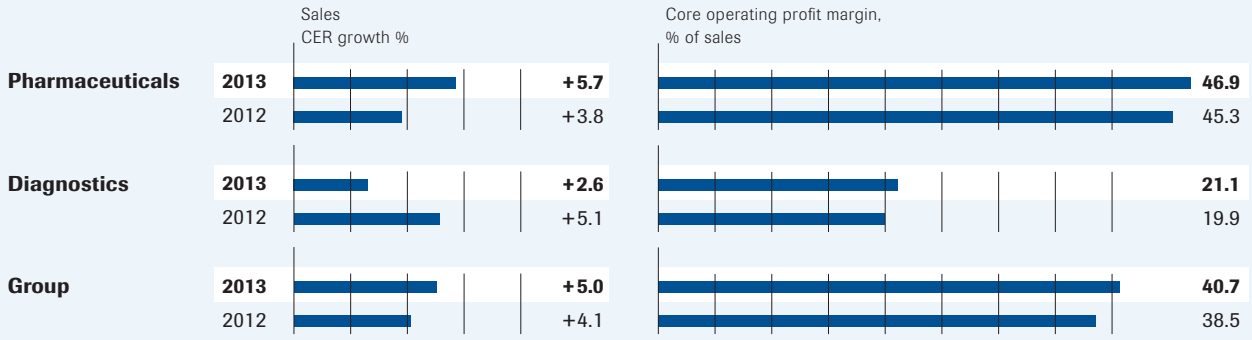
Roche

Half-Year Report

2013

Finance in brief

Key interim results



	Six months ended 30 June 2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)	% of sales 2013	% of sales 2012
IFRS results						
Sales	23,295	22,423	+4	+5		
Operating profit	8,594	6,332	+36	+37	36.9	28.2
Net income	6,047	4,312	+40	+41	26.0	19.2
Net income attributable to Roche shareholders	5,941	4,199	+41	+42	25.5	18.7
EPS (CHF) – Diluted	6.88	4.93	+40	+42		
Core results						
Research and development	4,143	4,043	+2	+4	17.8	18.0
Core operating profit	9,488	8,641	+10	+10	40.7	38.5
Core EPS (CHF) – Diluted	7.58	6.88	+10	+12		
Free cash flow						
Operating free cash flow	7,445	7,244	+3	+4	32.0	32.3
Free cash flow	(1,392)	(1,235)	+13	+12		

	30 June 2013 (mCHF)	31 December 2012 (mCHF)	% change (CHF)	% change (CER)
Net debt	(13,620)	(10,599)	+29	+20
Capitalisation	37,455	41,340	–9	–9
– Debt	21,381	24,590	–13	–15
– Equity	16,074	16,750	–4	+1

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconsolidating both the 2013 and 2012 results at constant exchange rates (the average rates for the year ended 31 December 2012).

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 78–81 and reconciliations between the IFRS and Core results are given there.

2013

HIGHLIGHTS FIRST HALF

Group sales 5% higher at 23.3 billion Swiss francs

Core EPS 12% higher at 7.58 Swiss francs; net income rose to 6 billion Swiss francs

Pharmaceuticals sales rose 6% due to cancer medicines and Actemra

Diagnostics sales increased 3% driven by Professional Diagnostics, offset by decline in Diabetes Care

HER2 franchise grew 11% to 3.3 billion Swiss francs after successful launches of Perjeta and Kadcyla

Avastin sales rose 12% to 3.1 billion Swiss francs with strong demand in ovarian and colorectal cancer

Encouraging GA101 and Bcl-2 inhibitor data strengthen hematology franchise

Aleglitazar programme stopped after regular safety review

Roche confirms full-year outlook

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BUSINESS REVIEW

Business Review

Sales

Growth momentum continues

Group sales rose 5%[1] to 23.3 billion Swiss francs in the first half of 2013 due to continued demand for Roche's main oncology medicines, as well as for its clinical laboratory diagnostic products. Pharmaceuticals sales increased 6% and Diagnostics sales grew 3%.

The United States and emerging markets remain the main regional growth drivers and sales in Europe are growing again despite ongoing price pressure there.

Profitability and cash flow

Strong operating results

The Group's core operating profit rose 10% to 9.5 billion Swiss francs due to the strong sales performance.

Roche's core operating profit margin improved to 40.7% from 38.5% in the first half of 2012 as the core operating profit margin in the Pharmaceuticals Division rose 1.2 percentage points to 46.9% and 1.4 percentage points to 21.1% in the Diagnostics Division.

The Group's marketing and distribution costs rose 2% to support growth in emerging markets, patient access programmes and new product launches, while research and development spending increased 4% mainly due to trials in the oncology and neuroscience franchises. This includes studies for new indications for recently launched products as well as for novel therapies, such as the anti-PDL1 medicine for cancer, and for the advancement of programmes for schizophrenia, multiple sclerosis and Alzheimer's disease. General and administration costs, which include a one-time income of 252 million Swiss francs due to certain pension plan changes in 2013, fell 20%.

Operating free cash flow rose 4% to 7.4 billion Swiss francs, reflecting the underlying cash generation of both divisions.

Trade receivables rose in the first half mainly due to delays in receiving payment from the public sector in Spain and Italy, while the large settlement received in Spain in June 2012 was not repeated. Dividend payments in 2013 were a record 6.3 billion Swiss francs. Further amounts of corporate debt were settled, and 66% of the debt taken out to finance the Genentech transaction in 2009 had been repaid at the end of June.

Roche's core earnings per share (EPS), which excludes non-core items such as global restructuring charges and amortisation and impairment of goodwill and intangible assets, was 12% higher at 7.58 Swiss francs. Net income on an IFRS basis rose 41% to 6.0 billion Swiss francs as the large restructuring charges relating to the closure of the US site in Nutley that were incurred in 2012 were not repeated this year.

Restructuring

The Group remains on track to complete the operational closure of the Nutley site by the end of 2013.

The restructuring measures to improve profitability in the Diabetes Care business unit last year are also underway. In April, the Group announced that the Applied Science business area would be integrated within Roche's Molecular Diagnostics and Professional Diagnostics business areas.

Exchange rate

In the first half of 2013, the Swiss franc was stronger against many currencies compared to the first half of 2012, in particular the Japanese yen, but it weakened against some others, notably the euro and US dollar. The overall impact was slightly negative on the results expressed in Swiss francs compared to constant exchange rates.

Outlook

Based on the strong operational performance in the first half of the year, Roche confirms its full-year outlook. Group sales in 2013 are expected to increase in line with last year's sales growth, at constant exchange rates. Core EPS is targeted to grow ahead of sales. In 2013, Roche expects to further increase its dividend.

1 Unless otherwise stated all growth rates are calculated using constant exchange rates.

Pharmaceuticals

HER2 breast cancer franchise boosted by launch of two new drugs

Sales for the Pharmaceuticals Division rose 6% in the first six months of the year to 18.2 billion Swiss francs with continued strong demand for cancer therapies MabThera/Rituxan, Avastin and good growth of the HER2 franchise.

The HER2 breast cancer franchise, which now includes Herceptin, Perjeta and Kadcyla, grew 11% to 3.3 billion Swiss francs in the first half of 2013. First-quarter approvals of Perjeta in Europe and Kadcyla in the United States for patients with advanced HER2-positive breast cancer further strengthened Roche's leading position in this indication. The uptake of Perjeta and Kadcyla has been very encouraging so far.

Avastin sales increased 12% to 3.1 billion Swiss francs largely due to increased use in ovarian cancer in Europe, as well as in colorectal cancer in both Europe and the United States. Avastin is also being used more frequently to treat lung and breast cancer in a number of different countries, such as Japan.

The division's performance was also lifted by a 33% increase in sales of rheumatoid arthritis medicine Actemra/RoActemra due to growing monotherapy use, and a 79% rise in sales of influenza treatment Tamiflu following a severe flu season in North America at the start of the year.

Sales of Pegasys, a medicine to treat hepatitis B and C, fell 20% as physicians in the United States and some key European markets await the expected launch of second-generation triple-combination and interferon-free therapies at the end of 2013 and the beginning of 2014.

The main regional growth drivers were the United States (+10%) and the key seven emerging markets[2] (+11%) as a result of higher use of the main oncology products and Tamiflu. Sales in Europe rose 1% despite continued price pressure due to robust demand for Roche's major products, including Avastin, recently launched skin cancer treatment Zelboraf and RoActemra. Japan posted a sales increase of 2% on the back of solid performances by osteoporosis medicine Edirol and Avastin.

Diagnostics

Professional Diagnostics main growth driver

Sales of the Diagnostics Division rose 3% to 5.1 billion Swiss francs in the first half of the year largely due to a strong performance at the Professional Diagnostics business unit, which grew 6%. This was partly compensated by a decline in Diabetes Care of 5%, reflecting a difficult market environment and continued pricing pressure.

Professional Diagnostics, the largest business area of Roche Diagnostics, is continuing to perform well as a result of the business area's broad range of tests, software and services. This product offering is key to Roche's competitive advantage as it enables commercial and hospital laboratories to deliver reliable results efficiently and economically. The immunoassay business, which is a key part of Roche Professional Diagnostics, again posted a double-digit rise in sales (+12%) and now accounts for 24% of overall divisional revenues. Immunoassays help diagnose diseases ranging from viral infections to cancers through highly automated immunochemical blood testing. Sales of clinical chemistry products (+3%) and blood coagulation monitoring (+7%) contributed to this strong performance.

Sales of the Molecular Diagnostics unit rose 1% as a result of solid demand for molecular tests for human papilloma virus (HPV) and oncology, while Tissue Diagnostics sales increased 6% driven by the primary tissue staining portfolio. Diabetes Care sales decreased due to continued price pressure and reimbursement changes in major markets (–5%).

The main regional growth drivers were Asia–Pacific (+10%) and Latin America (+11%) due to strong demand for immunology and tissue tests. EMEA (Europe, Middle East and Africa), which accounts for 47% of divisional sales, grew 1%. Overall sales in North America fell 1%, sales in Diagnostics rose 2% while Diabetes Care declined by 14%. In Japan, sales were up 1%.

2 Roche's key seven emerging markets, also referred to as the E7 key emerging markets, are Brazil, China, India, Mexico, Russia, South Korea and Turkey.

In the second quarter of 2013, Roche announced plans to integrate the products of the Applied Science business area within the Molecular and Professional Diagnostics business areas. These measures allow further streamlining of decision-making, promotion of synergies and leverage of the commercial expertise in Roche's *in vitro* diagnostic business areas to better address customers' needs. The new structure also allows better knowledge and technology flow-through and strengthens Roche's position in the laboratory business.

Genome sequencing, formerly a part of the Applied Science portfolio, is now reported as part of Molecular Diagnostics.

Pharmaceuticals – Product and pipeline update

Positive GA101 data supports outlook for hematology franchise

Roche further strengthened the outlook for its hematology franchise with encouraging data on obinutuzumab (GA101) and the Bcl-2 inhibitor, RG7601[3], which Roche is developing with AbbVie. The study outcomes were presented at the 49th Annual Meeting of the American Society of Clinical Oncology (ASCO) and at the 18th Annual Meeting of the European Hematology Association (EHA) in June.

GA101 and RG7601 are part of Roche's next generation of targeted medicines for certain blood cancers like non-Hodgkin's lymphoma (NHL) and chronic lymphocytic leukemia (CLL).

