swiss francs. Xolair sales grew significantly (+28%) following its approval for an additional indication, chronic hives, in 2014. Sales of Xeloda continued to decrease (–44%) following loss of exclusivity in the US and Europe.

Pharmaceuticals Division – Interim sales by region

Region	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
United States	8,586	7,572	+7	47	42
Europe	4,291	4,775	+2	23	27
Japan	1,540	1,581	+7	8	9
International	3,933	3,906	+7	22	22
– EEMEA [1]	*790*	*833*	*+2*	*5*	*5*
– Latin America	*1,123*	*1,168*	*+12*	*6*	*7*
– Asia-Pacific	*1,545*	*1,476*	*+3*	*8*	*8*
– Other regions	*475*	*429*	*+14*	*3*	*2*
Total sales	**18,350**	**17,834**	**+5**	**100**	**100**

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 7% led by the HER2 breast cancer franchise (+22%). The leading products were the oncology medicines MabThera/Rituxan, Avastin and Herceptin, with sales of 1.9 billion Swiss francs (+9%), 1.5 billion Swiss francs (+9%) and 1.2 billion Swiss francs (+18%), respectively. In addition there was strong demand for Esbriet and Xolair (+28%). There were also higher sales of Tamiflu (+54%). Growth was negatively impacted by the sharp decline of Valcyte/Cymevene (–80%) and Xeloda (–82%), which are both now off-patent in the US, and Pegasys (–83%) due to competition from a new generation of treatment.

Europe. Sales increased by 2% with continued strong growth in the HER2 breast cancer franchise (+17%) and good uptake of Esbriet. In addition there was continued sales growth of Actemra/RoActemra (+23%) and Avastin (+3%). This growth was partially offset by lower Pegasys (–57%) and Xeloda (–56%) sales. Tamiflu sales were also lower (–81%).

Japan. Sales grew by 7%, with the major growth drivers being Avastin (+16%), the HER2 franchise (+20%) and Alecensa (alectinib). Avastin sales grew due to increased demand across the indications, in particular for use in breast and ovarian cancers and in the treatment of glioblastoma. Alecensa, an ALK inhibitor used in the treatment of non-small cell lung cancer (NSCLC), was launched in Japan in September 2014 and had sales of 24 million Swiss francs in the first half of 2015. Sales of Edirol also increased (+23%).

International. Sales increased by 7% driven by the Latin America sub-region. Growth in Latin America was mainly due to the HER2 franchise (+30%) and the other oncology products, especially Avastin (+30%) and MabThera/Rituxan (+12%). Actemra/RoActemra sales also increased significantly (+53%), while there was a decline in Xeloda sales (–28%). In Asia-Pacific, the main drivers of growth were Herceptin (+20%), Avastin (+14%) and MabThera/Rituxan (+5%). Herceptin growth resulted from significant activities to ensure patient access to the medicine in China. For the Eastern Europe, Middle East and Africa sub-region, sales grew despite the negative impact of the timing of tender sales as compared to 2014. Total sales in the E7 key emerging markets grew by 8% with volume growth in Brazil driven by market access activities and new product launches more than offsetting price decreases. Sales growth in Turkey resulted from higher sales of Herceptin and Avastin.

Pharmaceuticals Division – Interim sales for E7 leading emerging markets

Country	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Brazil	447	461	+17	2	2
China	787	737	+1	5	4
India	46	44	+1	0	0
Mexico	159	164	+5	1	1
Russia	69	102	+4	0	1
South Korea	139	123	+11	1	1
Turkey	149	137	+21	1	1
Total sales	**1,796**	**1,768**	**+8**	**10**	**10**

Operating results

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Royalty income	869	761	+8
Income from out-licensing agreements	209	65	+211
Income from disposal of products and other	96	508	–81
Total – IFRS and Core basis	**1,174**	**1,334**	**–16**

Royalties and other operating income. The decrease of 16% at constant exchange rates was due to lower income from product disposals partly offset by higher royalty and out-licensing income. Royalty income increased by 8% due to the receipt of certain non-recurring royalties, partly offset by lower royalties for Lucentis. The increase in out-licensing income was due to upfront and milestone payments from the exclusive license agreement with Galenica for the commercialisation of Mircera in the United States and a payment from a collaboration partner for a de-blocking amendment. Income from product disposals fell due to the comparative period including 428 million Swiss francs of income from the sale of the filgrastim franchise rights back to Amgen.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,276)	(2,043)	+16
Royalty expenses	(611)	(591)	+5
Collaboration and profit-sharing agreements	(1,007)	(889)	+7
Impairment of property, plant and equipment	(1)	(34)	–98
Cost of sales – Core basis	**(3,895)**	**(3,557)**	**+11**
Global restructuring plans	(37)	(42)	–7
Amortisation of intangible assets	(593)	(62)	Over +500
Business combinations – inventory fair value adjustment	(223)	–	–
Total – IFRS basis	**(4,748)**	**(3,661)**	**+30**

Cost of sales. Core costs increased by 11% at constant exchange rates. As a percentage of sales, cost of sales increased by 1.3 percentage points. The increase in manufacturing cost of goods sold and period costs resulted mainly from capacity increases in biologics and expansion of contract manufacturing usage to ensure agility, sustainable capacity utilisation and a robust supply chain. In addition, higher levels of inventory write-downs were incurred. Royalty expenses were 5% higher due to higher sales. Expenses from collaboration and profit-sharing agreements also increased mainly driven by higher co-promotion expenses due to growing sales of MabThera/Rituxan and Xolair. Non-core costs include the amortisation of the intangible assets from the InterMune acquisition and the release of the inventory fair value adjustment.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Marketing and distribution – Core basis	**(2,801)**	**(2,703)**	**+6**
Global restructuring plans	(35)	(20)	+95
Amortisation of intangible assets	(1)	–	–
Total – IFRS basis	**(2,837)**	**(2,723)**	**+6**

Marketing and distribution. Core costs increased at constant exchange rates by 6% and as a percentage of sales rose to 15.3% (2014: 15.2%). Investments were made to market the recently acquired Esbriet as well as to ensure increased patient access to medicines such as the HER2 franchise. Marketing efforts continued to support established and launch products. There were higher allowances for doubtful receivables in Southern Europe. Restructuring costs relate to the outsourcing of logistics from the Rosny site in France.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Research and development – Core basis	**(3,811)**	**(3,712)**	**+3**
Global restructuring plans	(40)	(59)	–32
Amortisation of intangible assets	(54)	(26)	+119
Impairment of intangible assets	(45)	(166)	–73
Total – IFRS basis	**(3,950)**	**(3,963)**	**0**

Research and development. Core costs increased by 3% at constant exchange rates and, as a percentage of sales, were stable at 20.8%. The oncology franchise remained the primary area of research and development investments with advancement of cancer immunotherapy treatments. Activities also increased in the immunology, inflammation and respiratory area driven by programmes for asthma, inflammatory bowel disease and idiopathic pulmonary fibrosis. In addition the Pharmaceuticals Division spent 167 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. Global restructuring costs of 40 million Swiss francs were recorded, mainly resulting from the Pharmaceuticals Division research and development strategic realignment, notably the transfer of oncology discovery from Penzberg, Germany to Zurich, Switzerland. There were impairment charges of 45 million Swiss francs resulting from decisions to stop development on two compounds.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(528)	(507)	+5
Pensions – past service costs	0	1	–
Gains (losses) on disposal of property, plant and equipment	0	(2)	–
Business taxes and capital taxes	(142)	(125)	+12
Other general items	45	38	+28
General and administration – Core basis	**(625)**	**(595)**	**+5**
Global restructuring plans	(37)	(12)	+190
Alliances and business combinations	(179)	0	–
Legal and environmental settlements	(4)	(139)	–97
Pensions – settlement gains (losses)	3	0	–
Total – IFRS basis	**(842)**	**(746)**	**+12**

General and administration. Core costs increased by 5% at constant exchange rates and as a percentage of sales increased to 3.4% from 3.3%. The increase in administration costs was driven by costs related to the reinforcement of the compliance structure across regions and the development of the finance organisation in emerging markets as well as higher business taxes including the costs for the US Branded Pharmaceutical Product Fee of 113 million Swiss francs (2014: 98 million Swiss francs). The alliance and business combination costs relate mainly to the additional contingent consideration provisions recorded in respect of the Seragon acquisition (see Note 15 to Interim Financial Statements).

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional interim operating results in millions of CHF

	Roche Pharmaceuticals 2015	Roche Pharmaceuticals 2014	Chugai 2015	Chugai 2014	Pharmaceuticals Division 2015	Pharmaceuticals Division 2014
Sales						
– External customers	16,810	16,253	1,540	1,581	18,350	17,834
– Within Division	620	642	293	228	913	870
Core operating profit	8,108	8,300	355	377	8,392	8,601
– margin, % of sales to external customers	48.2	51.1	23.1	23.8	45.7	48.2
Operating profit	6,890	7,794	328	357	7,147	8,075
– margin, % of sales to external customers	41.0	48.0	21.3	22.6	38.9	45.3
Operating free cash flow	6,284	7,109	361	315	6,645	7,424
– margin, % of sales to external customers	37.4	43.7	23.4	19.9	36.2	41.6

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of 71 million Swiss francs of unrealised inter-company profits between Roche Pharmaceuticals and Chugai (2014: 76 million Swiss francs of profits).

The fall in the exchange rate of the Japanese yen has a negative impact of approximately 10% on the Chugai results when expressed in Swiss francs. Sales to external customers by Chugai increased by 7% in Japanese yen and sales within the Division were also significantly higher. This growth was partly offset by lower out-licensing income than in 2014, which resulted in an increase of 4% in Chugai core operating profit. Operating free cash flow at Chugai increased by 26% due to lower trade receivables which resulted from the timing of sales and improved customer payment terms.

Financial position

Pharmaceuticals Division – Net operating assets

	30 June 2015 (CHF m)	31 Dec. 2014 [1] (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA (CHF m)
Trade receivables	5,545	6,238	–11	–2	(146)	(547)
Inventories	5,451	5,736	–5	+1	23	(308)
Trade payables	(1,011)	(1,372)	–26	–21	283	78
Net trade working capital	**9,985**	**10,602**	**–6**	**+2**	**160**	**(777)**
Other receivables/(payables)	(3,633)	(4,714)	–23	–17	755	326
Net working capital	**6,352**	**5,888**	**+8**	**+17**	**915**	**(451)**
Property, plant and equipment	11,618	11,919	–3	+3	396	(697)
Goodwill and intangible assets	15,936	15,727	+1	+8	1,112	(903)
Provisions	(2,989)	(2,982)	0	+8	(208)	201
Other long-term assets, net	337	396	–15	–9	(37)	(22)
Long-term net operating assets	**24,902**	**25,060**	**–1**	**+6**	**1,263**	**(1,421)**
Net operating assets	**31,254**	**30,948**	**+1**	**+8**	**2,178**	**(1,872)**

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

The absolute amount of the movement between the 30 June 2015 and 31 December 2014 consolidated balances reported in Swiss francs is split between actual 2015 transactions (translated at average rates for 2014) and the currency translation adjustment (CTA) that arises on consolidation. The 2015 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 38 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 71.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc appreciated against most currencies, notably the US dollar, the euro, the Japanese yen and the Brazilian real, resulting in a negative translation impact on the net operating assets. The exchange rates used are given on page 25.

Net working capital. The increase of 17% at constant exchange rates was mainly due to a decrease in payables since the end of 2014 as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits. Trade receivables decreased compared to December 2014 due to the timing of collections. The increase in inventory levels resulted from the timing of internal production campaigns and deliveries from external manufacturing partners. Inventory levels also rose to support the sales volume increases in both new and established products.

Long-term net operating assets. These increased mainly due to significant additions to goodwill and intangible assets resulting from the acquisitions of Foundation Medicine and Trophos. Property, plant and equipment increased by 3% as investments continue to be made in site infrastructure and office development projects and expansion of manufacturing facilities, in particular in Switzerland, the US and Germany. The 8% increase in provisions resulted mainly from higher contingent consideration provisions from the Seragon acquisition and new restructuring provisions.