GA101 won Breakthrough Therapy Designation and Priority Review from the Food and Drug Administration in CLL in the first half of the year on the back of positive phase III results.

RG7601 will move into late-stage development after phase I data showed an 84% overall response rate in patients with relapsed or refractory CLL and an overall response rate of 53% in patients with relapsed or refractory NHL. RG7601 is designed to promote a natural cell death process known as apoptosis.

Roche's anti-PDL1 antibody, RG7446[4], is now in mid-stage development for non-small cell lung cancer after promising phase I data was presented at ASCO. The clinical development programme will incorporate an investigational companion diagnostic. Roche is also looking at RG7446 in additional trials in other cancer types, both alone and in combination with other medicines, such as Avastin and Zelboraf.

RG7446 is a new type of cancer treatment that is designed to restore a patient's own immune system so that it is able to fight tumour cells. It works by interfering with a protein called PD-L1.

As previously announced, Roche decided to stop all trials involving aleglitazar after a regular safety review of the AleCardio phase III trial investigating aleglitazar in type 2 diabetes detected safety signals and lack of efficacy.

Clinical trial highlights

GA101 – CLL, CLL11 study

- Compound: obinutuzumab (GA101)
- Disease: chronic lymphocytic leukemia
- Trial: CLL11, phase III
- Primary endpoint: progression-free survival (PFS)
- Secondary endpoints: overall response rate, overall survival, disease-free survival, minimal residual disease and safety profile

The stage 1 analysis of the CLL11 study showed that GA101 combined with chlorambucil, a standard chemotherapy, resulted in an 86% reduction in the risk of disease progression, relapse or death, compared to those treated with chlorambucil only. The trial also showed that the length of time people lived without their disease getting worse more than doubled compared to those who were treated with chlorambucil alone. The stage 2 analysis looking at the head-to-head comparison of GA101 in combination with chlorambucil versus MabThera/Rituxan in combination with chlorambucil will be reported at a later time point.

3 RG7601 is listed as GDC-0199/ABT-199 on clinicaltrials.gov

4 RG7446 is listed as MPDL3280A on clinicaltrials.gov

CLL is one of the most common forms of blood cancer and each year it causes around 75,000 deaths worldwide. GA101, which is a glycoengineered antibody, works with the body's immune system and is designed to attack cells that have a certain marker on their surface. Trials are currently ongoing to investigate GA101 in multiple head-to-head phase III studies versus MabThera/Rituxan in indolent NHL and diffuse large B-cell lymphoma (DLBCL).

Avastin – advanced cervical cancer, GOG240 study

- Compound: Avastin
- Disease: advanced cervical cancer
- Trial: GOG240, phase III, sponsored by the US National Cancer Institute, conducted by the Gynecologic Oncology Group (GOG)
- Primary endpoint: overall survival (OS)

The GOG240 trial showed that Avastin plus chemotherapy allowed women with advanced cervical cancer to live longer than women who were treated with chemotherapy alone. The risk of death was 29% lower in women treated with Avastin and chemotherapy, while women treated with Avastin and chemotherapy lived a median of nearly four months longer compared to those who were given only chemotherapy. The median OS was 17 months with Avastin and chemotherapy versus 13.3 months for chemotherapy alone.

Cervical cancer is the third most common cancer in women worldwide. It is estimated that there are more than half a million new cases of cervical cancer across the globe each year, with approximately 85% of those in developing countries.

Avastin – newly diagnosed glioblastoma, AVAglio study

- Compound: Avastin
- Disease: newly diagnosed glioblastoma
- Trial: AVAglio, phase III
- Co-primary endpoints: overall survival (OS) and progression-free survival (PFS)

The AVAglio study showed that those patients who received Avastin plus radiotherapy and temozolomide chemotherapy to treat newly diagnosed glioblastoma lived more than four months longer without their disease getting worse than those who were treated with a placebo plus radiotherapy and temozolomide chemotherapy. OS was not significantly improved.

Glioblastoma is the most common and aggressive form of primary brain cancer and there are currently very few treatment options available for people suffering from this type of cancer. The symptoms of glioblastoma can have a significant impact on quality of life and the ability to carry out normal daily activities. The AVAglio study showed that most patients were able to care for themselves during the time their disease did not progress.

Major clinical and regulatory news flow up to mid-July 2013

Compound	Indication	Milestone	
Actemra	rheumatoid arthritis	Japanese approval of subcutaneous injection formulation	Q1 ✓
Actemra	polyarticular juvenile idiopathic arthritis	US approval	Q1 ✓
RoActemra	polyarticular juvenile idiopathic arthritis	EU approval	Q2 ✓
RoActemra	rheumatoid arthritis (monotherapy)	phase III study results (AMBITION LTE)	Q2 ✓
RoActemra	early rheumatoid arthritis	phase III study results (FUNCTION)	Q2 ✓
aleglitazar	diabetes	AleCardio trial and all other trials involving aleglitazar stopped	Q3 ×
Avastin	metastatic colorectal cancer TML (treatment across multiple lines)	US approval	Q1 ✓
Avastin	metastatic colorectal cancer TML (treatment across multiple lines)	EU approval	Q1 ✓
Avastin	newly diagnosed and relapsed glioblastoma	Japanese approval	Q2 ✓
Avastin	newly diagnosed glioblastoma	phase III study results (AVAglio)	Q2 ✓
Avastin	advanced cervical cancer	phase III study results (GOG240)	Q2 ✓
Erivedge	advanced basal cell carcinoma	conditional EU approval	Q3 ✓
Kadcyla	HER2-positive metastatic breast cancer	US approval	Q1 ✓
Kadcyla	HER2-positive metastatic breast cancer	phase III study results (TH3RESA)	Q2 ✓
Lucentis	inclusion of less frequent dosing regimen for wet age-related macular degeneration	US approval	Q1 ✓
MabThera	active GPA and MPA	EU approval	Q2 ✓
Obinutuzumab (GA101)	chronic lymphocytic leukemia	phase III study results (CLL11)	Q1 ✓
Pegasys	chronic hepatitis C in children five years of age and older	EU approval	Q1 ✓
Perjeta	HER2-positive metastatic breast cancer	EU approval	Q1 ✓
Tarceva	EGFR mutation-positive non-small cell lung cancer (first line)	US approval	Q2 ✓
Xolair	chronic idiopathic urticaria	phase III study results (ASTERIA II)	Q1 ✓

Upcoming clinical news flow and pending regulatory decisions

Compound	Indication	Milestone
Actemra subcutaneous	rheumatoid arthritis	US approval
Obinutuzumab (GA101)	chronic lymphocytic leukemia	US approval (EU approval 2014)
Herceptin subcutaneous	HER2-positive breast cancer	EU approval
Kadcyla	HER2-positive metastatic breast cancer	EU approval
Perjeta	HER2-positive breast cancer (neoadjuvant)	US approval
Tarceva	adjuvant non-small cell lung cancer	phase III (RADIANT)

Diagnostics – Product and pipeline update

In the first half of 2013, Roche Diagnostics launched nine major products in several key markets. The new tests and systems aid the early detection, diagnosis and monitoring of a broad range of conditions and help healthcare professionals to make the right treatment choices and manage illness in a cost-effective way.

Strengthening laboratory business

In the first half of the year, Roche acquired Constitution Medical Investors, Inc. (CMI), a developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases such as anemia and leukemia. This acquisition will further strengthen Roche's hematology test portfolio in this market. The laboratory hematology testing business has an estimated global market size of more than USD 2 billion (2011).

Roche will soon launch the new cobas 8100 series, which will help to automate laboratory routine tasks, increasing cost-efficiency and reducing manual handling. The system uses intelligent robotics to prepare blood samples for immediate testing and post-analytical processing. The short and predictable turn-around times will help physicians to make timely treatment decisions for patients.

In June 2013, the fully automated cobas 6800 system for molecular diagnostic testing was shown to the public for the first time. This mid-volume platform is expected to bring exceptional level of automation, throughput and cost-efficiency to molecular testing and blood screening laboratories. Currently the system is in the test phase.

Adding to the cervical cancer testing portfolio

In the first six months of 2013, the FDA approved a new workflow process for the cobas 4800 HPV Test. This new process allows laboratories to use the same sample used for a Pap test with the cobas 4800, making it easier to screen women for HPV 16 and HPV 18. These two strains of the human papillomavirus (HPV) are responsible for approximately 70% of cervical cancer cases.

Approximately 500,000 women per year are diagnosed with cervical cancer worldwide. Virtually all cervical cancer is associated with HPV infections that cause lesions on the epithelium.

American Diabetes Association (ADA), June 21–25, 2013

During the scientific sessions of the ADA in June, Roche Diabetes Care presented the results of the ABACUS[5] study, which investigated the use of our Accu-Chek Aviva Expert automatic bolus advisor. This device calculates the appropriate insulin doses based on regular blood glucose monitoring in insulin-dependent patients. The study results revealed that the use of the bolus adviser improved the ability to reach glycemic targets, supporting therapy adherence and patient well-being without an increase of the number of hypoglycemic events.

5 Automated Bolus Advisor Control and Usability.

Diagnostics Division – major product launches in the first half of 2013

Area	Product name	Description	Market	
Instruments/devices				
Life Sciences	GS FLX+ long amplicons	Software for long-read targeted sequencing	WW	Q2
Diabetes Care	Accu-Chek Active test strips	Accu-Chek Active test strips with maltose-independent chemistry	WW (excluding NA)	Q1
Tests/Assays				
Oncology	cobas 4800 EGFR test	Non-small lung cancer stratification	US	Q2
	Calcitonin test	Medullary thyroid cancer	EU	Q1
	proGRP test	Small cell lung cancer	EU	Q2
	ER – primary antibody	IVD Immunohistochemistry test for determining the state of hormone receptor in breast cancer tissue	US	Q1
Transplantation	Elecsys Cyclosporine and Tacrolimus tests	Immunosuppressive drug monitoring	EU	Q2
Infectious diseases	CAP/CTM HCV 2.0	Next-generation HCV viral load test	US	Q2
Sequencing	SeqCap EZ reagent kits	Single-source reagent kit	WW	Q1

Diagnostics Division – key product launches planned for the second half of 2013

Area	Product name	Description	Market
Instruments/Devices			
Laboratories	cobas 8100	Next-generation modular pre-analytics	EU
Diabetes Care	Accu-Chek Insight	Next-generation insulin pump and blood glucose meter combination	EU
Tests/Assays			
Oncology	CINtec PLUS Cytology	Cervical pre-cancer test	EU
Infectious diseases	MPX 2.0	Next-generation blood screening multiplex test for HIV, HCV and HBV	US

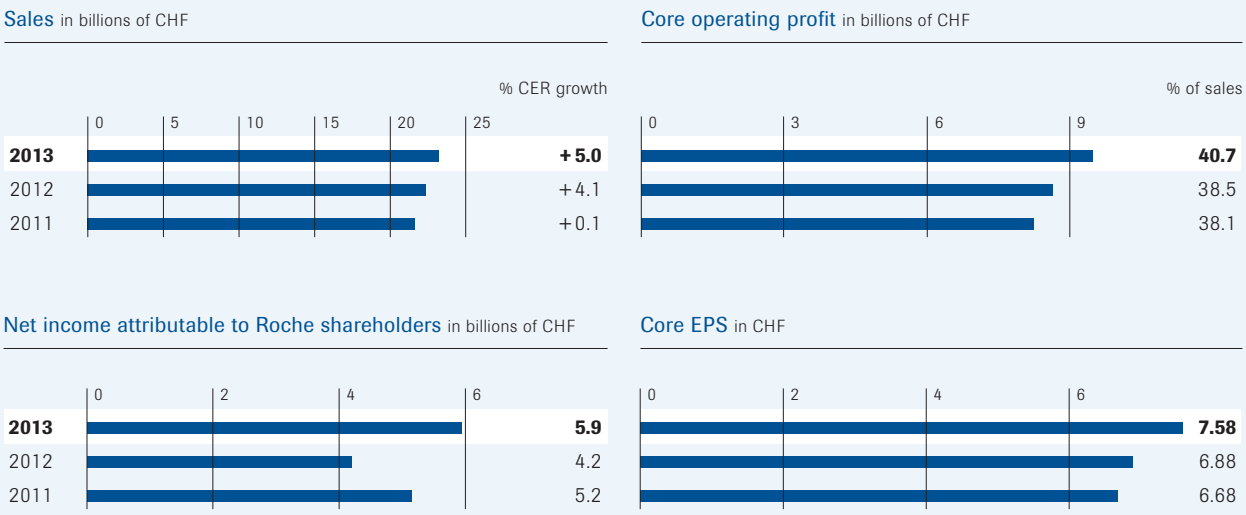
black type = new product/first market launch; grey type = new product/launch in additional markets.
EU = European Union; NA = North America; US = United States; WW = worldwide.

CAP/CTM = Cobas AmpliPrep/Cobas TaqMan; EGFR = epidermal growth factor receptor; ER = estrogen receptor; GS = Genome Sequencer; HBV = Hepatitis B virus; HCV = hepatitis C virus; HIV = Human immunodefficiency virus; IVD = *in vitro* diagnostics; proGRP = pro-gastrin-releasing peptide; SeqCap = Sequence Capture.

FINANCE

Financial Review

Group results



The Roche Group's results for the first half of 2013 showed growth in its core operating activities, with sales up by 5% and core operating profit up by 10% at constant exchange rates. Sales volume increases more than offset pricing pressures in many markets, and investments were made at the necessary levels to support the future development of the business, notably for research and development which increased by 4%. This strong operating performance combined with lower financing costs, is responsible for an increase in Core EPS of 12% at constant exchange rates. The strong operating results are also evident in the operating free cash flow, which was 7.4 billion Swiss francs or 32.0% of sales.

During 2013 the Group has continued the implementation of a number of major restructuring initiatives to position the business for the future, notably in the Pharmaceuticals Division's research and development organisation with the closure of the Nutley site in the US announced in 2012. The Diagnostics Division continued the implementation of various global programmes in the Diabetes Care and Applied Science businesses to address long-term profitability. On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the other business areas of the Diagnostics Division. The cost of these restructuring activities in the comparative period of 2012, together with the growth of the underlying business, resulted in an increase in net income on an IFRS basis of 41% at constant exchange rates.

Sales in the Pharmaceuticals Division rose by 6%, driven by 8% growth in the oncology portfolio which grew in both established and newly launched products, with half-yearly sales of 11.2 billion Swiss francs. The key growth drivers in oncology were Avastin, Herceptin, Perjeta, MabThera/Rituxan and Kadcyla. Sales of Actemra/RoActemra and Tamiflu also increased. Emerging markets showed growth of 11%, led by 26% sales growth in China. Diagnostics sales grew at 3%, consolidating the division's leading market position. The major growth area was Professional Diagnostics, while sales in Diabetes Care declined.

Core operating profit increased by 10%, with the Pharmaceuticals Division growing at 9% and Diagnostics at 10%. The profitability in Pharmaceuticals benefited from under-proportional cost growth. The 3% increase in marketing and distribution costs was driven by investments in emerging markets and increasing patient access to medicines. In research and development the 4% increase arose mainly in the oncology and central nervous systems franchises, with the focus on new indications for recently launched products and other developments, such as PD-L1 targeted therapy and the advancement of programmes for schizophrenia, multiple sclerosis and Alzheimer's disease. The termination of the aleglitazar trials announced on 10 July 2013 had no impact on the Group's interim results and financial position at 30 June 2013. In Diagnostics profitability increased due to lower marketing and distribution costs and one-time effects in cost of sales, which more than offset the costs of the new medical device tax in the US within general and administration.

Operating free cash flow was 7.4 billion Swiss francs, 4% higher than the first half of 2012. This reflects the cash generation of both divisions, partly offset by an increase in net working capital. The increase in receivables relates mainly to public receivables in the first half of 2013, particularly in Spain and Italy, while the large settlement received in Spain for overdue receivables in June 2012 was not repeated. The free cash flow shows a cash outflow of 1.4 billion Swiss francs. This was primarily due to a higher annual dividend and higher tax payments, partly offset by lower interest payments as the Group's debt is progressively repaid.

In the first half of 2013 compared to the first half of 2012, the Swiss franc was stronger for some currencies, in particular the Japanese yen, but weakened against the euro and US dollar. The overall impact is slightly negative on the results expressed in Swiss francs compared to constant exchange rates, with a 1 percentage point impact on sales and 2 percentage point impact on Core EPS. The exchange rates used and currency sensitivities are given on page 38.

Income statement

	Six months ended 30 June 2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	23,295	22,423	+4	+5
Royalties and other operating income	956	880	+9	+10
Cost of sales	(6,126)	(6,048)	+1	+3
Marketing and distribution	(4,109)	(4,104)	0	+1
Research and development	(4,536)	(4,958)	–9	–8
General and administration	(886)	(1,861)	–52	–52
Operating profit	**8,594**	**6,332**	**+36**	**+37**
Associates	0	(2)	–100	–100
Financing costs	(777)	(887)	–12	–12
Other financial income (expense)	(61)	(13)	+369	Over +500
Profit before taxes	**7,756**	**5,430**	**+43**	**+44**
Income taxes	(1,709)	(1,118)	+53	+54
Net income	**6,047**	**4,312**	**+40**	**+41**
Attributable to				
– Roche shareholders	5,941	4,199	+41	+42
– Non-controlling interests	106	113	–6	+11
EPS (CHF) – Basic	7.00	4.96	+41	+43
EPS (CHF) – Diluted	6.88	4.93	+40	+42
Core results				
Sales	23,295	22,423	+4	+5
Royalties and other operating income	956	880	+9	+10
Cost of sales	(5,839)	(5,666)	+3	+5
Marketing and distribution	(4,024)	(4,005)	0	+2
Research and development	(4,143)	(4,043)	+2	+4
General and administration	(757)	(948)	–20	–20
Operating profit	**9,488**	**8,641**	**+10**	**+10**
Associates	0	(2)	–100	–100
Financing costs	(777)	(887)	–12	–12
Other financial income (expense)	(61)	(13)	+369	Over +500
Profit before taxes	**8,650**	**7,739**	**+12**	**+12**
Income taxes	(2,001)	(1,760)	+14	+14
Net income	**6,649**	**5,979**	**+11**	**+12**
Attributable to				
– Roche shareholders	6,542	5,866	+12	+12
– Non-controlling interests	107	113	–5	+11
Core EPS (CHF) – Basic	7.71	6.93	+11	+13
Core EPS (CHF) – Diluted	7.58	6.88	+10	+12

As disclosed in Note 1 to the Interim Financial Statements and as discussed below on page 47, the income statement for 2012 has been restated following the accounting policy changes which were adopted in 2013. In the restated interim results of 2012 this causes a reduction in net financial income of 81 million Swiss francs. See also the Investor Update from 21 March 2013. A reconciliation to the previously published income statement is provided in Note 1 to the Interim Financial Statements.

Sales

In the first half of 2013 sales increased by 5% at constant exchange rates (+4% in Swiss francs; +3% in US dollars) to 23.3 billion Swiss francs. Sales in the Pharmaceuticals Division rose 6% with Avastin, Herceptin, Actemra/RoActemra, Perjeta, MabThera/Rituxan and Kadcyla growing strongly. There were also increased sales of Tamiflu due to a severe flu season in North America. Emerging market (E7) sales in Pharmaceuticals grew by 11%, led by 26% in China, and now represent 11% of the division's sales. The Diagnostics Division recorded sales of 5.1 billion Swiss francs, an increase of 3% 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 6%. Tissue Diagnostics, with an increase of 6%, also showed strong growth, while Diabetes Care sales decreased by 5%.

Divisional operating results for the six months ended 30 June 2013

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
Sales	18,162	5,133	–	23,295
Core operating profit	8,522	1,083	(117)	9,488
– margin, % of sales	46.9	21.1	–	40.7
Operating profit	8,017	703	(126)	8,594
– margin, % of sales	44.1	13.7	–	36.9
Operating free cash flow	7,024	700	(279)	7,445
– margin, % of sales	38.7	13.6	–	32.0

Divisional operating results – Development of results compared to the six months ended 30 June 2012

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % increase CER	+6	+3	–	+5
Core operating profit				
– % increase CER	+9	+10	–53	+10
– margin: percentage point change	+1.2	+1.4	–	+2.0
Operating profit				
– % increase CER	+25	+56	–78	+37
– margin: percentage point change	+6.8	+4.8	–	+8.5
Operating free cash flow				
– % increase CER	+5	–8	+8	+4
– margin: percentage point change	–0.2	–1.8	–	–0.4

Core operating results

The Group's core operating profit increased by 10% at constant exchange rates (10% in Swiss francs), while sales increased by 5% (4% in Swiss francs). The Group's core operating profit margin improved by 2.0 percentage points to 40.7% of sales, with the Pharmaceuticals Division increasing by 1.2 percentage points and Diagnostics Division increasing by 1.4 percentage points. Currency translation did not have a significant impact on the operating results, with a positive effect of 0.2 percentage points on Group core operating margin, a positive effect of 0.4 percentage points for the Pharmaceuticals Division and a negative effect of 0.2 percentage points for the Diagnostics Division.

Pharmaceuticals Division. The division increased its core operating profit by 9% at constant exchange rates, driven by growth of the underlying business with a 6% increase in sales and a decrease in marketing and distribution and research and development spend as a percentage of sales. Core research and development costs increased by 4%, mainly in the oncology and central nervous systems franchises, while there was a decrease of general and administration costs mainly due to the impact of income recorded for past service costs from changes to the Group's pension plans.

Diagnostics Division. Core operating profit increased 10%, again driven by growth of the business, with a 3% increase in sales. Marketing and distribution costs decreased by 1% due to lower bad debt expenses. General and administration costs were lower due to income recorded for past service costs from changes to the Group's pension plans partly offset by the costs of the new medical device tax in the US. Cost of sales includes some one time effects, but was otherwise in line with sales growth. As described below, the division has continued the implementation of global restructuring plans in the Diabetes Care and Applied Science businesses.

Global restructuring plans

During the interim period of 2013 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the reorganisation of research and development in the Pharmaceuticals Division and programmes to address long-term profitability in the Diabetes Care and Applied Science businesses in Diagnostics.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics[1]	Pharma R&D[2]	Other plans[3]	Total
Six months ended 30 June 2013				
Global restructuring costs				
– Employee-related costs	83	22	61	166
– Site closure costs	16	2	26	44
– Other reorganisation expenses	30	36	24	90
Total global restructuring costs	**129**	**60**	**111**	**300**
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	–	–	3
Total costs	**179**	**60**	**111**	**350**

1) Includes restructuring of the Diabetes Care and former Applied Science business areas.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes Operational Excellence (Pharmaceuticals and Diagnostics).