Free cash flow

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Operating profit – IFRS basis	**7,147**	**8,075**	**–7**
– Depreciation, amortisation and impairment	1,216	778	+55
– Provisions	76	149	–50
– Equity compensation plans	148	127	+10
– Other	497	48	Over +500
Operating profit cash adjustments [1)]	**1,937**	**1,102**	**+23**
Operating profit, net of operating cash adjustments	**9,084**	**9,177**	**–4**
(Increase) decrease in net working capital	(1,132)	(900)	+33
Investments in property, plant and equipment	(1,053)	(739)	+44
Investments in intangible assets	(254)	(114)	+120
Operating free cash flow	**6,645**	**7,424**	**–15**
– as % of sales	36.2	41.6	–8.0

1) A detailed breakdown is provided on page 70.

The Pharmaceuticals Division's operating free cash flow decreased to 6.6 billion Swiss francs. The operating profit, net of operating cash adjustments, fell by 4%. Increasing net working capital, higher capital expenditure and an increased level of in-licensing transactions led to a 15% decline in operating free cash flow. The increase in net working capital was mainly due to decreasing payables following the settlement of the high levels of year-end payables at the end of 2014.

Diagnostics operating results

Diagnostics Division interim operating results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	5,235	5,140	+2	+7
Royalties and other operating income	71	64	+11	+9
Cost of sales	(2,501)	(2,650)	–6	–1
Marketing and distribution	(1,255)	(1,199)	+5	+10
Research and development	(543)	(500)	+9	+12
General and administration	(266)	(601)	–56	–55
Operating profit	**741**	**254**	**+192**	**+209**
– margin, % of sales	14.2	4.9	+9.3	+9.3
Core results [1]				
Sales	5,235	5,140	+2	+7
Royalties and other operating income	71	64	+11	+9
Cost of sales	(2,303)	(2,319)	–1	+5
Marketing and distribution	(1,220)	(1,170)	+4	+9
Research and development	(540)	(492)	+10	+13
General and administration	(222)	(235)	–6	–3
Core operating profit	**1,021**	**988**	**+3**	**+7**
– margin, % of sales	19.5	19.2	+0.3	+0.1
Financial position				
Net working capital	2,940	2,742	+7	+21
Long-term net operating assets	11,206	11,378	–2	+7
Net operating assets	**14,146**	**14,120**	**0**	**+10**
Free cash flow				
Operating free cash flow	146	632	–77	–58
– margin, % of sales	2.8	12.3	–9.5	–7.5

1) See pages 66–69 for definition of core results and Core EPS.

Sales

The Diagnostics Division continued to increase sales with a strong growth of 7% at constant exchange rates to 5.2 billion Swiss francs. Professional Diagnostics, with 7% sales growth, was the main growth contributor led by its immunodiagnostics business. Molecular Diagnostics sales increased by 12%, with growth in the underlying molecular businesses of 9% as well as in the genome sequencing business where sales doubled. Diabetes Care sales increased slightly despite the continued challenging market environment, notably in the US. The growth in Tissue Diagnostics was driven by the advanced staining product portfolio.

Diagnostics Division – Interim sales by business area

Business area	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Professional Diagnostics	2,972	2,904	+7	57	56
Diabetes Care	1,057	1,140	+1	20	23
Molecular Diagnostics	832	762	+12	16	15
Tissue Diagnostics	374	334	+12	7	6
Total sales	**5,235**	**5,140**	**+7**	**100**	**100**

Professional Diagnostics. With an increase in sales of 7%, the business area was the major contributor to Divisional performance in all regions, with growth being primarily driven by the immunodiagnostics business (+12%), which now represents 27% of Divisional sales. This was also supported by the clinical chemistry business (+3%). The Professional Diagnostics business is growing in all regions, but especially in Asia-Pacific (+17%) due to strong sales in China. The strong growth reported in the Europe, Middle East and Africa ('EMEA') region of 3% was mainly due to the immunodiagnostics (+6%) and clinical chemistry businesses (+1%). An improved version of the cobas h 232 Troponin T test was launched in June 2015 for use in prehospital and emergency care settings.

Diabetes Care. Sales increased by 1%, despite continuing challenging market conditions for the blood glucose monitoring portfolio in major markets like the US. Sales of the Accu-Chek Mobile grew by 6% and Accu-Chek Aviva/Performa and lancing devices sales were up 4% each. This sales growth outweighed the negative impact of the phase-out of older products such as Accu-Chek Advantage and Accu-Chek Compact. The insulin delivery systems (IDS) business grew by 12%, driven by infusion systems and the newly launched Accu-Chek Insight system. Sales in North America were down by 12% due to the continuing impact of the Medicare reimbursement cuts in 2013 on strips, low pump sales in the US and changes in the number of reimbursed strips in Canada's largest provinces. Sales in the EMEA region grew by 1% with very strong sales in Eastern Europe and good growth in the Netherlands, partially offset by challenges in Russia and Algeria. Sales grew in emerging markets in the Latin America and Asia-Pacific regions, mainly driven by Brazil, Argentina, China and India.

Molecular Diagnostics. Sales rose 12% with growth in the underlying molecular businesses of 9%, with the major contributions coming from the virology, the HPV (cervical cancer screening) and the genomics and oncology businesses. This was partly offset by a sales decline in the blood screening business. Sales from the sequencing business, driven by NIPT (non-invasive prenatal testing), also contributed to the overall growth. Regionally, growth was driven by EMEA (+17%) and North America (+17%) due to strong sales in the US.

Tissue Diagnostics. Sales rose 12%, driven by 12% growth in the advanced staining portfolio. Companion diagnostics sales grew by 40%. Regionally, growth was driven by North America (+8%) and EMEA (+17%). In both regions the growth was driven by the advanced staining portfolio. Sales in Asia-Pacific grew by 25%, with China as the main market. Revenues from existing external partnerships showed continued growth.

Diagnostics Division – Interim sales by region

Region	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Europe, Middle East and Africa (EMEA)	2,260	2,423	+5	43	47
North America	1,394	1,272	+4	27	25
Asia-Pacific	1,037	877	+15	19	17
Latin America	355	346	+14	7	7
Japan	189	222	–6	4	4
Total sales	**5,235**	**5,140**	**+7**	**100**	**100**

The sales growth of the Diagnostics Division was driven by the Asia-Pacific and EMEA regions, mainly in Professional Diagnostics. The sales increase in Asia-Pacific was mainly driven by increasing sales in China (+24%) resulting from governmental healthcare investments, public demand and the Division's expanding presence and wide portfolio. In the EMEA region, the Division's largest market, sales increased by 5% led by growth in Molecular Diagnostics and Professional Diagnostics. In the Latin America region sales increased by 14% driven mainly by growth in Professional Diagnostics and Diabetes Care. Sales in Japan decreased by 6% driven by the Molecular Diagnostics business.

Diagnostics Division – Interim sales for E7 leading emerging markets

Country	2015 (CHF m)	2014 (CHF m)	% change (CER)	% of sales (2015)	% of sales (2014)
Brazil	101	104	+17	2	2
China	600	460	+24	11	9
India	60	49	+18	1	1
Mexico	46	48	+5	1	1
Russia	44	75	–10	1	1
South Korea	85	85	–1	2	2
Turkey	61	55	+24	1	1
Total sales	**997**	**876**	**+16**	**19**	**17**

Operating results

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Royalty income	64	54	+16
Income from out-licensing agreements	0	4	–
Income from disposal of products and other	7	6	+5
Total – IFRS and Core basis	**71**	**64**	**+9**

Royalties and other operating income. The increase of 9% at constant exchange rates was driven by higher royalty income, mainly as a result of back royalty payments in Molecular Diagnostics.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,194)	(2,226)	+4
Royalty expenses	(109)	(93)	+14
Cost of sales – Core basis	**(2,303)**	**(2,319)**	**+5**
Global restructuring plans	(47)	(25)	+103
Amortisation of intangible assets	(151)	(151)	0
Impairment of intangible assets	0	(155)	–
Total – IFRS basis	**(2,501)**	**(2,650)**	**–1**

Cost of sales. Core costs increased by 5% at constant exchange rates, lower than the 7% sales growth. This is primarily due to favourable product mix, with lower instrument sales and higher reagent and test sales, partially offset by lower favourable exchange rate variances and higher technical service costs. The cost of sales ratio decreased to 44.1% compared to 45.0% in the first half of 2014. Global restructuring costs were incurred mainly due to the ongoing 'Autonomy and Speed' project in Diabetes Care and the initiative to harmonize processes and systems within Diagnostics.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Marketing and distribution – Core basis	**(1,220)**	**(1,170)**	**+9**
Global restructuring plans	(35)	(27)	+38
Amortisation of intangible assets	0	(2)	–
Total – IFRS basis	**(1,255)**	**(1,199)**	**+10**

Marketing and distribution. Core costs increased by 9% at constant exchange rates, reflecting higher spend in Professional Diagnostics and sequencing business, particularly in marketing support and sales force. The increase in spending was mainly driven by the Asia-Pacific and EMEA regions. There were also higher allowances for doubtful receivables in Southern Europe. On a core basis, marketing and distribution costs as a percentage of sales were 23.3% compared to 22.8% in 2014. Global restructuring costs were mainly due to the reorganisation of the Diabetes Care business.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Research and development – Core basis	**(540)**	**(492)**	**+13**
Global restructuring plans	(2)	(7)	–89
Amortisation of intangible assets	(1)	(1)	+146
Total – IFRS basis	**(543)**	**(500)**	**+12**

Research and development. Core costs increased by 13% at constant exchange rates, driven by increased spending for major projects in Professional Diagnostics and investments in the sequencing business. As a percentage of sales, research and development core costs increased to 10.3% from 9.6% in 2014.

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(203)	(187)	+12
Business taxes and capital taxes	(20)	(20)	–1
Other general items	1	(28)	–
General and administration – Core basis	**(222)**	**(235)**	**–3**
Global restructuring plans	(33)	(82)	–55
Impairment of goodwill	0	(259)	–
Alliances and business combinations	(7)	(3)	+136
Legal and environmental settlements	(4)	(22)	–86
Total – IFRS basis	**(266)**	**(601)**	**–55**

General and administration. Core costs decreased by 3% at constant exchange rates. As a percentage of sales, core costs decreased to 4.2% from 4.6% in 2014. The comparative period of 2014 includes 259 million Swiss francs of goodwill impairment related to the Tissue Diagnostics business area.

Financial position

Diagnostics Division – Net operating assets

	30 June 2015 (CHF m)	31 Dec. 2014 [1] (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA (CHF m)
Trade receivables	2,671	2,869	–7	+4	109	(307)
Inventories	1,912	2,007	–5	+8	133	(228)
Trade payables	(592)	(767)	–23	–15	104	71
Net trade working capital	**3,991**	**4,109**	**–3**	**+9**	**346**	**(464)**
Other receivables/(payables)	(1,051)	(1,367)	–23	–15	205	111
Net working capital	**2,940**	**2,742**	**+7**	**+21**	**551**	**(353)**
Property, plant and equipment	4,738	5,136	–8	+3	141	(539)
Goodwill and intangible assets	7,287	7,002	+4	+12	857	(572)
Provisions	(782)	(714)	+10	+19	(146)	78
Other long-term assets, net	(37)	(46)	–20	–4	0	9
Long-term net operating assets	**11,206**	**11,378**	**–2**	**+7**	**852**	**(1,024)**
Net operating assets	**14,146**	**14,120**	**0**	**+10**	**1,403**	**(1,377)**

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

The absolute amount of the movement between the 30 June 2015 and 31 December 2014 consolidated balances reported in Swiss francs is split between actual 2015 transactions (translated at average rates for 2014) and the currency translation adjustment (CTA) that arises on consolidation. The 2015 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 38 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 71.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc appreciated against the US dollar and the euro resulting in a negative translation impact on net operating assets. The Diagnostics Division does not have a significant net asset position in Japanese yen so the appreciation of the Swiss franc against the Japanese yen had only a minor impact. The exchange rates used are given on page 25.

Net working capital. Net trade working capital increased by 9%. Inventories increased by 8% due to higher demand in emerging markets, notably in China, Turkey and Brazil. Trade payables decreased by 15% due to lower supplier order levels mainly in Germany. Trade receivables increased by 4% due to the sales growth. The net liability for other receivables/payables declined due to an increase in some prepayments and VAT receivables.

Long-term net operating assets. The increase of 7% at constant exchange rates was due to the increase in goodwill and intangible assets from the Ariosa, Signature and CAPP Medical acquisitions and various in-licensing arrangements. Property, plant and equipment increased due to manufacturing sites expansions in the US and Germany, as well as headquarters development in Switzerland. Provisions increased by 19% due to the contingent consideration provisions arising from the acquisitions.

Free cash flow

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

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Operating profit – IFRS basis	**741**	**254**	**+209**
– Depreciation, amortisation and impairment	577	1,000	–40
– Provisions	(13)	24	–
– Equity compensation plans	22	19	+14
– Other	53	56	–
Operating profit cash adjustments[1]	**639**	**1,099**	**–33**
Operating profit, net of operating cash adjustments	**1,380**	**1,353**	**+12**
(Increase) decrease in net working capital	(598)	(181)	+218
Investments in property, plant and equipment	(556)	(531)	+11
Investments in intangible assets	(80)	(9)	Over +500
Operating free cash flow	**146**	**632**	**–58**
– as % of sales	2.8	12.3	–7.5

1) A detailed breakdown is provided on page 70.

The operating free cash flow of the Diagnostics Division was 0.1 billion Swiss francs. The cash generation of the business was offset by increases in net working capital, which are noted above in the comments on the financial position. Increased investments in intangible assets came from in-licensing arrangements.

Corporate operating results

Corporate interim operating results summary

	2015 (CHF m)	2014 (CHF m)	% change (CER)
Administration	(201)	(199)	+1
Business taxes and capital taxes	(10)	(7)	+52
Other general items	34	27	+22
General and administration costs – Core basis[1]	**(177)**	**(179)**	**0**
Global restructuring plans	(1)	0	–
Legal and environmental settlements	0	2	–
Total costs – IFRS basis	**(178)**	**(177)**	**+2**
Financial position			
Net working capital	(63)	(96)	–35
Long-term net operating assets	(308)	(418)	–14
Net operating assets	**(371)**	**(514)**	**–18**
Free cash flow			
Operating free cash flow	(266)	(187)	+41

1) See pages 66–69 for definition of core results and Core EPS.

General and administration costs were stable at constant exchange rates on a core basis. The change in net operating assets was mainly due to the utilisation of provisions for remediation activities in Nutley, US and Grenzach, Germany. Corporate operating free cash flow showed a higher outflow due to the settlement of accounts payable and utilisation of provisions.

Foreign exchange impact on operating results

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

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

	% change (CER) 2015	% change (CER) 2014	% change (CHF) 2015	% change (CHF) 2014
Pharmaceuticals Division				
Sales	+5	+4	+3	–2
Core operating profit	+1	+9	–2	+1
Diagnostics Division				
Sales	+7	+6	+2	0
Core operating profit	+7	0	+3	–9
Group				
Sales	+6	+5	+3	–1
Core operating profit	+2	+7	–2	–1

Exchange rates against the Swiss franc

	30 June 2015	Average to 30 June 2015	31 December 2014	Average to 30 June 2014
1 USD	0.92	0.95	0.99	0.89
1 EUR	1.04	1.06	1.20	1.22
100 JPY	0.75	0.79	0.83	0.87

In the first half of 2015 compared to the first half of 2014, the Swiss franc was stronger against most currencies, in particular the euro, the Japanese yen and against most Latin American and European currencies. The US dollar appreciation partially offsets this negative impact, resulting in a total foreign exchange impact which was lower than in 2014 but which was still negative on the income statement and free cash flow results expressed in Swiss francs compared to constant exchange rates. For sales, these developments resulted in a negative impact of 3 percentage points, equivalent to 0.7 billion Swiss francs when translated into Swiss francs. The currency translation loss on the operating profit is 4 percentage points, mainly driven by the depreciation of the euro. The sensitivity of Group sales and core operating profit to a 1% change in average foreign currency exchange rates against the Swiss franc during the first half of 2015 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2015

Impact of 1% change in average exchange rate versus the Swiss franc	Sales (CHF m)	Core operating profit (CHF m)
US dollar	107	49
Euro	47	22
Japanese yen	17	10
All other currencies	60	33

Treasury and taxation results

Treasury and taxation interim results

	2015 (CHF m)	2014 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	7,710	8,152	–5	–1
Financing costs	(574)	(695)	–17	–19
Other financial income (expense)	(56)	37	–	–
Profit before taxes	**7,080**	**7,494**	**–6**	**0**
Income taxes	(1,831)	(1,853)	–1	–2
Net income	**5,249**	**5,641**	**–7**	**0**
Attributable to				
– Roche shareholders	5,154	5,533	–7	0
– Non-controlling interests	95	108	–12	–3
Core results [1]				
Operating profit	9,236	9,410	–2	+2
Financing costs	(553)	(695)	–20	–22
Other financial income (expense)	(72)	37	–	–
Profit before taxes	**8,611**	**8,752**	**–2**	**+3**
Income taxes	(2,291)	(2,111)	+9	+8
Net income	**6,320**	**6,641**	**–5**	**+1**
Attributable to				
– Roche shareholders	6,220	6,533	–5	+1
– Non-controlling interests	100	108	–7	+2
Financial position – Treasury and taxation [2]				
Net debt	(17,303)	(14,011)	+23	+35
Pensions	(7,018)	(8,303)	–15	–7
Income taxes	(1,000)	(47)	Over +500	–
Financial non-current assets	372	392	–5	+1
Derivatives, net	(862)	(479)	+80	+91
Collateral, net	320	76	+321	+319
Interest payable	(298)	(547)	–46	–42
Other non-operating assets, net	(22)	(77)	–71	–44
Total net assets (liabilities)	**(25,811)**	**(22,996)**	**+12**	**+21**
Free cash flow – Treasury and taxation				
Treasury activities	(713)	(691)	+3	–2
Taxes paid	(1,846)	(1,542)	+20	+20
Dividends paid	(6,894)	(6,662)	+3	+4
Total	**(9,453)**	**(8,895)**	**+6**	**+6**

1) See pages 66–69 for definition of core results and Core EPS.
2) As disclosed in Note 5 to the Interim Financial Statements, the balance sheet at 31 December 2014 has been restated following the finalisation of the net assets acquired related to the InterMune, Dutalys and Bina acquisitions in 2014. A reconciliation to the previously published balance sheet is provided in Note 5.

Financing costs

Core financing costs were 553 million Swiss francs, a decrease of 142 million Swiss francs or 22% at constant exchange rates compared to the first half of 2014. Interest expenses decreased by 4% at constant exchange rates compared to the first half of 2014 due to continued repayment of the debt incurred to finance the Genentech transaction and despite the new debt issuance for the InterMune acquisition in 2014. The loss on early redemption of debt was 7 million Swiss francs compared to 127 million Swiss francs in 2014. The net interest cost of defined benefit pension plans decreased by 6% to 87 million Swiss francs due to lower discount rates partially offset by a decrease in the funding status at the end of 2014. A full analysis of financing costs is given in Note 3 to the Interim Financial Statements.

Other financial income (expense)

Core other financial income (expense) was a net expense of 72 million Swiss francs compared to a net income of 37 million Swiss francs in the first half of 2014. Net income from equity securities was 16 million Swiss francs as against 85 million Swiss francs in the comparative period. Interest income and income from debt securities were stable at 20 million Swiss francs in an environment of continuing low interest rates. The net foreign exchange result reflects hedging costs and losses on unhedged positions. Net foreign exchange losses in the interim period of 2015 were 94 million Swiss francs compared to net losses of 56 million Swiss francs in the same period of 2014. The 2015 results include a loss of 100 million Swiss francs for Venezuela. A full analysis of other financial income (expense) is given in Note 3 to the Interim Financial Statements.

Income taxes

The Group's effective core tax rate increased by 2.5 percentage points to 26.6% in the first half of 2015 (2014: 24.1%). This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with higher local tax rates than the average Group tax rate, notably in the US. The IFRS results include non-core expenses coming from tax jurisdictions with relatively higher tax rates than the Group's effective tax rate, therefore decreasing the effective tax rate in the IFRS results compared to the core results. The IFRS results in the first half of 2014 included a goodwill impairment that was not tax deductible and therefore increased the 2014 effective tax rate in the IFRS results over and above that in the core results.

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

			2015			2014
	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)
Group's effective tax rate – Core basis	**8,611**	**(2,291)**	**26.6**	**8,752**	**(2,111)**	**24.1**
Global restructuring plans	(268)	60	22.4	(274)	65	23.7
Goodwill and intangible assets	(845)	286	33.8	(822)	178	21.7
Alliances and business combinations	(407)	122	30.0	(3)	–	–
Legal and environmental settlements	(14)	5	35.7	(159)	17	10.7
Equity compensation plans	–	(12)	–	–	(2)	–
Other	3	(1)	33.3	–	–	–
Group's effective tax rate – IFRS basis	**7,080**	**(1,831)**	**25.9**	**7,494**	**(1,853)**	**24.7**

Financial position

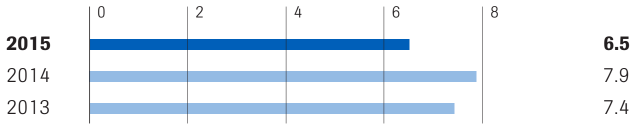
The increase in net debt was mainly due to the negative free cash flow of 2.9 billion Swiss francs which includes the annual dividend payment of 6.9 billion Swiss francs. The net pension liability decreased by 1.3 billion Swiss francs mainly due to the translation of the euro-denominated unfunded plans in Germany and higher discount rates in Germany and the US. The net tax liabilities increased mainly due to the deferred tax effects from the newly acquired companies and from the change in net pension liabilities. Interest payable relates mostly to bonds and notes with coupon payment dates in March and September, and the decline is due to 0.7 billion Swiss francs of coupon payments on bonds and notes during the interim period, partly offset by interest accrued in the same period. At 30 June 2015 the Group held financial long-term assets with a market value of 0.2 billion Swiss francs, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations. The appreciation of the Swiss franc against the US dollar during the first half of 2015 led to a translation impact on the Group's US dollar-denominated debt that reduced net debt in Swiss franc terms on consolidation.

Free cash flow

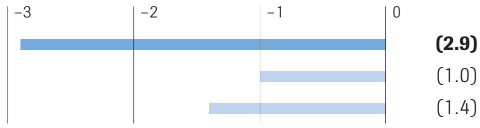
The cash outflow from treasury activities was stable at 0.7 billion Swiss francs due to lower sales of equity investments offset by lower interest payments. Total taxes paid in the first half of 2015 were 1.8 billion Swiss francs, an increase of 20% due to the base effect of lower tax payments in the first half of 2014 resulting from tax prepayments in 2013. Total dividends paid in the first half of 2015 were 6.9 billion Swiss francs, an increase of 0.2 billion Swiss francs compared to the first half of 2014, reflecting the 3% increase of the Roche Group dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow for the six months ended 30 June

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
2015				
Operating profit – IFRS basis	7,147	741	(178)	7,710
Operating profit cash adjustments	1,937	639	(49)	2,527
Operating profit, net of operating cash adjustments	**9,084**	**1,380**	**(227)**	**10,237**
(Increase) decrease in net working capital	(1,132)	(598)	(34)	(1,764)
Investments in property, plant and equipment	(1,053)	(556)	(5)	(1,614)
Investments in intangible assets	(254)	(80)	0	(334)
Operating free cash flow	**6,645**	**146**	**(266)**	**6,525**
Treasury activities				(713)
Taxes paid				(1,846)
Dividends paid				(6,894)
Free cash flow				**(2,928)**
2014				
Operating profit – IFRS basis	8,075	254	(177)	8,152
Operating profit cash adjustments	1,102	1,099	(21)	2,180
Operating profit, net of operating cash adjustments	**9,177**	**1,353**	**(198)**	**10,332**
(Increase) decrease in net working capital	(900)	(181)	12	(1,069)
Investments in property, plant and equipment	(739)	(531)	(1)	(1,271)
Investments in intangible assets	(114)	(9)	0	(123)
Operating free cash flow	**7,424**	**632**	**(187)**	**7,869**
Treasury activities				(691)
Taxes paid				(1,542)
Dividends paid				(6,662)
Free cash flow				**(1,026)**

Operating free cash flow decreased by 19% at constant exchange rates to 6.5 billion Swiss francs due to the increase in net working capital, mainly due to the settlement of payables, and due to higher capital expenditure on property, plant and equipment in Switzerland, the US and Germany and higher investments for in-licensing arrangements.