Diagnostics Division – Diabetes Care and Applied Science restructuring. Various initiatives were announced in 2012 for the Diabetes Care and Applied Science businesses, which include increasing the efficiency of marketing and distribution operations and research and development activities. On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the Group's other Diagnostics business areas. This will streamline decision-making and enhance technology flow from research use to the clinical setting. In total, costs of 129 million Swiss francs were incurred in the first half of 2013, which relate to employee termination and site closure costs. In addition, goodwill impairment charges of 35 million Swiss francs were incurred for the write-off of the goodwill from the Innovatis and 454 Life Sciences acquisitions in the former Applied Science business area.

Pharmaceuticals Division – Research and Development reorganisation. On 26 June 2012 the Group announced a streamlining of the research and development activities within the Pharmaceuticals Division. The planned operational closure of the US site in Nutley, New Jersey, by the end of 2013 is on schedule. The first results of the environmental investigations are expected in early 2014. During the interim period in 2013, additional costs of 60 million Swiss francs were incurred, mainly for employee-related costs, property taxes and outside services.

Other global restructuring plans. During the interim period costs of 91 million Swiss francs were incurred for the previously announced Operational Excellence programme, mainly for employee-related costs in the Pharmaceuticals Division and employee-related and site closure costs in the Diagnostics Division for the sites in Burgdorf, Switzerland and Graz, Austria. Other smaller plans totalled 20 million Swiss francs.

Merger and Acquisitions

Effective 1 July 2013 the Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI will be reported in the Diagnostics operating segment. The purchase consideration is 220 million US dollars in cash and up to 255 million US dollars from a contingent consideration arrangement.

Impairment of goodwill and intangible assets

In the interim period impairment charges for goodwill and intangible assets of 35 million Swiss francs and 12 million Swiss francs, respectively, were incurred for the Applied Science restructuring initiative as described above. In addition, unrelated to global restructuring, impairments totalling 235 million Swiss francs were recorded in the Pharmaceuticals Division following a portfolio reassessment within the hepatitis C virus (HCV) franchise. Further impairment charges of 33 million Swiss francs were recorded in respect of projects in collaboration with alliance partners.

Pensions and other post-employment benefits

During the first half of 2013 operating income of 252 million Swiss francs was recorded for past service costs from changes to the Group's pension plans in Switzerland and the United Kingdom. This represents the one-time impact of the adjustment of the pension liability for the plan changes. Of this amount, 121 million Swiss francs were recorded in the Pharmaceuticals Division and 28 million Swiss francs in the Diagnostics Division. The remaining 103 million Swiss francs of income were allocated to Corporate, mainly attributable to previously divested businesses. Further details are given in Note 8 to the Interim Financial Statements.

Treasury and taxation

Financing costs were 0.8 billion Swiss francs, a decrease of 12%, with interest expenses being 19% lower at constant exchange rates as debt was repaid. Other financial income (expense) was a net expense of 61 million Swiss francs, mainly due to the foreign exchange losses following the devaluation of the Venezuelan bolivar. Core tax expenses increased by 14% to 2.0 billion Swiss francs and the Group's effective core tax rate increased to 23.1% compared to 22.7% in the first half of 2012. This was mainly due to the higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group rate, notably from the US. This was partly offset by the retrospective re-enactment of the 2012 US research and development tax credit rules in January 2013.

Net income and Earnings per share

Net income increased by 41% and diluted EPS increased by 42% at constant exchange rates driven by the strong operating performance, significantly lower restructuring expenses and lower financing costs. On a core basis, which excludes non-core items such as global restructuring costs and amortisation and impairment of goodwill and intangible assets, net income and Core EPS increased by 12%. This was driven by a strong operating performance and lower financing costs which offset higher tax expenses.

Supplementary net income and EPS information is given on pages 78–81. This includes calculations of Core EPS and reconciles the Core results to the Group's published IFRS results.

Financial position

	30 June 2013 (mCHF)	31 December 2012 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	6,556	5,548	+18	+20
Long-term net operating assets	12,987	12,955	0	0
Diagnostics				
Net working capital	3,604	3,347	+8	+7
Long-term net operating assets	11,426	11,382	0	–2
Corporate				
Net working capital	(38)	(71)	–46	–46
Long-term net operating assets	(395)	(309)	+28	+23
Net operating assets	**34,140**	**32,852**	**+4**	**+3**
Net debt	(13,620)	(10,599)	+29	+20
Pensions	(6,119)	(6,553)	–7	–9
Income taxes	1,975	1,581	+25	+23
Other non-operating assets, net	(302)	(531)	–43	–48
Total net assets	**16,074**	**16,750**	**–4**	**+1**

Compared to the start of the year the Swiss franc slightly weakened against the US dollar and the euro by 30 June, but it appreciated significantly against the Japanese yen resulting overall in a negative translation impact on balance sheet positions. The exchange rates used are given on page 38.

In the Pharmaceuticals Division net working capital increased significantly by 20% at constant exchange rates. Receivables increased mainly due to collection delays in Spain and Italy. Additional public funding in these countries is expected to improve collection of outstanding receivables in the second half of 2013, however the economic situation remains unpredictable. Payables decreased as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits. The expected higher sales demand in the US and key emerging markets led to an increase in inventories. There were also higher levels of safety stock and inventories for recent and upcoming product launches. Long-term net operating assets were stable, as the impairments of intangible assets for the hepatitis C virus (HCV) franchise offset the utilisation of restructuring provisions. In Diagnostics the increase in net working capital of 7% was driven by an increase in receivables due to lower collections in the first of half of 2013 in Southern European countries after the strong collections and factoring initiatives in the previous year. Additionally, receivables increased due to higher sales in emerging countries, notably China. The long-term net operating assets decreased by 2% due to the amortisation of intangible assets.

The increase in the net debt position was mainly due to the annual dividend payments of 6.3 billion Swiss francs and interest and tax payments which more than offset the higher operating free cash flow. The net pension liabilities decreased by 0.4 billion Swiss francs due to changes in discount rates and the pension plan changes referred to above. The net tax assets increased mainly due to the deferred tax effect of equity compensation plans due to the increase in the price of the underlying Roche equities. Transactions in own equity to hedge the Group's employee stock option programmes increased net debt by 1.0 billion Swiss francs.

Free cash flow

	Six months ended 30 June 2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
Pharmaceuticals	7,024	6,699	+5	+5
Diagnostics	700	805	–13	–8
Corporate	(279)	(260)	+7	+8
Operating free cash flow	**7,445**	**7,244**	**+3**	**+4**
Treasury activities	(900)	(1,147)	–22	–20
Taxes paid	(1,653)	(1,481)	+12	+13
Dividends paid	(6,284)	(5,851)	+7	+8
Free cash flow	**(1,392)**	**(1,235)**	**+13**	**+12**

The Group's operating free cash flow for the first six months of 2013 was 7.4 billion Swiss francs, an increase of 4%. The 10% increase in core operating profit was partly offset by an increase in net working capital and by the higher cash utilisation of restructuring provisions. There were also several non-cash items in core income, including the income from pension past service costs in 2013. There was an increase in public receivables in Spain and Italy and the comparative first half of 2012 includes large cash settlement of overdue public debt in Spain which was not repeated so far in 2013. The free cash flow in the first half of 2013 shows a cash outflow of 1.4 billion Swiss francs which is a 12% increase on 2012 mainly due to the higher annual dividend payments and tax payments, partly offset by lower interest payments. The Group has refined the calculation of the free cash flow in 2013 to exclude the impact of employee stock options, in line with its peer group (see page 82 for further details). Comparative 2012 free cash flow information has been restated accordingly.

Pharmaceuticals operating results

Pharmaceuticals Division interim operating results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	18,162	17,409	+4	+6
Royalties and other operating income	883	802	+10	+11
Cost of sales	(3,715)	(3,640)	+2	+5
Marketing and distribution	(2,822)	(2,791)	+1	+3
Research and development	(4,002)	(4,472)	–11	–9
General and administration	(489)	(870)	–44	–43
Operating profit	**8,017**	**6,438**	**+25**	**+25**
– margin, % of sales	44.1	37.0	+7.1	+6.8
Core results[1)]				
Sales	18,162	17,409	+4	+6
Royalties and other operating income	883	802	+10	+11
Cost of sales	(3,626)	(3,486)	+4	+7
Marketing and distribution	(2,791)	(2,751)	+1	+3
Research and development	(3,670)	(3,587)	+2	+4
General and administration	(436)	(498)	–12	–11
Core operating profit	**8,522**	**7,889**	**+8**	**+9**
– margin, % of sales	46.9	45.3	+1.6	+1.2
Financial position				
Net working capital	6,556	5,548	+18	+20
Long-term net operating assets	12,987	12,955	0	0
Net operating assets	**19,543**	**18,503**	**+6**	**+6**
Free cash flow				
Operating free cash flow	7,024	6,699	+5	+5
– margin, % of sales	38.7	38.5	+0.2	–0.2

1) See pages 78–81 for definition of Core results and Core EPS.

Sales overview

Pharmaceuticals Division – Interim sales by therapeutic area

Therapeutic area	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Oncology	11,174	10,429	+8	60	60
Inflammation/Autoimmune/Transplantation	1,611	1,476	+11	9	8
Virology	1,548	1,572	–1	9	9
Ophthalmology	820	745	+9	5	4
Respiratory diseases	664	602	+10	4	3
Metabolism/Bone	620	800	–18	3	5
Cardiovascular diseases	519	483	+10	3	3
Renal anemia	469	528	–6	3	3
Central nervous system	404	443	–7	2	3
Infectious diseases	180	178	+3	1	1
Other therapeutic areas	153	153	+6	1	1
Total sales	**18,162**	**17,409**	**+6**	**100**	**100**

Pharmaceuticals Division sales increased 6% at constant exchange rates, with growth driven by the oncology portfolio, which grew in both established and newly launched products, and higher sales of Tamiflu and Actemra/RoActemra. These offset lower sales of Pegasys, the expected further decline in Bonviva/Boniva and NeoRecormon/Epogin and the loss of Chugai's Evista sales following the termination of a co-marketing agreement in Japan. Sales growth was primarily driven by six products: Avastin, Herceptin, Actemra/RoActemra, Perjeta, MabThera/Rituxan and Kadcyla. These products represent 57% of the portfolio (2012: 54%) and together generated 0.8 billion Swiss francs of additional sales in the first half of 2013.

In oncology the established products grew significantly as their use expanded in treatment of additional indications. Additionally, the HER2 franchise was strengthened by the approvals of Perjeta in the EU and Kadcyla in the US. Perjeta is now approved in the US, EU and more than 20 other countries. Zelboraf also continued to be a significant growth contributor and is now approved in over 60 countries. Sales in inflammation/autoimmune/transplantation increased due to strong growth of Actemra/RoActemra in all regions, reflecting the superiority of Actemra as a monotherapy treatment, and also due to growth of MabThera/Rituxan in rheumatoid arthritis. There was continued growth in ophthalmology as Lucentis sales increased due to further market penetration and a new dosing regimen.

Product sales

Pharmaceuticals Division – Interim sales

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Oncology					
Avastin	3,093	2,805	+12	17	16
Herceptin	3,082	2,951	+5	17	17
MabThera/Rituxan [1)]	2,833	2,780	+2	16	16
Xeloda	771	763	+2	4	5
Tarceva	691	666	+4	4	4
Zelboraf	171	92	+84	1	0
Neutrogin	110	125	+5	0	1
Perjeta	108	4	over +500	0	0
Kadcyla	83	0	–	0	0
Others	232	243	–2	1	1
Total Oncology	**11,174**	**10,429**	**+8**	**60**	**60**
Inflammation/Autoimmune/Transplantation					
MabThera/Rituxan [1)]	568	535	+6	3	3
Actemra/RoActemra	496	385	+33	3	2
CellCept	465	454	+3	3	3
Others	82	102	–9	0	0
Total Inflammation/Autoimmune/ Transplantation	**1,611**	**1,476**	**+11**	**9**	**8**
Virology					
Pegasys	724	903	–20	4	5
Tamiflu	380	221	+79	2	1
Valcyte/Cymevene	333	307	+8	2	2
Others	111	141	–22	1	1
Total Virology	**1,548**	**1,572**	**–1**	**9**	**9**
Ophthalmology					
Lucentis	820	745	+9	5	4
Total Ophthalmology	**820**	**745**	**+9**	**5**	**4**
Respiratory diseases					
Xolair	386	345	+11	2	2
Pulmozyme	278	257	+8	2	1
Total Respiratory diseases	**664**	**602**	**+10**	**4**	**3**
Metabolism/Bone					
Nutropin	144	154	–7	1	1
Bonviva/Boniva	110	207	–47	0	1
Others	366	439	–8	2	3
Total Metabolism/Bone	**620**	**800**	**–18**	**3**	**5**

Pharmaceuticals Division – Interim sales *(continued)*

	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Cardiovascular diseases					
Activase/TNKase	341	285	+19	2	2
Others	178	198	–3	1	1
Total Cardiovascular diseases	**519**	**483**	**+10**	**3**	**3**
Renal anemia					
NeoRecormon/Epogin[2)]	269	351	–21	2	2
Mircera	200	177	+23	1	1
Total Renal anemia	**469**	**528**	**–6**	**3**	**3**
Central nervous system					
Madopar	158	157	+2	1	1
Others	246	286	–11	1	2
Total Central nervous system	**404**	**443**	**–7**	**2**	**3**
Infectious diseases					
Rocephin	138	133	+5	1	1
Others	42	45	–4	0	0
Total Infectious diseases	**180**	**178**	**+3**	**1**	**1**
Other therapeutic areas	**153**	**153**	**+6**	**1**	**1**
Total sales	**18,162**	**17,409**	**+6**	**100**	**100**

1) Total MabThera/Rituxan sales of 3,401 million Swiss francs (2012: 3,315 million Swiss francs) split between Oncology and Inflammation/Autoimmune/Transplantation franchises.
2) In previous reports total NeoRecormon/Epogin sales were split between renal anemia and oncology franchises.

MabThera/Rituxan. For non-Hodgkin's lymphoma (NHL), chronic lymphocytic leukemia (CLL) and rheumatoid arthritis (RA) as well as granulomatosis with polyangiitis (GPA) and microscopic polyangiitis (MPA). Sales growth in the oncology franchise of 2% was driven by increased use in the first-line maintenance indication in follicular lymphoma (a type of NHL) in the US and Europe. US sales were 1.7 billion Swiss francs, an increase of 6%, while sales in Europe were up by 2%. Sales fell by 3% in the International region, due to the timing of tender sales and to mandatory price discounts in Brazil. These more than offset the sales growth in China from increased demand for treatment of diffuse large B-cell lymphoma (a type of NHL). Sales growth in the RA franchise was 6%, mainly driven from the US as the result of growth in the third-line setting and in the treatment for GPA and MPA.

HER2 franchise (Herceptin, Perjeta and Kadcyla). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer. Herceptin sales grew in the US (+9%) and in the International region (+8%). This growth resulted from expanded access in developing countries, increased use in previously untreated breast cancer patients, uptake in the gastric cancer indication and improved HER2 testing. US growth resulted from increased usage in both breast and gastric cancer. The International region grew in Asia with increased patient access and in Latin America from demand in both private and public sectors. Sales in the Eastern Europe, Middle East and Africa sub-region decreased compared to the first half of 2012 due to the timing of tender sales. In Europe sales were stable and Herceptin remains the Group's leading product there with sales of 1.1 billion Swiss francs. Sales in Japan grew by 6%. The newly launched Perjeta and Kadcyla contributed 108 and 83 million Swiss francs respectively of sales in the first half of 2013, resulting in HER2 franchise year-over-year sales growth of 11%.

Avastin. For advanced colorectal, breast, lung, kidney and ovarian cancer, and relapsed glioblastoma (a type of brain tumour). Sales grew in all regions and in particular in Europe, where sales rose 16% as a result of increasing use in ovarian cancer as well as colorectal and lung cancer. Sales in the US rose 3% to 1.3 billion Swiss francs largely due to higher demand to treat both colorectal cancer and lung cancer. In the International region sales grew 28% due to emerging markets, notably China, Venezuela and Brazil. In Japan sales increased by 18% as a result of growth in the breast cancer and lung cancer indications. This year Avastin was approved in the US and Europe for treating patients with colorectal cancer whose disease has progressed, continuing Avastin from first-line into second-line therapy with a different chemotherapy regimen (TML – treatment across multiple lines).

Lucentis. For wet age-related macular degeneration (AMD), macular edema following retinal vein occlusion (RVO) and diabetic macular edema (DME). US sales grew by 9% driven by increasing patient share in the DME indication and approval of a less frequent dosing regimen in wet AMD.

Pegasys. For hepatitis B and C. Sales decreased by 20%, due to strong sales in the comparative period in 2012 following the launch of Pegasys in triple-combination therapy and delays in treatment in anticipation of future interferon free medicines. In Europe Pegasys plus ribavirin was recently approved for treatment of chronic hepatitis C in children five years of age and older. Within the International region sales fell by 13%, with growth in China (+11%), being more than offset by lower sales in the EEMEA and Latin America sub-regions, mainly due to the timing of tender sales.

Other products. Actemra/RoActemra sales increased by 33%, with growth in all regions driven by positive clinical results supporting the effectiveness in monotherapy treatment. Demand was particularly strong in the US and Europe and Actemra has now been approved in China. The uptake of Zelboraf in the US and Europe continued, with especially strong growth in Europe, and total sales increasing by 84% to 171 million Swiss francs. Tamiflu sales increased by 79% mainly due to a severe flu season in North America.

Pharmaceuticals Division – Interim sales by region

Region	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
United States	7,553	6,815	+10	42	39
Europe	4,652	4,514	+1	26	26
Japan	1,672	1,943	+2	9	11
International	4,285	4,137	+5	23	24
– EEMEA[1)]	*997*	*1,054*	*–5*	*5*	*5*
– Latin America	*1,255*	*1,299*	*+3*	*7*	*8*
– Asia–Pacific	*1,571*	*1,349*	*+14*	*9*	*8*
– Other regions	*462*	*435*	*+7*	*2*	*3*
Total sales	**18,162**	**17,409**	**+6**	**100**	**100**

The above table is presented using the new organisational structure of the Pharmaceuticals Division (see Investor Update from 21 March 2013).

1) Eastern Europe, Middle East and Africa.

United States. Sales grew by 10% in US dollar terms. The leading products were the oncology medicines MabThera/Rituxan, Avastin and Herceptin, with sales of 1.7 billion Swiss francs (+6%), 1.3 billion Swiss francs (+3%) and 0.9 billion Swiss francs (+9%), respectively. Of the other products, the main growth drivers were Tamiflu, Perjeta, Kadcyla, Lucentis, Activase/TNKase, Tarceva and Actemra/RoActemra.

Europe. Sales increased by 1% in constant currencies, despite being impacted by pricing pressures. Growth was mainly driven by oncology products with Avastin (+16%), Zelboraf (over +100%) and MabThera/Rituxan (+2%). In addition there was continued sales growth of Actemra/RoActemra (+30%). These were partially offset by lower Bonviva/Boniva and NeoRecormon sales.

Japan. Sales grew by 2% in Japanese yen terms. Results in Japan were impacted by the loss of Evista sales following the termination of a co-marketing agreement, which had a negative 5 percentage point impact on sales growth. The major growth drivers were Avastin with sales of 342 million Swiss francs (+18%) and Edirol with 87 million Swiss francs (over +100%). There was also growth in Actemra/RoActemra (+16%), Herceptin (+6%) and Tamiflu (+11%).

International. Sales increased by 5% driven by the Asia–Pacific and Latin America sub-regions. Growth in Asia–Pacific was mainly due to the oncology products, especially Herceptin (+20%), Avastin (+39%), MabThera/Rituxan (+10%) and Xeloda (+15%). There were also higher sales of Tamiflu. China was the main driver in this region, with overall sales growth of 26%. In Latin America sales grew driven by Avastin and Herceptin despite pricing pressure and political uncertainties. For the sub-region EEMEA, the phasing impact of tender sales led to lower overall sales in the first half of the year. Total sales in the E7 key emerging markets grew by 11%.

Pharmaceuticals Division – Interim sales for E7 leading emerging markets

Country	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Brazil	474	515	0	3	3
China	780	604	+26	4	3
India	47	49	–2	0	0
Mexico	203	188	+1	1	1
Russia	132	133	–2	1	1
South Korea	117	111	+1	1	1
Turkey	184	151	+22	1	1
Total sales	**1,937**	**1,751**	**+11**	**11**	**10**

Operating results

Royalties and other operating income. The increase of 11% at constant exchange rates was due to higher income from out-licensing agreements and royalties. The increase in royalty income is due to higher royalty bearing sales for Eylea and Humira. The increase in out-licensing income was mainly due to out-licensing agreements in Japan. Income from product disposals fell due to the comparative period including income from two large transactions.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Royalty income	754	662	+14
Income from out-licensing agreements	80	15	Over +500
Income from disposal of products and other	49	125	–61
Total – IFRS and Core basis	**883**	**802**	**+11**

Cost of sales. Core costs increased by 7% at constant exchange rates mainly due to the impact of higher sales on both manufacturing cost of goods sold and royalty expenses. As a percentage of sales, cost of sales were stable at 20.0%. Royalty expenses were 18% higher driven by higher sales of Tamiflu and Avastin and additional back royalty expenses of 42 million Swiss francs due to the latest developments in the Sanofi arbitration (see also Note 11 to the Interim Financial Statements). Expenses from collaboration and profit-sharing agreements increased mainly driven by higher co-promotion expenses due to higher sales of MabThera/Rituxan and Tarceva.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,066)	(2,078)	+5
Royalty expenses	(731)	(624)	+18
Collaboration and profit-sharing agreements	(829)	(775)	+6
Impairment of property, plant and equipment	0	(9)	–100
Cost of sales – Core basis	**(3,626)**	**(3,486)**	**+7**
Global restructuring plans	(28)	(66)	–59
Amortisation of intangible assets	(61)	(75)	–13
Impairment of intangible assets	0	(13)	–100
Total – IFRS basis	**(3,715)**	**(3,640)**	**+5**

Marketing and distribution. Core costs increased at constant exchange rates by 3%. However, as a percentage of sales, costs fell to 15.4% (2012: 15.8%). Sales and marketing focussed on continuing growth and expansion in emerging markets and increasing patient access to medicines. It also supported the existing oncology portfolio and the newly launched products such as Perjeta, Kadcyla, Zelboraf and Erivedge.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(2,791)**	**(2,751)**	**+3**
Global restructuring plans	(31)	(40)	–27
Total – IFRS basis	**(2,822)**	**(2,791)**	**+3**