The cash outflow from treasury activities remained at 0.7 billion Swiss francs due to lower sales of equity investments offset by lower interest payments. Total taxes paid were 1.8 billion Swiss francs, an increase due to lower tax payments in the first half of 2014 resulting from tax prepayments in 2013. Total dividends paid were higher due to the 3% increase of the annual Roche Group dividend.

As in previous years the free cash flow for the first six months of the year showed a net cash outflow driven by the annual dividend payments. The total net outflow of 2.9 billion Swiss francs was higher than in the first half of 2014, due to the lower operating free cash flow, the higher tax payments and the increase in the dividend.

Net debt in millions of CHF

At 31 December 2014	
Cash and cash equivalents	3,742
Marketable securities	7,961
Long-term debt	(19,347)
Short-term debt	(6,367)
Net debt at beginning of period	**(14,011)**
Change in net debt during interim period 2015	
Free cash flow for six months ended 30 June 2015	(2,928)
Transactions in own equity instruments	(77)
Business combinations, net of divestments of subsidiaries	(1,402)
Hedging and collateral arrangements	(163)
Currency translation, fair value and other movements	1,278
Net change in net debt	**(3,292)**
At 30 June 2015	
Cash and cash equivalents	3,247
Marketable securities	3,553
Long-term debt	(17,271)
Short-term debt	(6,832)
Net debt at end of period	**(17,303)**

Net debt – Currency profile in millions of CHF

	Cash and marketable securities		Debt	
	30 June 2015	31 Dec. 2014	30 June 2015	31 Dec. 2014
US dollar [1]	2,364	2,241	(18,449)	(20,983)
Euro	1,279	3,316	(2,078)	(1,208)
Swiss franc	779	3,129	(2,597)	(2,594)
Japanese yen	1,686	1,704	–	–
Pound sterling	260	633	(289)	(305)
Other	432	680	(690)	(624)
Total	**6,800**	**11,703**	**(24,103)**	**(25,714)**

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

The net debt position of the Group at 30 June 2015 was 17.3 billion Swiss francs, an increase of 3.3 billion Swiss francs from 31 December 2014. The increase in net debt was mainly due to the negative free cash flow of 2.9 billion Swiss francs, which includes the annual dividend payment of 6.9 billion Swiss francs, and the net cash outflow of 1.4 billion Swiss francs for mergers and acquisitions. The appreciation of the Swiss franc against the US dollar during the first half of 2015 led to a translation impact on the Group's US dollar-denominated debt that reduced net debt in Swiss franc terms on consolidation.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. During the first six months of 2015, the cash collateral balance increased by 0.2 billion Swiss francs. The collateral balance in relation to the hedges on the non-US dollar-denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to pound sterling. Currently the collateral balance moves by approximately 37 million US dollars if all of these foreign exchange rates move by 1% simultaneously.

The issuance, redemption and repurchase of bonds and notes during the first half of 2015 (see Note 10 to the Interim Financial Statements) had an impact on liquid funds, but had no impact on the net debt position.

Pensions and other post-employment benefits

Funding status and balance sheet position in millions of CHF

	30 June 2015	31 December 2014
Funded plans		
– Fair value of plan assets	12,128	12,452
– Defined benefit obligation	(14,937)	(15,601)
Over (under) funding	**(2,809)**	**(3,149)**
Unfunded plans		
– Defined benefit obligation	(4,361)	(5,314)
Total funding status	**(7,170)**	**(8,463)**
Limit on asset recognition	0	0
Reimbursement rights	152	160
Net recognised asset (liability)	**(7,018)**	**(8,303)**

Overall the funding status on an IFRS basis of the Group's funded defined benefit plans increased to 81% compared to 80% at the start of the year. This came mainly from a decrease in the defined benefit obligation arising from an increase in discount rates in the US since the end of 2014. The funded status of the pension funds is monitored by the local pension fund governance bodies as well as being closely reviewed at a Group level.

The unfunded plans are mainly those in the Group's German affiliates, where the fully reserved pension obligations are invested in the local affiliate's operations. The unfunded liabilities for these plans decreased by 1.0 billion Swiss francs due to an increase in the discount rates in Germany and the translation of the euro-denominated unfunded plans in Germany into Swiss francs on consolidation.

Further information on the Group's pensions and other post-employment benefits is given in Note 25 to the 2014 Annual Financial Statements.

Debt

To finance the Genentech transaction in 2009, the Group issued bonds and notes equivalent to 48.2 billion Swiss francs. Of the debt raised in early 2009, 77% had already been repaid by 30 June 2015. This includes the early partial redemption of 0.6 billion US dollar-denominated notes originally due 1 March 2019 that were redeemed on 26 March 2015 following the exercise of an early-call option in December 2014 and the redemption on the due date of 4 March 2015 of 0.5 billion pounds sterling of fixed rate notes.

On 25 February 2015 the Group issued 1.0 billion euro-denominated fixed rate notes due in 2025. On 13 March 2015 the Group issued 0.6 billion US dollar-denominated fixed rate notes due in 2020. The proceeds were partly used to finance the Foundation Medicine acquisition and to refinance debt redemptions in an attractive market environment.

The maturity schedule of the Group's bonds and notes outstanding at 30 June 2015 is shown in the table below.

Bonds and notes: nominal amounts at 30 June 2015 by contractual maturity

	US dollar (USD m)	Euro (EUR m)	Pound sterling (GBP m)	Swiss franc (CHF m)	Total[1] (USD m)	Total[1] (CHF m)
2015	1,000	–	–	–	1,000	925
2016	–	2,100[2]	–	–	2,360	2,182
2017	1,150	–	–	1,500	2,772	2,564
2018	–	1,000	–	600	1,772	1,639
2019	4,000	–	–	–	4,000	3,700
2020–2024	3,550	1,750[2]	200	500	6,372	5,893
2025 and beyond	2,606	1,000	–	–	3,730	3,450
Total	**12,306**	**5,850**	**200**	**2,600**	**22,006**	**20,353**

1) Total translated at 30 June 2015 exchange rates.
2) Of the proceeds from these bonds and notes, 3.3 billion euros have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In the full year 2014 the free cash flow was 5.3 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends. In the first half of 2015 free cash flow was a net cash outflow of 2.9 billion Swiss francs, which includes an outflow of 6.9 billion Swiss francs for the payment of the annual dividends.

For short-term financing requirements, the Group has a commercial paper programme in the US under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 3.9 billion euros available as back-stop lines. Commercial paper notes totalling 3.3 billion US dollars were outstanding as of 30 June 2015 (31 December 2014: 3.4 billion US dollars). For longer-term financing the Group maintains strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's which should facilitate efficient access to international capital markets.

Further information on the Group's debt is given in Note 10 to the Interim Financial Statements and Note 20 to the 2014 Annual Financial Statements.

Financial risks

As at 30 June 2015 the Group has a net debt position of 17.3 billion Swiss francs (31 December 2014: 14.0 billion Swiss francs). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

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

Cash and marketable securities

		30 June 2015		31 December 2014
	(CHF m)	(% of total)	(CHF m)	(% of total)
Cash and cash equivalents	3,247	48	3,742	32
Money market instruments	1,707	25	6,139	52
Bonds, debentures and other investments	1,217	18	1,269	11
Shares	629	9	553	5
Total cash and marketable securities	**6,800**	**100**	**11,703**	**100**

Credit risk. Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's 6.2 billion Swiss francs of cash and fixed income marketable securities remained strong with 93% being invested in the A-AAA range. The Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 8.8 billion Swiss francs. Since the beginning of 2010 there have been financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and at 30 June 2015 has trade receivables of 0.8 billion euros (0.8 billion Swiss francs) with public customers in these countries. This is an increase of 7% compared to 31 December 2014 in euro terms. The Group uses different measures to improve collections in these countries, including intense communication with customers, forfaiting, negotiations of payment plans, charging of interest for late payments, and legal actions. Strict commercial policies are in place with selected hospitals in Greece and Italy; accounts with hospitals in Spain and Portugal are closely monitored. Since 2011 the Group's trade receivables balance in Southern Europe has decreased by 47% in euro terms.

As at 30 June 2015 the Group has trade receivables in Greece of 186 million euros (193 million Swiss francs). During 2015 the economic situation in Greece worsened which has increased the credit risk for these trade receivables. The Group is closely monitoring the situation and has taken appropriate steps to manage its exposure.

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

Roche enjoys strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 4.4 billion Swiss francs of which 4.1 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 30 June 2015 no debt has been drawn under these credit lines.

Market risk. Market risk arises from changing market prices of the Group's financial assets or financial liabilities. The exposures are predominantly related to changes in interest rates, foreign exchange rates and equity prices. The Group uses Value-at-Risk (VaR) to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The Group's VaR remained stable during the first half of 2015.

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

Further information on financial risk management and financial risks and the VaR methodology is included in Note 29 to the 2014 Annual Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2015 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

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

Roche Group Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by the Group's auditor and their review report is presented on page 65.

Roche Group consolidated income statement for the six months ended 30 June 2015 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**18,350**	**5,235**	**–**	**23,585**
Royalties and other operating income [2]	1,174	71	–	1,245
Cost of sales	(4,748)	(2,501)	–	(7,249)
Marketing and distribution	(2,837)	(1,255)	–	(4,092)
Research and development [2]	(3,950)	(543)	–	(4,493)
General and administration	(842)	(266)	(178)	(1,286)
Operating profit [2]	**7,147**	**741**	**(178)**	**7,710**
Financing costs [3]				(574)
Other financial income (expense) [3]				(56)
Profit before taxes				**7,080**
Income taxes [4]				(1,831)
Net income				**5,249**
Attributable to				
– Roche shareholders				5,154
– Non-controlling interests				95
Earnings per share and non-voting equity security [13]				
Basic (CHF)				6.06
Diluted (CHF)				5.98

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

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

Roche Group consolidated statement of comprehensive income in millions of CHF

	Six months ended 30 June 2015	2014
Net income recognised in income statement	**5,249**	**5,641**
Other comprehensive income		
Remeasurements of defined benefit plans	415	(751)
Items that will never be reclassified to the income statement	**415**	**(751)**
Available-for-sale investments	8	10
Cash flow hedges	(39)	(2)
Currency translation of foreign operations	(1,509)	172
Items that are or may be reclassified to the income statement	**(1,540)**	**180**
Other comprehensive income, net of tax	**(1,125)**	**(571)**
Total comprehensive income	**4,124**	**5,070**
Attributable to		
– Roche shareholders	4,213	4,904
– Non-controlling interests	(89)	166
Total	**4,124**	**5,070**

Roche Group consolidated balance sheet in millions of CHF

	30 June 2015	31 December 2014
Non-current assets		
Property, plant and equipment	16,496	17,195
Goodwill [5, 7]	10,174	9,930
Intangible assets [5, 8]	13,049	12,799
Deferred tax assets	2,418	2,829
Defined benefit plan assets	680	691
Other non-current assets	888	982
Total non-current assets	**43,705**	**44,426**
Current assets		
Inventories	7,363	7,743
Accounts receivable	8,125	9,003
Current income tax assets	232	244
Other current assets	2,672	2,421
Marketable securities	3,553	7,961
Cash and cash equivalents	3,247	3,742
Total current assets	**25,192**	**31,114**
Total assets	**68,897**	**75,540**
Non-current liabilities		
Long-term debt [10]	(17,271)	(19,347)
Deferred tax liabilities	(760)	(504)
Defined benefit plan liabilities	(7,698)	(8,994)
Provisions [9]	(2,022)	(1,778)
Other non-current liabilities	(226)	(251)
Total non-current liabilities	**(27,977)**	**(30,874)**
Current liabilities		
Short-term debt [10]	(6,832)	(6,367)
Current income tax liabilities	(2,890)	(2,616)
Provisions [9]	(2,187)	(2,465)
Accounts payable	(2,291)	(2,883)
Other current liabilities	(7,502)	(8,777)
Total current liabilities	**(21,702)**	**(23,108)**
Total liabilities	**(49,679)**	**(53,982)**
Total net assets	**19,218**	**21,558**
Equity		
Capital and reserves attributable to Roche shareholders	17,106	19,586
Equity attributable to non-controlling interests	2,112	1,972
Total equity	**19,218**	**21,558**