Research and development. Core costs increased by 4% at constant exchange rates although research and development costs as a percentage of sales fell to 20.2% (2012: 20.6%). There were increased investments in the oncology and central nervous system therapeutic areas. In oncology activities were focussed on new indications for recently launched products and other developments, such as PD-L1 targeted therapy. The progression of phase III studies in bitopertin and ocrelizumab MS and the advancement of programmes for Alzheimer's disease were areas of activity in central nervous system. These were partially offset by lower spending in ophthalmology and inflammation, with the discontinuation of inflammation research in Nutley. In addition the Pharmaceuticals Division spent 182 million Swiss francs on the in-licensing of pipeline compounds and technologies, which are capitalised as intangible assets. The 2013 impairments of intangible assets include 235 million Swiss francs following a portfolio reassessment within the hepatitis C virus (HCV) franchise and a further 33 million Swiss francs in respect of projects in collaboration with alliance partners. Amortisation of intangible assets increased due to the investments made in the last twelve months. Global restructuring costs of 38 million Swiss francs were recorded, consisting mainly of employee-related costs and outside services for the closure of the Nutley site. The termination of the aleglitazar trials announced on 10 July 2013 had no impact on the Group's interim results and financial position at 30 June 2013.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Research and development – Core basis	**(3,670)**	**(3,587)**	**+4**
Global restructuring plans	(38)	(423)	–91
Amortisation of intangible assets	(26)	(14)	+93
Impairment of intangible assets	(268)	(448)	–41
Total – IFRS basis	**(4,002)**	**(4,472)**	**–9**

General and administration. Core costs fell by 11% at constant exchange rates and as a percentage of sales decreased to 2.4% from 2.9%. This reflects the impact of the income recorded for past service costs from changes in the Group's pension plans in Switzerland and the United Kingdom. The increase in administration costs was mainly a result of a shift of finance headcount from Corporate. There was also an increase in business taxes, including the costs for the US Branded Pharmaceutical Product Fee ('Excise Tax') of 90 million Swiss francs (2012: 74 million Swiss francs). Global restructuring costs include site closure costs for Nutley, consisting of employee-related costs, property taxes and outside services.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(498)	(447)	+13
Pensions – past service costs	121	0	–
Gains (losses) on disposal of property, plant and equipment	(1)	0	–
Business taxes and capital taxes	(119)	(102)	+16
Other general items	61	51	+24
General and administration – Core basis	**(436)**	**(498)**	**–11**
Global restructuring plans	(39)	(400)	–90
Alliances and business combinations	1	44	–100
Legal and environmental settlements	(15)	(16)	–10
Total – IFRS basis	**(489)**	**(870)**	**–43**

Roche Pharmaceuticals and Chugai sub-divisional operating results

Pharmaceuticals sub-divisional interim operating results in millions of CHF

	Roche Pharmaceuticals		Chugai		Pharmaceuticals Division	
	2013	2012	2013	2012	2013	2012
Sales						
– External customers	16,490	15,466	1,672	1,943	18,162	17,409
– Within division	538	426	180	156	718	582
Core operating profit	8,180	7,423	365	419	8,522	7,889
– margin, % of sales to external customers	49.6	48.0	21.8	21.6	46.9	45.3
Operating profit	7,699	6,009	342	382	8,017	6,438
– margin, % of sales to external customers	46.7	38.9	20.5	19.7	44.1	37.0
Operating free cash flow	6,728	6,035	296	664	7,024	6,699
– margin, % of sales to external customers	40.8	39.0	17.7	34.2	38.7	38.5

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of 24 million Swiss francs of unrealised inter-company losses between Roche Pharmaceuticals and Chugai (2012: 47 million Swiss francs of profits).

Sales and core operating profit of Roche Pharmaceuticals increased significantly with under–proportional cost growth in marketing and distribution and research and development. The fall in the exchange rate of the Japanese yen has a negative impact of approximately 16% on the Chugai results when expressed in Swiss francs. Sales to external customers by Chugai increased by 2% in Japanese yen, and Chugai core operating profit increased by 4% due to higher income from out-licensing agreements and royalties offsetting increased research and development costs arising from expanded research facilities. Results in Japan were impacted by the loss of Evista sales following the termination of a co-marketing agreement; excluding this, sales to external customers increased by 7%. The operating free cash flow at Chugai decreased mainly as a result of net working capital movements with a significant decrease in accounts payables driven by timing of material purchases from Roche Pharmaceuticals and higher inventory levels being held to ensure continuation of supply.

Financial position

Pharmaceuticals Division – Net operating assets

	30 June 2013 (mCHF)	31 Dec. 2012 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Receivables	8,184	7,841	+4	+5	396	(53)
Inventories	3,874	3,584	+8	+9	297	(7)
Payables	(5,502)	(5,877)	–6	–7	430	(55)
Net working capital	**6,556**	**5,548**	**+18**	**+20**	**1,123**	**(115)**
Property, plant and equipment	10,629	10,704	–1	–1	(96)	21
Goodwill and intangible assets	4,162	4,258	–2	–4	(173)	77
Provisions	(2,044)	(2,249)	–9	–11	261	(56)
Other long-term assets, net	240	242	–1	–6	(9)	7
Long-term net operating assets	**12,987**	**12,955**	**0**	**0**	**(17)**	**49**
Net operating assets	**19,543**	**18,503**	**+6**	**+6**	**1,106**	**(66)**

The absolute amount of the movement between the 30 June 2013 and 31 December 2012 consolidated balances reported in Swiss francs is split between actual 2013 transactions (translated at average rates for 2012) and the currency translation adjustment (CTA) that arises on consolidation. The 2013 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 51 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 83.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc slightly weakened against the US dollar and the euro by 30 June, but it appreciated significantly against the Japanese yen resulting overall in a negative translation impact on balance sheet positions. The exchange rates used are given on page 38.

Net working capital. The increase of 20% at constant exchange rates was due to increases in receivables and inventories and a decrease in payables. Receivables increased mainly due to some delays in collection of receivables, notably in Spain and Italy. Additional public funding in these countries is expected to improve collection of outstanding receivables in the second half of 2013. Outside of Europe, there was an increase in receivables in China and several other growing markets due to sales growth, partly offset by significant collections in Russia. Inventories increased due to expected higher sales demand in the US and key emerging markets. There were higher levels of safety stock and inventories for recent and upcoming launches for products such as Perjeta and Actemra/RoActemra subcutaneous (SC) formulation. Payables decreased since the end of 2012 as a result of the settlement of significant year-end accounts payable and accruals, including employee benefits.

Long-term net operating assets. These were stable as the impairments of intangible assets offset the utilisation of provisions, mainly those that were made in respect of the restructuring programmes. In addition the Nutley environmental provision was transferred from the Pharmaceuticals Division to Corporate as it is being managed centrally with the planned site divestment.

Free cash flow

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Operating profit – IFRS basis	**8,017**	**6,438**	**+25**
– Depreciation, amortisation and impairment	870	1,512	–42
– Provisions	(165)	263	–
– Equity compensation plans	147	141	+4
– Other	87	202	–58
Operating profit cash adjustments[1]	**939**	**2,118**	**–55**
Operating profit, net of operating cash adjustments	**8,956**	**8,556**	**+5**
(Increase) decrease in net working capital			
– Accounts receivable	(301)	(69)	+334
– Inventories	(376)	(440)	–10
– Accounts payable	(558)	(719)	–23
Total (increase) decrease in net working capital	**(1,235)**	**(1,228)**	**+2**
Investments in property, plant and equipment	(515)	(482)	+9
Investments in intangible assets	(182)	(147)	+23
Operating free cash flow	**7,024**	**6,699**	**+5**
– as % of sales	38.7	38.5	–0.2

1) A detailed breakdown is provided on page 82.

The Pharmaceuticals Division's operating free cash flow increased to 7.0 billion Swiss francs. The increased cash generation from the underlying business more than compensated for the increases in net working capital during the first half of 2013 noted above in the comments on the financial position. Operating profit, net of cash adjustments, increased by 5% while core operating profit increased by 9%. This difference was mainly due to several non-cash items, including the income from pension past service costs in 2013. Increases in receivables were higher as compared to the first half of 2012 with some delays in collections in Southern European countries. This is particularly notable in Spain, where there were large cash settlements of overdue public receivables in June 2012, which were not repeated in 2013. The increase in inventories and decrease in payables were relatively less than in the first half of 2012. Capital expenditure for property, plant and equipment relates to efficiency improvement in manufacturing facilities and increased production capacity, in particular in the US and Asia. There was also the transfer of functions from the Nutley site to other locations and an infrastructure expansion resulting from business growth in Asia.

Diagnostics operating results

Diagnostics Division interim operating results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Sales	5,133	5,014	+2	+3
Royalties and other operating income	73	78	–6	–8
Cost of sales	(2,411)	(2,408)	0	0
Marketing and distribution	(1,287)	(1,313)	–2	–2
Research and development	(534)	(486)	+10	+9
General and administration	(271)	(421)	–36	–36
Operating profit	**703**	**464**	**+52**	**+56**
– margin, % of sales	13.7	9.3	+4.4	+4.8
Core results [1]				
Sales	5,133	5,014	+2	+3
Royalties and other operating income	73	78	–6	–8
Cost of sales	(2,213)	(2,180)	+2	+2
Marketing and distribution	(1,233)	(1,254)	–2	–1
Research and development	(473)	(456)	+4	+3
General and administration	(204)	(204)	0	–1
Core operating profit	**1,083**	**998**	**+9**	**+10**
– margin, % of sales	21.1	19.9	+1.2	+1.4
Financial position				
Net working capital	3,604	3,347	+8	+7
Long-term net operating assets	11,426	11,382	0	–2
Net operating assets	**15,030**	**14,729**	**+2**	**0**
Free cash flow				
Operating free cash flow	700	805	–13	–8
– margin, % of sales	13.6	16.1	–2.5	–1.8

1) See pages 78–81 for definition of Core results and Core EPS.

Sales

The Diagnostics business continued to increase sales with a growth of 3% at constant exchange rates. Professional Diagnostics, with 6% sales growth, was the main growth contributor led by its Immunodiagnostics business. Tissue Diagnostics sales grew by 6% driven by the primary staining franchise. Diabetes Care sales decreased by 5% mainly due to austerity measures and continued reimbursement cuts, notably in the US, and pricing pressure from low-cost providers. Sales in Molecular Diagnostics increased by 1%, as growth in the underlying molecular businesses of 4% was offset by a decline in the genome sequencing business.

On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the Group's other Diagnostics business areas. The polymerase chain reaction technology (PCR), the nucleic acid purification (NAP) and biochemical reagents lines will be managed by Molecular Diagnostics. The Custom Biotech portfolio will move to Professional Diagnostics. A dedicated unit will be established to focus solely on sequencing. Sales information has been reclassified retrospectively, and the sales of the sequencing business are reported as part of the results for Molecular Diagnostics. Total divisional sales are unchanged.