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

Roche Group consolidated statement of cash flows in millions of CHF

	Six months ended 30 June 2015	2014
Cash flows from operating activities		
Cash generated from operations [14]	10,917	10,667
(Increase) decrease in net working capital	(1,764)	(1,069)
Payments made for defined benefit plans	(312)	(290)
Utilisation of provisions	(473)	(427)
Disposal of products	45	253
Other operating cash flows	–	3
Cash flows from operating activities, before income taxes paid	**8,413**	**9,137**
Income taxes paid	(1,846)	(1,542)
Total cash flows from operating activities	**6,567**	**7,595**
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,614)	(1,271)
Purchase of intangible assets	(334)	(123)
Disposal of property, plant and equipment	21	37
Disposal of intangible assets	–	–
Business combinations [5]	(1,402)	(412)
Interest and dividends received	15	12
Sales of marketable securities	30,505	35,234
Purchases of marketable securities	(26,475)	(33,375)
Other investing cash flows	(20)	77
Total cash flows from investing activities	**696**	**179**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [10]	1,670	–
Redemption and repurchase of bonds and notes [10]	(1,379)	(1,700)
Increase (decrease) in commercial paper [10]	(86)	1,852
Increase (decrease) in other debt	98	125
Hedging and collateral arrangements	(163)	33
Changes in non-controlling interests	(2)	–
Equity contribution by non-controlling interests	40	–
Interest paid	(681)	(687)
Dividends paid [14]	(6,894)	(6,662)
Equity-settled equity compensation plans, net of transactions in own equity	(77)	(585)
Other financing cash flows	1	–
Total cash flows from financing activities	**(7,473)**	**(7,624)**
Net effect of currency translation on cash and cash equivalents	(285)	8
Increase (decrease) in cash and cash equivalents	**(495)**	**158**
Cash and cash equivalents at beginning of period	3,742	4,000
Cash and cash equivalents at end of period	**3,247**	**4,158**

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended 30 June 2014								
At 1 January 2014	**160**	**25,643**	**123**	**95**	**(6,727)**	**19,294**	**1,947**	**21,241**
Net income recognised in income statement	–	5,533	–	–	–	5,533	108	5,641
Available-for-sale investments	–	–	9	–	–	9	1	10
Cash flow hedges	–	–	–	8	–	8	(10)	(2)
Currency translation of foreign operations	–	–	2	1	102	105	67	172
Remeasurements of defined benefit plans	–	(751)	–	–	–	(751)	–	(751)
Total comprehensive income	**–**	**4,782**	**11**	**9**	**102**	**4,904**	**166**	**5,070**
Dividends	–	(6,617)	–	–	–	(6,617)	(50)	(6,667)
Equity compensation plans, net of transactions in own equity	–	(164)	–	–	–	(164)	2	(162)
Changes in non-controlling interests	–	–	–	–	–	–	2	2
At 30 June 2014	**160**	**23,644**	**134**	**104**	**(6,625)**	**17,417**	**2,067**	**19,484**
Six months ended 30 June 2015								
At 1 January 2015	**160**	**26,152**	**166**	**76**	**(6,968)**	**19,586**	**1,972**	**21,558**
Net income recognised in income statement	–	5,154	–	–	–	5,154	95	5,249
Available-for-sale investments	–	–	3	–	–	3	5	8
Cash flow hedges	–	–	–	(38)	–	(38)	(1)	(39)
Currency translation of foreign operations	–	–	(9)	(3)	(1,310)	(1,322)	(187)	(1,509)
Remeasurements of defined benefit plans	–	416	–	–	–	416	(1)	415
Total comprehensive income	**–**	**5,570**	**(6)**	**(41)**	**(1,310)**	**4,213**	**(89)**	**4,124**
Dividends	–	(6,807)	–	–	–	(6,807)	(52)	(6,859)
Equity compensation plans, net of transactions in own equity	–	116	–	–	–	116	3	119
Business combinations [5]	–	–	–	–	–	–	238	238
Changes in non-controlling interests	–	(2)	–	–	–	(2)	–	(2)
Equity contribution by non-controlling interests	–	–	–	–	–	–	40	40
At 30 June 2015	**160**	**25,029**	**160**	**35**	**(8,278)**	**17,106**	**2,112**	**19,218**

Notes to the Roche Group Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited condensed interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries (hereafter 'the Group') for the six months ended 30 June 2015 (hereafter 'the interim period'). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2014 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on 21 July 2015.

Statement of compliance

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

Management judgements and estimates

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

Seasonality

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

Significant accounting policies

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

Changes in accounting policies

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

Future new and revised standards

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

2. Operating segment information

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

Divisional information in millions of CHF

	Pharmaceuticals		Diagnostics		Corporate		Group	
Six months ended 30 June	2015	2014	2015	2014	2015	2014	2015	2014
Revenues from external customers								
Sales	18,350	17,834	5,235	5,140	–	–	23,585	22,974
Royalties and other operating income	1,174	1,334	71	64	–	–	1,245	1,398
Total	**19,524**	**19,168**	**5,306**	**5,204**	**–**	**–**	**24,830**	**24,372**
Revenues from other operating segments								
Sales	–	–	5	4	–	–	5	4
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(5)	(4)
Total	**–**	**–**	**5**	**4**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	7,147	8,075	741	254	(178)	(177)	7,710	8,152
Capital expenditure								
Business combinations	1,694	–	941	798	–	–	2,635	798
Additions to property, plant and equipment	932	688	544	508	5	1	1,481	1,197
Additions to intangible assets	167	103	80	9	–	–	247	112
Total	**2,793**	**791**	**1,565**	**1,315**	**5**	**1**	**4,363**	**2,107**
Research and development								
Research and development costs	3,950	3,963	543	500	–	–	4,493	4,463
Other segment information								
Depreciation of property, plant and equipment	522	502	424	425	4	3	950	930
Amortisation of intangible assets	648	88	152	154	–	–	800	242
Impairment (reversal) of property, plant and equipment	1	22	1	7	–	–	2	29
Impairment of goodwill	–	–	–	259	–	–	–	259
Impairment of intangible assets	45	166	–	155	–	–	45	321
Inventory fair value adjustment	223	–	–	–	–	–	223	–
Equity compensation plan expenses	151	132	25	21	10	8	186	161

Pharmaceuticals sub-divisional information in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
Six months ended 30 June	2015	2014	2015	2014	2015	2014
Revenues from external customers						
Sales	16,810	16,253	1,540	1,581	18,350	17,834
Royalties and other operating income	1,171	1,270	3	64	1,174	1,334
Total	**17,981**	**17,523**	**1,543**	**1,645**	**19,524**	**19,168**
Revenues from other operating segments						
Sales	620	642	293	228	913	870
Royalties and other operating income	11	11	56	57	67	68
Elimination of income within Division					(980)	(938)
Total	**631**	**653**	**349**	**285**	**–**	**–**
Segment results						
Operating profit	6,890	7,794	328	357	7,218	8,151
Elimination of profit within Division					(71)	(76)
Operating profit	**6,890**	**7,794**	**328**	**357**	**7,147**	**8,075**
Capital expenditure						
Business combinations	1,694	–	–	–	1,694	–
Additions to property, plant and equipment	870	632	62	56	932	688
Additions to intangible assets	149	101	18	2	167	103
Total	**2,713**	**733**	**80**	**58**	**2,793**	**791**
Research and development						
Research and development costs	3,641	3,649	311	323	3,952	3,972
Elimination of costs within Division					(2)	(9)
Total	**3,641**	**3,649**	**311**	**323**	**3,950**	**3,963**
Other segment information						
Depreciation of property, plant and equipment	468	444	54	58	522	502
Amortisation of intangible assets	632	68	16	20	648	88
Impairment (reversal) of property, plant and equipment	1	22	–	–	1	22
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	36	166	9	–	45	166
Inventory fair value adjustment	223	–	–	–	223	–
Equity compensation plan expenses	150	131	1	1	151	132

Net operating assets in millions of CHF

	Assets 30 June 2015	Assets 31 December 2014	Liabilities 30 June 2015	Liabilities 31 December 2014	Net assets 30 June 2015	Net assets 31 December 2014
Pharmaceuticals	40,575	41,686	(9,321)	(10,738)	31,254	30,948
Diagnostics	17,180	17,475	(3,034)	(3,355)	14,146	14,120
Corporate	158	160	(529)	(674)	(371)	(514)
Total operating	**57,913**	**59,321**	**(12,884)**	**(14,767)**	**45,029**	**44,554**
Non-operating	10,984	16,219	(36,795)	(39,215)	(25,811)	(22,996)
Group	**68,897**	**75,540**	**(49,679)**	**(53,982)**	**19,218**	**21,558**

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

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

	Assets 30 June 2015	Assets 31 December 2014	Liabilities 30 June 2015	Liabilities 31 December 2014	Net assets 30 June 2015	Net assets 31 December 2014
Roche Pharmaceuticals	37,817	38,480	(8,565)	(9,860)	29,252	28,620
Chugai	3,559	3,985	(756)	(878)	2,803	3,107
Elimination within Division	(801)	(779)	–	–	(801)	(779)
Pharmaceuticals Division	**40,575**	**41,686**	**(9,321)**	**(10,738)**	**31,254**	**30,948**

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

3. Net financial expense

Financing costs in millions of CHF

	Six months ended 30 June 2015	2014
Interest expense	(449)	(453)
Amortisation of debt discount [10]	(10)	(10)
Net gains (losses) on redemption and repurchase of bonds and notes [10]	(7)	(127)
Discount unwind	(21)	(7)
Net interest cost of defined benefit plans	(87)	(98)
Total financing costs	**(574)**	**(695)**

Other financial income (expense) in millions of CHF

	Six months ended 30 June 2015	2014
Net gains (losses) on sale of equity securities	33	84
Net gains (losses) on equity security derivatives	–	–
Dividend income	1	2
Write-downs and impairments of equity securities	(2)	(1)
Net income from equity securities	**32**	**85**
Interest income	14	16
Net gains (losses) on sale of debt securities	6	3
Net interest income and income from debt securities	**20**	**19**
Net foreign exchange gains (losses)	(265)	(38)
Net gains (losses) on foreign currency derivatives	171	(18)
Foreign exchange gains (losses)	**(94)**	**(56)**
Net other financial income (expense)	(14)	(11)
Associates	–	–
Total other financial income (expense)	**(56)**	**37**

Net financial expense in millions of CHF

	Six months ended 30 June 2015	2014
Financing costs	(574)	(695)
Other financial income (expense)	(56)	37
Net financial expense	**(630)**	**(658)**
Financial result from Treasury management	(543)	(560)
Financial result from Pension management	(87)	(98)
Associates	–	–
Net financial expense	**(630)**	**(658)**

4. Income taxes

Income tax expense is recognised based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended 30 June 2015.

Income tax expenses in millions of CHF

	Six months ended 30 June 2015	2014
Current income taxes	(2,326)	(2,330)
Deferred taxes	495	477
Total income tax (expense)	**(1,831)**	**(1,853)**

The Group's effective tax rate for the six months ended 30 June 2015 increased to 25.9% (six months ended 30 June 2014: 24.7%). The main driver for the increase was the higher proportion of the Group's profits from the US, which has a relatively higher local tax rate than the average Group tax rate. The results in the first half of 2014 included a non-tax deductible goodwill impairment that increased the 2014 effective tax rate.