Diagnostics Division – Interim sales by business area

Business area	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Professional Diagnostics	2,809	2,653	+6	55	53
Diabetes Care	1,205	1,260	–5	23	25
Molecular Diagnostics	797	796	+1	16	16
Tissue Diagnostics	322	305	+6	6	6
Total sales	**5,133**	**5,014**	**+3**	**100**	**100**

Professional Diagnostics. With an increase in sales of 6%, the business area was the major contributor to divisional performance in all regions, with growth being primarily driven by the immunoassay business (+12%), which now represents 24% of divisional sales. This was supported by the clinical chemistry business (+3%) and the patient coagulation monitoring business (+7%). There were four new Elecsys immunoassay launches in the first half of 2013. These are the Calcitonin test for the diagnosis and monitoring of medullary thyroid cancer, the proGRP test for the diagnosis of small cell lung cancer and two tests for the monitoring of specific immunosuppressive drugs in transplant patients. Due to the reorganisation of the Applied Science business the Custom Biotech portfolio is now part of the Professional Diagnostics business area and this is also reflected in the comparative information.

Diabetes Care. Sales declined by 5% primarily due to austerity measures, pricing pressure and continued reimbursement changes for blood glucose (bG) monitoring supplies in major markets like the US. Sales in North America were down by 14% due to the Medicare reimbursement cut and a volume decline in the US while sales decreased by 1% in EMEA after reimbursement cuts in the previous year in most of the European markets. Sales of the premium product Accu-Chek Mobile grew by 45% and Accu-Chek Performa sales were up 16%. In the EU there was the launch of the Accu-Chek Active, a bG monitoring meter with maltose-independent chemistry on the test strips. In 2012 Roche Diabetes Care initiated a restructuring, notably of research and development activities but also including some marketing and manufacturing activities, to sustain long-term profitability.

Molecular Diagnostics. Sales rose 1% with growth in the underlying molecular businesses of 4%, with the major contribution coming from the HPV (cervical cancer screening) business. This was offset by the genome sequencing business, which was formerly in the Applied Science business. Regionally, growth was driven by North America (+4%) due to strong sales in the US partially offset by EMEA (–1%) due to lower sales in Southern European markets. In the first half of 2013 the FDA approved the cobas second generation dual probe hepatitis C virus (HCV) load test and the cobas EGFR test as a companion diagnostic for Tarceva in metastatic lung cancer. Following the reorganisation of the Applied Science business the real-time PCR technology, the NAP (nucleic acid purification) portfolio and biochemical reagents are now part of the Molecular Diagnostics business and this is also reflected in the comparative information.

Tissue Diagnostics. Sales rose 6%, driven by 22% growth in the primary tissue staining portfolio. In particular the BenchMark special stains had strong uptake in the North American and the EMEA regions. Companion diagnostics also contributed to the sales growth. In North America sales were stable due to reimbursement changes and new laboratory guidelines in the US. There was strong sales growth in EMEA (+13%) and Asia–Pacific (+29%). The business further increased its personalised healthcare collaborations, with three new external collaborations initiated in the first half of 2013. In the US there was the launch of the CONFIRM anti-Estrogen Receptor (IHC) test.

Diagnostics Division – Interim sales by region

Region	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Europe, Middle East and Africa (EMEA)	2,423	2,365	+1	47	47
North America	1,275	1,281	–1	25	25
Asia–Pacific	823	736	+10	16	15
Latin America	370	348	+11	7	7
Japan	242	284	+1	5	6
Total sales	**5,133**	**5,014**	**+3**	**100**	**100**

The sales growth of the Diagnostics Division was driven by the Asia–Pacific and Latin America regions, driven mainly by Professional Diagnostics. The sales increase in Asia–Pacific was also influenced by increasing sales in China (+19%) coming from governmental healthcare investments, public demand and the division's expanding presence and wide portfolio. In the EMEA region, the division's largest market, sales increased by 1% due to Professional Diagnostics and Tissue Diagnostics. In North America sales were down slightly as growth in Professional Diagnostics and Molecular Diagnostics was more than offset by a decline in Diabetes Care. Sales in Japan increased slightly.

Diagnostics Division – Interim sales for E7 leading emerging markets

Country	2013 (mCHF)	2012 (mCHF)	% change (CER)	% of sales (2013)	% of sales (2012)
Brazil	111	114	+5	2	2
China	373	304	+19	7	6
India	51	52	+2	1	1
Mexico	52	49	0	1	1
Russia	82	84	–3	2	2
South Korea	83	76	+4	2	2
Turkey	64	62	+3	1	1
Total sales	**816**	**741**	**+9**	**16**	**15**

Operating results

Royalties and other operating income. The decrease of 8% at constant exchange rates was driven by lower royalty income. This is mainly the result of back royalty payments received in the first half of 2012 which did not reoccur in 2013.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Royalty income	66	71	–9
Income from out-licensing agreements	1	2	–34
Income from disposal of products and other	6	5	+17
Total – IFRS and Core basis	**73**	**78**	**–8**

Cost of sales. Core costs increased by 2% at constant exchange rates primarily due to an increase in manufacturing cost of goods sold and period costs of 2%. Overall, the growth in core costs was slightly lower than the sales growth due to period costs including a one-time VAT refund of 30 million Swiss francs related to meter placements in prior years. This resulted in a cost of sales ratio of 43.1% compared to 43.5% in the first half of 2012. Global restructuring costs were incurred mainly due to the closure of the Graz, Austria and Burgdorf, Switzerland sites and the reorganisation of the Applied Science business. Amortisation of product intangibles decreased as some intangible assets became fully amortised.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,125)	(2,090)	+2
Royalty expenses	(88)	(90)	–3
Impairment of property, plant and equipment	0	0	–
Cost of sales – Core basis	**(2,213)**	**(2,180)**	**+2**
Global restructuring plans	(36)	(39)	–7
Amortisation of intangibles assets	(162)	(173)	–7
Impairment of intangible assets	0	(16)	–100
Total – IFRS basis	**(2,411)**	**(2,408)**	**0**

Marketing and distribution. Core costs decreased by 1% at constant exchange rates, reflecting lower spending in Diabetes Care and the former Applied Science business area as a result of the restructuring initiatives as well as lower bad debt expenses. The decreases were partially offset by increased spending in Professional Diagnostics and Molecular Diagnostics. In the Asia–Pacific region marketing and distribution costs increased due to higher marketing support to further penetrate emerging markets. This was more than offset by significantly lower spending in the EMEA region. On a core basis, marketing and distribution costs as a percentage of sales were 24.0% compared to 25.0% in 2012. Global restructuring costs were mainly due to the reorganisations in the Diabetes Care and Applied Science businesses to improve the efficiency of marketing and distribution activities.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Marketing and distribution – Core basis	**(1,233)**	**(1,254)**	**–1**
Global restructuring plans	(51)	(56)	–12
Amortisation of intangible assets	(3)	(3)	–11
Total – IFRS basis	**(1,287)**	**(1,313)**	**–2**

Research and development. Core costs increased by 3% at constant exchange rates, driven by increased spending for instrument development costs for major platforms. In Diabetes Care and the former Applied Science business areas expenses declined significantly as a result of restructuring and cost containment programmes initiated in 2012. As a percentage of sales, research and development core costs increased to 9.2% from 9.1% in 2012. Global restructuring costs were mainly related to the reorganisation in the Applied Science business. Additionally 12 million Swiss francs impairment of intangible assets were incurred as part of this reorganisation.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Research and development – Core basis	**(473)**	**(456)**	**+3**
Global restructuring plans	(48)	(29)	+63
Amortisation of intangible assets	(1)	(1)	–40
Impairment of intangible assets	(12)	–	–
Total – IFRS basis	**(534)**	**(486)**	**+9**

General and administration. Core costs decreased slightly at constant exchange rates. The increase in administration costs was due to higher employee-related expenses in Professional Diagnostics and Molecular Diagnostics. Business taxes increased due to the new medical device tax in the US with costs of 12 million Swiss francs. Other general items include several ongoing systems projects. These increases were offset by 28 million Swiss francs of income recorded for past service costs from changes in the Group's pension plans in Switzerland. As a percentage of sales, core costs decreased slightly to 4.0% from 4.1% in 2012. Global restructuring costs were mainly due to employee-related costs related to the reorganisation of the Applied Science business. In addition, goodwill impairment charges of 35 million Swiss francs were incurred for the write-off of the goodwill from the 454 Life Sciences and Innovatis acquisitions.

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(185)	(174)	+6
Pensions – past service costs	28	–	–
Business taxes and capital taxes	(21)	(10)	+107
Other general items	(26)	(20)	+25
General and administration – Core basis	**(204)**	**(204)**	**–1**
Global restructuring plans	(24)	(21)	+13
Impairment of goodwill	(35)	(185)	–81
Alliances and business combinations	(1)	(5)	–89
Legal and environmental settlements	(7)	(6)	+11
Total – IFRS basis	**(271)**	**(421)**	**–36**

Financial position

Diagnostics Division – Net operating assets

	30 June 2013 (mCHF)	31 Dec. 2012 (mCHF)	% change (CHF)	% change (CER)	Movement: Transactions (mCHF)	Movement: CTA (mCHF)
Receivables	3,428	3,241	+6	+5	167	20
Inventories	2,003	1,958	+2	+1	23	22
Payables	(1,827)	(1,852)	–1	–3	56	(31)
Net working capital	**3,604**	**3,347**	**+8**	**+7**	**246**	**11**
Property, plant and equipment	4,634	4,572	+1	0	(10)	72
Goodwill and intangible assets	7,426	7,436	0	–3	(213)	203
Provisions	(543)	(530)	+2	0	(2)	(11)
Other long-term assets, net	(91)	(96)	–5	–7	7	(2)
Long-term net operating assets	**11,426**	**11,382**	**0**	**–2**	**(218)**	**262**
Net operating assets	**15,030**	**14,729**	**+2**	**0**	**28**	**273**

The absolute amount of the movement between the 30 June 2013 and 31 December 2012 consolidated balances reported in Swiss francs is split between actual 2013 transactions (translated at average rates for 2012) and the currency translation adjustment (CTA) that arises on consolidation. The 2013 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 51 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 83.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc slightly weakened against the US dollar and the euro by 30 June resulting overall in a positive translation impact on balance sheet positions. 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 38.

Net working capital. The 7% increase at constant exchange rates was driven by an increase of 5% in receivables. The main factors for the increase in receivables were the strong collections and factoring initiatives in Southern European countries in 2012 which slowed down in the first half of 2013. Furthermore, receivables increased due to higher sales in emerging countries, notably China. Inventories increased slightly due to higher demand in emerging markets. Payables decreased by 3% compared to the end of 2012 due to the settlement of accruals, including employee benefits.

Long-term net operating assets. The decrease of 2% at constant exchange rates was due to a decrease in intangible assets due to regular amortisation and goodwill and intangible asset impairments in the former Applied Science business area. Property, plant and equipment were stable as capital expenditure was fully offset by depreciation. Provisions were also stable with the creation of new provisions for global restructuring plans being offset by utilisation.

Free cash flow

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

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Operating profit – IFRS basis	**703**	**464**	**+56**
– Depreciation, amortisation and impairment	640	790	–20
– Provisions	31	64	–53
– Equity compensation plans	18	16	+18
– Other	96	126	–25
Operating profit cash adjustments [1]	**785**	**996**	**–22**
Operating profit, net of operating cash adjustments	**1,488**	**1,460**	**+3**
(Increase) decrease in net working capital			
– Accounts receivable	(184)	52	–
– Inventories	(62)	(153)	–69
– Accounts payable	(53)	(59)	–13
Total (increase) decrease in net working capital	**(299)**	**(160)**	**+69**
Investments in property, plant and equipment	(489)	(480)	+1
Investments in intangible assets	–	(15)	–100
Operating free cash flow	**700**	**805**	**–8**
– as % of sales	13.6	16.1	–1.8

1) A detailed breakdown is provided on page 82.