5. Business combinations

Acquisitions – 2015

Acquisitions – 30 June 2015: net assets acquired in millions of CHF

	Pharmaceuticals	Diagnostics	Total
Intangible assets			
– Product intangibles: in use [8]	511	564	1,075
– Product intangibles: not available for use [8]	431	109	540
Cash and cash equivalents	300	20	320
Deferred tax liabilities	(337)	(265)	(602)
Other net assets (liabilities)	(21)	14	(7)
Net identifiable assets	**884**	**442**	**1,326**
Non-controlling interests	(238)	–	(238)
Fair value of previously held equity interest	(20)	–	(20)
Goodwill [7]	728	258	986
Total consideration	**1,354**	**700**	**2,054**
Cash	1,113	511	1,624
Contingent consideration [15]	241	189	430
Total consideration	**1,354**	**700**	**2,054**

Pharmaceuticals

Trophos. On 3 March 2015 the Group acquired a 100% controlling interest in Trophos, a privately owned company based in Marseille, France. Trophos' proprietary screening platform generated olesoxime (TRO19622), which is being developed for spinal muscular atrophy (SMA), a rare and debilitating genetic neuromuscular disease that is most commonly diagnosed in children. Trophos is reported in the Pharmaceuticals Division. The total consideration was 345 million euros, of which 120 million euros was paid in cash and 225 million euros arose from a contingent consideration arrangement. The contingent payments are based on the achievement of performance-related milestones and the range of undiscounted outcomes is between zero and 350 million euros.

Foundation Medicine, Inc. On 7 April 2015 the Group acquired a 61.3% controlling interest in Foundation Medicine, Inc. ('FMI'), a publicly owned US company based in Cambridge, Massachusetts. FMI is listed on Nasdaq under the stock code 'FMI'. The transaction further advances FMI's market-leading position in molecular information and genomic analysis while providing the Group with a unique opportunity to optimise the identification and development of novel treatment options for cancer patients. The transaction included both a broad research and development collaboration agreement and a commercial collaboration agreement aimed at expanding the global sales efforts for FMI's current and future products. FMI is reported in the Pharmaceuticals Division. The total cash consideration was 1.0 billion US dollars.

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

Pharmaceuticals acquisitions – 30 June 2015: net assets acquired in millions of CHF

	Trophos	FMI	Total
Intangible assets			
– Product intangibles: in use	–	511	511
– Product intangibles: not available for use	431	–	431
Cash and cash equivalents	1	299	300
Deferred tax liabilities	(149)	(188)	(337)
Other net assets (liabilities)	(14)	(7)	(21)
Net identifiable assets	**269**	**615**	**884**
Non-controlling interests	–	(238)	(238)
Fair value of previously held equity interest	–	(20)	(20)
Goodwill	97	631	728
Total consideration	**366**	**988**	**1,354**
Cash	125	988	1,113
Contingent consideration	241	–	241
Total consideration	**366**	**988**	**1,354**

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 10.0% for Trophos and 9.5% for FMI. The valuations were performed by independent valuers.

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

Goodwill represents a control premium, the acquired work force and the synergies that can be expected from integrating the acquired companies into the Group's existing business. For FMI the control premium represents the premium paid over the traded market price to obtain control of the business. None of the goodwill is expected to be deductible for income tax purposes. The non-controlling interests in FMI are measured at their proportionate share (38.7%) of FMI's identifiable net assets.

The Group recognised a financial gain of 16 million Swiss francs from fair valuing the 1.2% equity interest in FMI held by the Group prior to the transaction. This gain is included in other financial income (expense) for the six months ended 30 June 2015.

Directly attributable transaction costs of 10 million Swiss francs are reported in the Pharmaceuticals operating segment within general and administration expenses and mainly relate to the FMI acquisition.

The impact of the Trophos and FMI acquisitions on the 2015 results for the Pharmaceuticals Division and the Group were not material.

Diagnostics

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

Signature Diagnostics AG. On 12 February 2015 the Group acquired a 100% controlling interest in Signature Diagnostics AG ('Signature'), a privately owned company based in Potsdam, Germany. Signature is a translational oncology and genomics company that develops large blood plasma and tissue biobanks in multiple cancers, including colorectal cancer and lung cancer, which are constructed from multicenter prospective clinical studies. Signature is reported in the Diagnostics operating segment as part of the Sequencing business. The total consideration was 28 million euros paid in cash.

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

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

Diagnostics acquisitions – 30 June 2015: net assets acquired in millions of CHF

	Ariosa	Signature	CAPP	Total
Intangible assets				
– Product intangibles: in use	525	39	–	564
– Product intangibles: not available for use	–	–	109	109
Cash and cash equivalents	16	4	–	20
Deferred tax liabilities	(210)	(11)	(44)	(265)
Other net assets (liabilities)	17	(3)	–	14
Net identifiable assets	**348**	**29**	**65**	**442**
Goodwill	225	–	33	258
Total consideration	**573**	**29**	**98**	**700**
Cash	416	29	66	511
Contingent consideration	157	–	32	189
Total consideration	**573**	**29**	**98**	**700**

The fair value of the intangible assets is determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value is calculated using a risk-adjusted discount rate of 10.0% for Ariosa and 16.2% for CAPP. The valuations for Ariosa and CAPP were performed by independent valuers.

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

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

Directly attributable transaction costs of 2 million Swiss francs are reported in the Diagnostics operating segment within general and administration expenses.

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

Acquisitions – 2014

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

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

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	Six months ended 30 June 2015			Six months ended 30 June 2014		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	(1,113)	(511)	(1,624)	–	(394)	(394)
Deferred consideration paid	(51)	–	(51)	–	–	–
Contingent consideration paid [15]	(2)	(33)	(35)	–	(22)	(22)
Cash in acquired company	300	20	320	–	4	4
Transaction costs	(10)	(2)	(12)	–	–	–
Total net cash outflow	**(876)**	**(526)**	**(1,402)**	**–**	**(412)**	**(412)**

Restated Balance Sheet – 31 December 2014

In the Annual Financial Statements the accounting for the InterMune (29 September 2014), Dutalys (18 December 2014) and Bina (19 December 2014) acquisitions was provisional based on preliminary information and valuations of the assets and liabilities. These valuations have been finalised in 2015 and as a result the comparative balance sheet information at 31 December 2014 has been restated. The reconciliation between the balance sheet and the net assets acquired published previously for 2014 (using provisional acquisition accounting) and the restated amounts which are reported as comparatives in 2015 (using final acquisition accounting), as required by IFRS 3 'Business Combinations', are presented below.

Restated Roche Group consolidated balance sheet (selected items) in millions of CHF

			31 December 2014
	As originally published	Measurement adjustment	Restated
Goodwill	9,949	(19)	9,930
Intangible assets	12,881	(82)	12,799
Deferred tax liabilities	(605)	101	(504)
Other net liabilities	(667)	–	(667)
Net assets	**21,558**	**–**	**21,558**

The measurement adjustments in the table above are at the closing exchange rate on 31 December 2014.

Restated Pharmaceuticals acquisitions – 2014: net assets acquired (selected items) in millions of CHF

			InterMune			Dutalys
	As originally published	Measurement adjustment	Restated	As originally published	Measurement adjustment	Restated
Intangible assets	7,833	–	7,833	219	13	232
Deferred tax liabilities	(2,953)	67	(2,886)	(47)	(10)	(57)
Other net assets (liabilities)	1,469	–	1,469	–	–	–
Net identifiable assets	**6,349**	**67**	**6,416**	**172**	**3**	**175**
Goodwill	2,056	(67)	1,989	114	(3)	111
Total consideration	**8,405**	**–**	**8,405**	**286**	**–**	**286**

Restated Diagnostics acquisition – 2014: net assets acquired (selected items) in millions of CHF

			Bina
	As originally published	Measurement adjustment	Restated
Intangible assets	112	(88)	24
Deferred tax liabilities	(45)	35	(10)
Other net assets (liabilities)	–	–	–
Net identifiable assets	**67**	**(53)**	**14**
Goodwill	44	53	97
Total consideration	**111**	**–**	**111**

The measurement adjustments in the tables above are at the exchange rate on the date of control for each acquisition.

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

6. Global restructuring plans

During the six months ended 30 June 2015 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the programme to address long-term profitability in the Diabetes Care business in the Diagnostics Division.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics [1]	Site consolidation [2]	Other plans [3]	Total
Six months ended 30 June 2015				
Global restructuring costs				
– Employee-related costs	20	35	47	102
– Site closure costs	1	25	–	26
– Divestment of products and businesses [12]	–	–	23	23
– Other reorganisation expenses	95	–	21	116
Total global restructuring costs	**116**	**60**	**91**	**267**
Six months ended 30 June 2014				
Global restructuring costs				
– Employee-related costs	36	13	70	119
– Site closure costs	15	43	–	58
– Other reorganisation expenses	80	7	10	97
Total global restructuring costs	**131**	**63**	**80**	**274**

1) Includes the Diabetes Care 'Autonomy and Speed' restructuring plan.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes plans for Pharmaceuticals Division research and development strategic realignment and InterMune integration.

Diagnostics Division

On 26 September 2013 Roche Diabetes Care announced the 'Autonomy and Speed' initiative which will enable the business to focus on Diabetes Care specific requirements, speed up processes and decision-making and drive efficiencies. During the six months ended 30 June 2015 total costs of 74 million Swiss francs were incurred, mainly for consultancy and IT-related costs as well as employee-related costs. Spending on other smaller plans within the Division was 42 million Swiss francs and included costs related to IT projects and the restructuring of the former Applied Science business.

Site consolidation

Site consolidation costs in the Pharmaceuticals Division mainly relate to the outsourcing of logistics at the Rosny site in France and the closure of the manufacturing site at Toluca, Mexico. The operational closure of the US site in Nutley, New Jersey, was completed on schedule by the end of 2013 and the Group is currently in the process of divesting the site. Work on remediating the Nutley site is continuing, but no significant additional restructuring expenses were incurred in the first half of 2015.

Other global restructuring plans

During the six months ended 30 June 2015 total costs were 91 million Swiss francs, with the major item being 58 million Swiss francs from the strategic realignment in the Pharmaceuticals Division research and development organisation. As part of this realignment on 23 April 2015 the Group sold its wholly owned subsidiary Marcadia Biotech, Inc. to a third party with a loss on disposal of 23 million Swiss francs (see Note 12). The costs of the InterMune integration were 22 million Swiss francs and the remaining minor plans totalled 11 million Swiss francs.

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

	Six months ended 30 June 2015	2014
Employee-related costs		
– Termination costs	81	111
– Defined benefit plans	–	–
– Other employee-related costs	21	8
Total employee-related costs	**102**	**119**
Site closure costs		
– Impairment (reversal) of property, plant and equipment	–	8
– Accelerated depreciation of property, plant and equipment	20	20
– (Gains) losses on disposal of property, plant and equipment	–	3
– Other site closure costs	6	27
Total site closure costs	**26**	**58**
Loss on divestment of subsidiary	23	–
Total costs on divestment of products and businesses	**23**	**–**
Other reorganisation expenses	116	97
Total global restructuring costs	**267**	**274**

Global restructuring plans: classification of costs in millions of CHF

	Six months ended 30 June 2015			Six months ended 30 June 2014		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
– Pharmaceuticals	20	17	37	21	21	42
– Diagnostics	–	47	47	6	19	25
Marketing and distribution						
– Pharmaceuticals	–	35	35	–	20	20
– Diagnostics	–	35	35	–	27	27
Research and development						
– Pharmaceuticals	–	40	40	–	59	59
– Diagnostics	–	2	2	1	6	7
General and administration						
– Pharmaceuticals	–	37	37	–	12	12
– Diagnostics	–	33	33	–	82	82
– Corporate	–	1	1	–	–	–
Total	**20**	**247**	**267**	**28**	**246**	**274**
Total by operating segment						
– Roche Pharmaceuticals	20	129	149	21	111	132
– Chugai	–	–	–	–	1	1
– Diagnostics	–	117	117	7	134	141
– Corporate	–	1	1	–	–	–
Total	**20**	**247**	**267**	**28**	**246**	**274**

7. Goodwill

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

Six months ended 30 June 2015	
At 1 January 2015	9,930
Business combinations [5]	986
Currency translation effects	(742)
At 30 June 2015	**10,174**
Allocation by operating segment	
Roche Pharmaceuticals	4,947
Chugai	83
Diagnostics	5,144
Total Group	**10,174**

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

Impairment charges – 2015

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

Impairment charges – 2014

During the six months ended 30 June 2014 a goodwill impairment charge of 259 million Swiss francs was recorded in the Tissue Diagnostics business area within the Diagnostics Division. The factors leading to this impairment were a decrease in forecast cash flows following a change in the timelines for future product development, combined with additional US reductions in immunohistochemistry testing reimbursement to laboratories and a change in the pre-tax discount rate used for impairment testing.

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Six months ended 30 June 2015					
At 1 January 2015	9,743	2,704	5	347	12,799
Business combinations [5]	1,075	540	–	–	1,615
Additions	34	160	2	51	247
Divestment of subsidiary [12]	(26)	–	–	–	(26)
Transfers	1	(1)	–	–	–
Amortisation charge	(762)	–	(1)	(37)	(800)
Impairment charge	–	(45)	–	–	(45)
Currency translation effects	(568)	(133)	–	(40)	(741)
At 30 June 2015	**9,497**	**3,225**	**6**	**321**	**13,049**
Allocation by operating segment					
Roche Pharmaceuticals	8,070	2,512	–	266	10,848
Chugai	36	15	6	1	58
Diagnostics	1,391	698	–	54	2,143
Total Group	**9,497**	**3,225**	**6**	**321**	**13,049**

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

Classification of intangible asset amortisation and impairment expenses in millions of CHF

Six months ended 30 June	Amortisation 2015	Amortisation 2014	Impairment 2015	Impairment 2014
Cost of sales				
– Pharmaceuticals	(593)	(62)	–	–
– Diagnostics	(151)	(151)	–	(155)
Marketing and distribution				
– Pharmaceuticals	(1)	–	–	–
– Diagnostics	–	(2)	–	–
Research and development				
– Pharmaceuticals	(54)	(26)	(45)	(166)
– Diagnostics	(1)	(1)	–	–
Total	**(800)**	**(242)**	**(45)**	**(321)**

Impairment charges – 2015

Pharmaceuticals Division. Impairment charges totalling 45 million Swiss francs were recorded which related to decisions to stop development of two compounds with different alliance partners. The assets concerned, which were not yet being amortised, were fully written down.

Impairment charges – 2014

Pharmaceuticals Division. Impairment charges totalling 166 million Swiss francs were recorded which related to:
- A decision to stop development of a compound acquired as part of a previous business combination (88 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.
- A decision to stop development of a compound with an alliance partner (78 million Swiss francs). The asset concerned, which was not yet being amortised, was fully written down.

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

9. Provisions and contingent liabilities

Provisions in millions of CHF

	30 June 2015	31 December 2014
Legal provisions	628	677
Environmental provisions	510	627
Restructuring provisions	451	606
Employee provisions	287	385
Other provisions	2,333	1,948
Total provisions	**4,209**	**4,243**
Current	2,187	2,465
Non-current	2,022	1,778
Total provisions	**4,209**	**4,243**

During the six months ended 30 June 2015 a total of 473 million Swiss francs of provisions were utilised (six months ended 30 June 2014: 427 million Swiss francs), mainly related to the utilisation of restructuring, employee and environmental provisions. Other provisions increased mainly due to additional contingent consideration arrangements (see Note 15).

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

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

European Medicines Agency ('EMA') investigation. The EMA investigation is described in Note 19 to the Annual Financial Statements. On 6 July 2015 the European Commission issued a notification to the EMA, returning the case file to the EMA for a new period of inquiry. The EMA has a year to adopt a revised report for submission to the European Commission. The outcome of this matter cannot be determined at this time.

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

10. Debt

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

Six months ended 30 June 2015	
At 1 January 2015	25,714
Proceeds from issue of bonds and notes	1,670
Redemption and repurchase of bonds and notes	(1,379)
Increase (decrease) in commercial paper	(86)
Increase (decrease) in other debt	98
Net (gains) losses on redemption and repurchase of bonds and notes [3]	7
Amortisation of debt discount [3]	10
Business combinations	13
Net foreign currency transaction (gains) losses	(319)
Currency translation effects and other	(1,625)
At 30 June 2015	**24,103**
Bonds and notes	20,225
Commercial paper	3,015
Amounts due to banks and other financial institutions	689
Finance lease obligations	154
Other borrowings	20
Total debt	**24,103**
Long-term debt	17,271
Short-term debt	6,832
Total debt	**24,103**

Issuance of bonds and notes

On 25 February 2015 the Group issued 1.0 billion euro-denominated fixed rate notes with a coupon of 0.875% under the European Medium Term Note Programme. The notes will mature on 25 February 2025 and are listed on the Luxembourg Stock Exchange. The Group received approximately 1.1 billion Swiss francs aggregate net proceeds from the issuance and sale of these fixed notes.

On 13 March 2015 the Group issued 600 million US dollar-denominated fixed rate notes with a coupon of 2.00% under the European Medium Term Note Programme. The notes will mature on 13 March 2020 and are listed on the Luxembourg Stock Exchange. The Group received approximately 598 million Swiss francs aggregate net proceeds from the issuance and sale of these fixed notes.

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

Redemption and repurchase of bonds and notes – 2015

Partial redemption of US dollar-denominated notes. On 19 December 2014 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. On 26 March 2015 the Group redeemed an outstanding principal of 600 million US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 669 million Swiss francs, plus accrued interest and there was an additional 7 million Swiss francs loss recorded on redemption. The effective interest rate of these notes was 6.37%.

Redemption of pound sterling-denominated notes. On the due date of 4 March 2015 the Group redeemed the 5.5% fixed rate notes with a principal of 481 million pounds sterling. The cash outflow was 710 million Swiss francs, plus accrued interest. The effective interest rate of these notes was 5.70%.

Redemption of bonds and notes since 30 June 2015

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

Redemption and repurchase of bonds and notes – 2014

During the six months ended 30 June 2014 the Group completed the early repurchase of 419 million pounds sterling of fixed rate notes (653 million Swiss francs) and completed the early redemption of 1.0 billion US dollars of fixed rate notes (1,047 million Swiss francs).

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

Cash inflows from issuance of bonds and notes in millions of CHF

	Six months ended 30 June	
	2015	2014
European Medium Term Note programme euro-denominated notes	1,072	–
European Medium Term Note programme US dollar-denominated bonds	598	–
Total cash inflows from issuance of bonds and notes	**1,670**	**–**

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

	Six months ended 30 June	
	2015	2014
European Medium Term Note programme pound sterling-denominated notes	(710)	(653)
US dollar-denominated notes	(669)	(1,047)
Total cash outflows from redemption and repurchase of bonds and notes	**(1,379)**	**(1,700)**

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes guaranteed by Roche Holding Ltd. A committed credit line of 3.9 billion euros is available as a back-stop line. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At 30 June 2015 unsecured commercial paper notes with a principal of 3.3 billion US dollars and an average interest rate of 0.12% were outstanding.

Movements in commercial paper obligations in millions of CHF

Six months ended 30 June 2015	
At 1 January 2015	3,314
Net cash proceeds (payments)	(86)
Currency translation effects	(213)
At 30 June 2015	**3,015**

11. Equity attributable to Roche shareholders

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

The authorised and issued share capital of the Group and the number of issued non-voting equity securities have not changed during the first half of 2015. The weighted average number of shares and non-voting equity securities in issue during the six months ended 30 June 2015 was 850 million (six months ended 30 June 2014: 848 million).

Dividends

On 3 March 2015 the shareholders approved the distribution of a dividend of 8.00 Swiss francs per share and non-voting equity security (2014: 7.80 Swiss francs) in respect of the 2014 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 6,807 million Swiss francs (2014: 6,617 million Swiss francs) and has been recorded against retained earnings in the six months ended 30 June 2015.

Own equity instruments

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

	30 June 2015 (millions)	31 December 2014 (millions)
Shares	0.2	0.4
Non-voting equity securities	11.1	12.4
Total	**11.3**	**12.8**

Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (described in Note 26 to the Annual Financial Statements).

Retained earnings

In addition to net income attributable to Roche shareholders of 5,154 million Swiss francs (six months ended 30 June 2014: 5,533 million Swiss francs) and the dividend payments described above, retained earnings also includes gains on remeasurements of defined benefit plans of 416 million Swiss francs, after tax (2014: losses of 751 million Swiss francs, after tax). These were based on updated actuarial calculations for major plans and the gains were mainly due to an increase in discount rates since the end of 2014.

12. Subsidiaries

Chugai

Chugai is a fully consolidated subsidiary of the Group and at 30 June 2015 the Group's interest in Chugai was 61.42% (31 December 2014: 61.46%). The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE: 4519'. Chugai prepares financial statements in accordance with International Financial Reporting Standards (IFRS) which are filed on a quarterly basis with the Tokyo Stock Exchange. Due to certain consolidation entries there are minor differences between Chugai's stand-alone IFRS results and the results of Chugai as consolidated by the Group in accordance with IFRS.

The dividends distributed to third parties holding Chugai shares during the six months ended 30 June 2015 totalled 44 million Swiss francs (six months ended 30 June 2014: 42 million Swiss francs) and have been recorded against non-controlling interests. Dividends paid by Chugai to Roche are eliminated on consolidation as inter-company items.

Foundation Medicine, Inc.

Foundation Medicine, Inc. ('FMI') is a fully consolidated subsidiary of the Group and at 30 June 2015 the Group's interest in FMI was 61.2%. 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 which are filed on a quarterly basis with the SEC. Due to certain consolidation entries there are differences between FMI's stand-alone US GAAP results and the results of FMI as consolidated by the Roche Group in accordance with IFRS.

Divestment of subsidiary

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

Loss on divestment of subsidiary – six months ended 30 June 2015 in millions of CHF

Consideration	**3**
Intangible assets [8]	26
Total net assets disposed	**26**
Loss on divestment of subsidiary [6]	**(23)**

13. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	Six months ended 30 June 2015	2014
Net income attributable to Roche shareholders (CHF millions)	**5,154**	**5,533**
Number of shares (millions)	160	160
Number of non-voting equity securities (millions)	703	703
Weighted average number of own shares and non-voting equity securities held (millions)	(13)	(15)
Weighted average number of shares and non-voting equity securities in issue (millions)	**850**	**848**
Basic earnings per share and non-voting equity security (CHF)	**6.06**	**6.52**

Diluted earnings per share and non-voting equity security

	Six months ended 30 June 2015	2014
Net income attributable to Roche shareholders (CHF millions)	5,154	5,533
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	–	(1)
Net income used to calculate diluted earnings per share (CHF millions)	**5,154**	**5,532**
Weighted average number of shares and non-voting equity securities in issue (millions)	850	848
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	12	15
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**862**	**863**
Diluted earnings per share and non-voting equity security (CHF)	**5.98**	**6.41**

14. Statement of cash flows

Cash generated from operations in millions of CHF

	Six months ended 30 June 2015	2014
Net income	5,249	5,641
Add back non-operating (income) expense		
– Financing costs [3]	574	695
– Other financial income (expense) [3]	56	(37)
– Income taxes [4]	1,831	1,853
Operating profit	**7,710**	**8,152**
Depreciation of property, plant and equipment [2]	950	930
Amortisation of intangible assets [2]	800	242
Impairment of goodwill [2]	–	259
Impairment of intangible assets [2]	45	321
Impairment (reversal) of property, plant and equipment [2]	2	29
Operating (income) expense for defined benefit plans	270	198
Operating expense for equity-settled equity compensation plans	179	154
Net (income) expense for provisions	474	566
Bad debt (reversal) expense	62	(7)
Inventory write-downs	235	188
Inventory fair value adjustment	223	–
Net (gain) loss on disposal of products	(45)	(466)
Other adjustments	12	101
Cash generated from operations	**10,917**	**10,667**

Dividends paid in millions of CHF

	Six months ended 30 June 2015	2014
Dividends to Roche Group shareholders	(6,807)	(6,617)
Dividends to non-controlling shareholders – Chugai	(44)	(42)
Dividends to non-controlling shareholders – Other	(8)	(8)
Increase (decrease) in dividends payable	(36)	6
Dividend withholding tax	1	(1)
Total	**(6,894)**	**(6,662)**

15. Financial risk management

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

Credit risk

Accounts receivable. At 30 June 2015 the Group has trade receivables in Greece of 186 million euros (193 million Swiss francs). During 2015 the economic situation in Greece worsened which has increased the credit risk for these trade receivables. The Group is closely monitoring the situation and has taken appropriate steps to manage its exposure.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments in millions of CHF

	Level 1	Level 2	Level 3	Total
At 30 June 2015				
Marketable securities:				
– Equity securities	629	–	–	629
– Debt securities	1,217	–	–	1,217
– Money market instruments and time accounts over three months	44	1,663	–	1,707
Derivative financial instruments	–	100	–	100
Available-for-sale investments – held at fair value	19	139	–	158
Financial assets recognised at fair value	**1,909**	**1,902**	**–**	**3,811**
Derivative financial instruments	–	(962)	–	(962)
Contingent consideration	–	–	(1,336)	(1,336)
Financial liabilities recognised at fair value	**–**	**(962)**	**(1,336)**	**(2,298)**

At 30 June 2015 Level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit and derivative financial instruments.

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

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

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

Level 3 fair values

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

Contingent consideration arrangements in millions of CHF

Six months ended 30 June 2015	
At 1 January 2015	(815)
Arising from business combinations [5]	(430)
Utilised [5]	35
Total unrealised gains and losses included in the income statement	
– Unused amounts reversed	–
– Additional amounts created	(173)
– Discount unwind	(15)
Total gains and losses included in other comprehensive income	
– Currency translation effects	62
At 30 June 2015	**(1,336)**

The contingent consideration provisions were increased by 173 million Swiss francs in the first half of 2015 mainly due to the progression of the lead product candidate from the Seragon acquisition. This was recorded as a general and administration expense.

Contingent consideration arrangements

The Group is party to certain contingent consideration arrangements arising from business combination arrangements. The fair values are determined considering the expected payments, discounted to present value using risk-adjusted average discount rate of 3.7% (2014: 4.1%). The expected payments are determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales, other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At 30 June 2015 the total payments under contingent consideration arrangements could be up to 2.6 billion Swiss francs (2014: 2.2 billion Swiss francs). The most significant contingent consideration arrangements relate to the Trophos (2015), Ariosa (2015), Seragon (2014), Santaris (2014), Dutalys (2014), IQuum (2014), Genia (2014) and CMI (2013) acquisitions.

Carrying value and fair value

At 30 June 2015 the carrying value of bonds and notes is 20.2 billion Swiss francs compared to a fair value of 22.2 billion Swiss francs and the carrying value of total debt is 24.1 billion Swiss francs compared to a fair value of 26.1 billion Swiss francs. The carrying values of financial assets are a reasonable approximation of the fair values at 30 June 2015.

Review Report of the Statutory Auditor

To the Board of Directors of Roche Holding Ltd, Basel

Introduction. We have been engaged to review the accompanying consolidated balance sheet of Roche Holding Ltd as at 30 June 2015 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 35 to 64. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

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

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

KPMG

KPMG AG

Ian Starkey	Marc Ziegler
Licensed Audit Expert, Auditor in Charge	Licensed Audit Expert

Basel, 21 July 2015

Supplementary Information

Supplementary core results and EPS information

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

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

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

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

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

Core results reconciliation – six months ended 30 June 2015 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Pension plan settlements	Normali-sation of ECP tax benefit	Core
Sales	23,585	–	–	–	–	–	–	–	23,585
Royalties and other operating income	1,245	–	–	–	–	–	–	–	1,245
Cost of sales	(7,249)	84	744	–	223	–	–	–	(6,198)
Marketing and distribution	(4,092)	70	1	–	–	–	–	–	(4,021)
Research and development	(4,493)	42	55	45	–	–	–	–	(4,351)
General and administration	(1,286)	71	–	–	186	8	(3)	–	(1,024)
Operating profit	**7,710**	**267**	**800**	**45**	**409**	**8**	**(3)**	**–**	**9,236**
Financing costs	(574)	1	–	–	14	6	–	–	(553)
Other financial income (expense)	(56)	–	–	–	(16)	–	–	–	(72)
Profit before taxes	**7,080**	**268**	**800**	**45**	**407**	**14**	**(3)**	**–**	**8,611**
Income taxes	(1,831)	(60)	(273)	(13)	(122)	(5)	1	12	(2,291)
Net income	**5,249**	**208**	**527**	**32**	**285**	**9**	**(2)**	**12**	**6,320**
Attributable to									
– Roche shareholders	5,154	208	524	30	285	9	(2)	12	6,220
– Non-controlling interests	95	–	3	2	–	–	–	–	100

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

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

Divisional core results reconciliation – six months ended 30 June 2015 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Pension plan settlements	Core
Pharmaceuticals								
Sales	18,350	–	–	–	–	–	–	18,350
Royalties and other operating income	1,174	–	–	–	–	–	–	1,174
Cost of sales	(4,748)	37	593	–	223	–	–	(3,895)
Marketing and distribution	(2,837)	35	1	–	–	–	–	(2,801)
Research and development	(3,950)	40	54	45	–	–	–	(3,811)
General and administration	(842)	37	–	–	179	4	(3)	(625)
Operating profit	**7,147**	**149**	**648**	**45**	**402**	**4**	**(3)**	**8,392**
Diagnostics								
Sales	5,235	–	–	–	–	–	–	5,235
Royalties and other operating income	71	–	–	–	–	–	–	71
Cost of sales	(2,501)	47	151	–	–	–	–	(2,303)
Marketing and distribution	(1,255)	35	–	–	–	–	–	(1,220)
Research and development	(543)	2	1	–	–	–	–	(540)
General and administration	(266)	33	–	–	7	4	–	(222)
Operating profit	**741**	**117**	**152**	**–**	**7**	**4**	**–**	**1,021**
Corporate								
General and administration	(178)	1	–	–	–	–	–	(177)
Operating profit	**(178)**	**1**	**–**	**–**	**–**	**–**	**–**	**(177)**

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

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

Core EPS (basic)

	Six months ended 30 June 2015	2014
Core net income attributable to Roche shareholders (CHF millions)	6,220	6,533
Weighted average number of shares and non-voting equity securities in issue (millions) [13]	850	848
Core earnings per share (basic) (CHF)	**7.31**	**7.70**

Core EPS (diluted)

	Six months ended 30 June 2015	2014
Core net income attributable to Roche shareholders (CHF millions)	6,220	6,533
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	–	(1)
Net income used to calculate diluted earnings per share (CHF millions)	**6,220**	**6,532**
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions) [13]	**862**	**863**
Core earnings per share (diluted) (CHF)	**7.22**	**7.57**

Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

Six months ended 30 June	Pharmaceuticals 2015	2014	Diagnostics 2015	2014	Corporate 2015	2014	Group 2015	2014
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	522	502	424	425	4	3	950	930
Amortisation of intangible assets	648	88	152	154	–	–	800	242
Impairment (reversal) of property, plant and equipment	1	22	1	7	–	–	2	29
Impairment of goodwill	–	–	–	259	–	–	–	259
Impairment of intangible assets	45	166	–	155	–	–	45	321
Total	**1,216**	**778**	**577**	**1,000**	**4**	**3**	**1,797**	**1,781**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	148	127	22	19	9	8	179	154
– Net (income) expense for provisions	392	432	81	132	1	2	474	566
– Net (gain) loss from disposals	(21)	(463)	2	5	–	–	(19)	(458)
– Non-cash working capital and other items	467	248	36	24	–	2	503	274
Deduct								
– Utilisation of provisions	(316)	(283)	(94)	(108)	(63)	(36)	(473)	(427)
– Proceeds from disposals	51	263	15	27	–	–	66	290
Total	**721**	**324**	**62**	**99**	**(53)**	**(24)**	**730**	**399**
Operating profit cash adjustments	**1,937**	**1,102**	**639**	**1,099**	**(49)**	**(21)**	**2,527**	**2,180**
EBITDA								
Core operating profit	8,392	8,601	1,021	988	(177)	(179)	9,236	9,410
Depreciation and impairment of property, plant and equipment – Core basis	503	503	425	425	4	3	932	931
EBITDA	**8,895**	**9,104**	**1,446**	**1,413**	**(173)**	**(176)**	**10,168**	**10,341**
– margin, % of sales	48.5	51.0	27.6	27.5	–	–	43.1	45.0

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation 30 June 2015 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	11,618	4,738	140	–	16,496
Goodwill	5,030	5,144	–	–	10,174
Intangible assets	10,906	2,143	–	–	13,049
Inventories	5,451	1,912	–	–	7,363
Provisions	(2,989)	(782)	(438)	–	(4,209)
Current income tax net liabilities	–	–	–	(2,658)	(2,658)
Deferred tax net assets	–	–	–	1,658	1,658
Defined benefit plan net liabilities	–	–	–	(7,018)	(7,018)
Marketable securities	–	–	–	3,553	3,553
Cash and cash equivalents	–	–	–	3,247	3,247
Debt	–	–	–	(24,103)	(24,103)
Other net assets (liabilities)					
– Net working capital	901	1,028	(63)	–	1,866
– Long-term net operating assets	337	(37)	(10)	–	290
– Other	–	–	–	(490)	(490)
Total net assets	**31,254**	**14,146**	**(371)**	**(25,811)**	**19,218**

Roche Securities

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

	30 June 2015	31 December 2014
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)* (no nominal value)	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**
Number of own shares and non-voting equity securities *(Genussscheine)* held	(11,296,199)	(12,819,364)
Total in issue	**851,266,501**	**849,743,336**

Data per share and non-voting equity security in CHF

		Six months ended 30 June 2015	2014
Earnings (basic)		6.06	6.52
Earnings (diluted)		5.98	6.41
Core earnings (basic)		7.31	7.70
Core earnings (diluted)		7.22	7.57
Stock price of share [b]	Opening	267.75	247.40
	High	284.50	271.25
	Low	244.40	239.40
	Period end	256.00	259.25
Stock price of non-voting equity security *(Genussscheine)* [b]	Opening	269.90	249.20
	High	286.20	273.00
	Low	241.70	239.00
	Period end	262.00	264.50

Market capitalisation in millions of CHF

	30 June 2015	31 December 2014	30 June 2014
Period end	222,073	229,003	223,828

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

b) All stock price data reflect daily closing prices.

Published by
F. Hoffmann-La Roche Ltd
4070 Basel, Switzerland
Tel. +41 (0)61 688 11 11
Fax +41 (0)61 691 93 91

Media Office
Group Communications
4070 Basel, Switzerland
Tel. +41 (0)61 688 88 88
Fax +41 (0)61 688 27 75

Investor Relations
4070 Basel, Switzerland
Tel. +41 (0)61 688 88 80
Fax +41 (0)61 691 00 14

Website
www.roche.com

To order publications
Tel. +41 (0)61 688 30 61
Fax +41 (0)61 688 41 96
E-mail: basel.webmaster@roche.com

Cautionary statement regarding forward-looking statements

This Half-Year Report contains certain forward-looking statements. These forward-looking statements may be identified by words such as 'believes', 'expects', 'anticipates', 'projects', 'intends', 'should', 'seeks', 'estimates', 'future' or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions. Various factors may cause actual results to differ materially in the future from those reflected in forward-looking statements contained in this Annual Report, among others: (1) pricing and product initiatives of competitors; (2) legislative and regulatory developments and economic conditions; (3) delay or inability in obtaining regulatory approvals or bringing products to market; (4) fluctuations in currency exchange rates and general financial market conditions; (5) uncertainties in the discovery, development or marketing of new products or new uses of existing products, including without limitation negative results of clinical trials or research projects, unexpected side effects of pipeline or marketed products; (6) increased government pricing pressures; (7) interruptions in production; (8) loss of or inability to obtain adequate protection for intellectual property rights; (9) litigation; (10) loss of key executives or other employees; and (11) adverse publicity and news coverage.

The statement regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for 2015 or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

The Roche Half-Year Report is published in German and English. In case of doubt or differences of interpretation, the English version shall prevail over the German text.

The Roche Half-Year Report is issued by
F. Hoffmann-La Roche Ltd, Basel, Group Communications.

F. Hoffmann-La Roche Ltd
4070 Basel, Switzerland

www.roche.com