The operating free cash flow of the Diagnostics Division was 0.7 billion Swiss francs. The cash generation of the business was offset by increases in net working capital during the first half of 2013, which are noted above in the comments on the financial position. Operating profit, net of cash adjustments, increased by only 3% while core operating profit increased by 10%. This was due to some non-cash items, including the income from pension past service costs in 2013, and also the cash utilisation of the restructuring provisions in the Diabetes Care and former Applied Science business areas. As with the Pharmaceuticals Division, the increase in receivables was more than in the first half of 2012 due to delays in collection in Southern European countries, while there were large cash settlements of public receivables in June 2012, which were not repeated so far in 2013. Inventories increased less than in the comparative period. Capital expenditure for property, plant and equipment of 0.5 billion Swiss francs comes from investments, mainly for instrument placements, in Germany, China and the US.

Corporate operating results

Corporate interim operating results summary

	2013 (mCHF)	2012 (mCHF)	% change (CER)
Administration	(203)	(210)	–3
Pensions – past service costs	103	–	–
Business taxes and capital taxes	(5)	(6)	–29
Other general items	(12)	(30)	–60
General and administration costs – Core basis [1]	**(117)**	**(246)**	**–53**
Global restructuring plans	(5)	(9)	–54
Legal and environmental settlements	(4)	(315)	–99
Total costs – IFRS basis	**(126)**	**(570)**	**–78**
Financial position			
Net working capital	(38)	(71)	–46
Long-term net operating assets	(395)	(309)	+23
Net operating assets	**(433)**	**(380)**	**+10**
Free cash flow			
Operating free cash flow	(279)	(260)	+8

1) See pages 78–81 for definition of Core results and Core EPS.

General and administration core costs decreased by 53% at constant exchange rates due to one-time income of 103 million Swiss francs recorded for past service costs from changes in the Group's pension plans in Switzerland and the United Kingdom. These changes were mainly attributable to previously divested businesses. Administration expenses decreased by 3%, mainly due to a shift of headcount to the Pharmaceuticals Division. The decrease in other general items is driven by the phasing of IT charges in 2012. Total costs on an IFRS basis decreased by 78% due to the comparative period of 2012 including expenses of 315 million Swiss francs for environmental remediation activities in Nutley, US and Grenzach, Germany.

Corporate operating free cash flow showed a higher outflow due to the prepayment of insurance expenses and settlement of accruals, including employee benefits.

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 Swiss francs) for the six months ended 30 June

	% change (CER)		% change (CHF)	
	2013	2012	2013	2012
Pharmaceuticals Division				
Sales	+6	+4	+4	+4
Core operating profit	+9	+9	+8	+7
Diagnostics Division				
Sales	+3	+5	+2	+3
Core operating profit	+10	–5	+9	–6
Group				
Sales	+5	+4	+4	+3
Core operating profit	+10	+7	+10	+5

Exchange rates against the Swiss franc

	30 June 2013	Average to 30 June 2013	31 December 2012	Average to 30 June 2012
1 USD	0.95	0.94	0.91	0.93
1 EUR	1.23	1.23	1.21	1.20
100 JPY	0.96	0.98	1.06	1.17

In the first half of 2013 compared to the first half of 2012, the Swiss franc was stronger for some currencies in particular the Japanese yen, but weakened against the euro and the US dollar. The overall impact is slightly 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 1 percentage point, equivalent to 0.3 billion Swiss francs when translated into Swiss francs. The currency translation exposure for the operating profit is mitigated by the Group having the majority of its cost base located outside of Switzerland. The sensitivity of Group sales and core operating profit to a 1% rise in average foreign currency exchange rates against the Swiss franc during the first half of 2013 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2013

Impact of 1% rise in average exchange rate versus the Swiss franc	Sales (mCHF)	Core operating profit (mCHF)
US dollar	90	41
Euro	50	26
Japanese yen	19	10
All other currencies	64	39

Treasury and taxation results

Treasury and taxation interim results

	2013 (mCHF)	2012 (mCHF)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	8,594	6,332	+36	+37
Associates	0	(2)	–100	–100
Financing costs	(777)	(887)	–12	–12
Other financial income (expense)	(61)	(13)	+369	Over +500
Profit before taxes	**7,756**	**5,430**	**+43**	**+44**
Income taxes	(1,709)	(1,118)	+53	+54
Net income	**6,047**	**4,312**	**+40**	**+41**
Attributable to				
– Roche shareholders	5,941	4,199	+41	+42
– Non-controlling interests	106	113	–6	+11
Core results [1]				
Operating profit	9,488	8,641	+10	+10
Associates	0	(2)	–100	–100
Financing costs	(777)	(887)	–12	–12
Other financial income (expense)	(61)	(13)	+369	Over +500
Profit before taxes	**8,650**	**7,739**	**+12**	**+12**
Income taxes	(2,001)	(1,760)	+14	+14
Net income	**6,649**	**5,979**	**+11**	**+12**
Attributable to				
– Roche shareholders	6,542	5,866	+12	+12
– Non-controlling interests	107	113	–5	+11
Financial position – Treasury and taxation				
Net debt	(13,620)	(10,599)	+29	+20
Pensions	(6,119)	(6,553)	–7	–9
Income taxes	1,975	1,581	+25	+23
Financial long-term assets	349	339	+3	+5
Derivatives, net	(13)	289	–	–
Collateral, net	(237)	(356)	–33	–33
Interest payable	(351)	(749)	–53	–54
Other non-operating assets, net	(50)	(54)	–7	–53
Total net assets (liabilities)	**(18,066)**	**(16,102)**	**+12**	**+6**
Free cash flow – Treasury and taxation				
Treasury activities	(900)	(1,147)	–22	–20
Taxes paid	(1,653)	(1,481)	+12	+13
Dividends paid	(6,284)	(5,851)	+7	+8
Total	**(8,837)**	**(8,479)**	**+4**	**+5**

As disclosed in Note 1 to the Interim Financial Statements and as discussed below on page 47, the 2012 results have been restated following the accounting policy changes which were adopted in 2013. In the restated interim results of 2012 this causes a reduction in net financial income of 81 million Swiss francs. See also the Investor Update from 21 March 2013. A reconciliation to the previously published income statement is provided in Note 1 to the Interim Financial Statements.

1) See pages 78–81 for definition of Core results and Core EPS.

Financing costs

Financing costs were 777 million Swiss francs, a decrease of 110 million Swiss francs or 12% compared to the first half of 2012. The main driver was a decrease of 19% in interest expenses which reflects the continued repayment of the debt incurred to finance the Genentech transaction. The loss on early redemption of debt was 79 million Swiss francs, compared with 47 million Swiss francs in the comparative period. The net interest cost of pension plans remained stable at 114 million Swiss francs. A full analysis of financing costs is given in Note 4 to the Interim Financial Statements.

Other financial income (expense)

Other financial income (expense) was a net expense of 61 million Swiss francs. Net income from equity securities was 33 million Swiss francs, an increase of 62% due to the divestment of certain positions. Interest income and income from debt securities were broadly stable at 16 million Swiss francs, in an environment of continuing low interest rates. The net foreign exchange result reflects hedging costs and was a loss of 111 million Swiss francs compared to a loss of 40 million Swiss francs in the first half of 2012. The foreign exchange result in 2013 included a loss of 45 million Swiss francs following the devaluation of the Venezuelan bolivar in February 2013. A full analysis of other financial income (expense) is given in Note 4 to the Interim Financial Statements.

Income taxes

The Group's effective core tax rate increased by 0.4 percentage points to 23.1% in the first half of 2013 (2012: 22.7%). The higher percentage of core profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group rate, notably the US acted to increase the effective core tax rate. This was partly offset by the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 half year results include a whole year of tax credits in respect of 2012 as well as six months of tax credits for 2013.

A tax benefit of 292 million Swiss francs was recorded for the non-core items described above compared to a tax benefit of 642 million Swiss francs in the first half of 2012. The decrease was primarily due to the lower tax benefit resulting from the global restructuring plans including intangible asset impairments as well as lower legal and environmental costs compared to 2012.

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

	2013			2012		
	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)	Profit before tax (mCHF)	Income taxes (mCHF)	Tax rate (%)
Group's effective tax rate – Core basis	**8,650**	**(2,001)**	**23.1**	**7,739**	**(1,760)**	**22.7**
Global restructuring plans	(300)	83	27.7	(1,083)	309	28.5
Goodwill and intangible assets	(568)	178	31.3	(928)	248	26.7
Equity compensation plans	–	24	–	–	(19)	–
Other	(26)	7	26.9	(298)	104	34.9
Group's effective tax rate – IFRS basis	**7,756**	**(1,709)**	**22.0**	**5,430**	**(1,118)**	**20.6**

Financial position

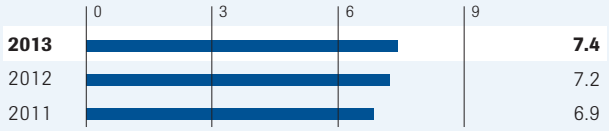
The increase in the net debt position was mainly due to the annual dividend payments of 6.3 billion Swiss francs and interest and tax payments which more than offset the operating free cash flow, as is more fully described in the net debt section below. The net pension liabilities decreased by 0.4 billion Swiss francs due to changes in discount rates and changes in the plan rules in Switzerland and the United Kingdom. The net tax assets increased mainly due to the deferred tax effect of equity compensation plans, which increased due to the increase in the price of the underlying equity. This was partially offset by the deferred tax effect of the decreased 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 1.0 billion Swiss francs of coupon payments on bonds and notes during the interim period, partly offset by interest accrued in the period. At 30 June 2013 the Group held financial long-term assets with a market value of 0.3 billion Swiss francs, which consist mostly of holdings in biotechnology companies which were acquired in the context of licensing transactions or scientific collaborations.

Free cash flow

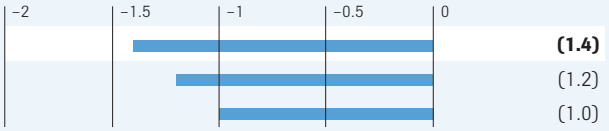
The cash outflow from treasury activities decreased to 0.9 billion Swiss francs mostly due to lower interest payments. Total taxes paid in the first half of 2013 were 1.7 billion Swiss francs, an increase of 13%, due to higher tax payments in the US. Total dividends paid in the first half of 2013 were 6.3 billion Swiss francs, an increase of 0.4 billion Swiss francs compared to the first half of 2012, reflecting the 8% increase of the Roche Group dividend.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow for the six months ended 30 June

	Pharmaceuticals (mCHF)	Diagnostics (mCHF)	Corporate (mCHF)	Group (mCHF)
2013				
Operating profit – IFRS basis	8,017	703	(126)	8,594
Operating profit cash adjustments	939	785	(112)	1,612
Operating profit, net of operating cash adjustments	**8,956**	**1,488**	**(238)**	**10,206**
(Increase) decrease in net working capital	(1,235)	(299)	(40)	(1,574)
Investments in property, plant and equipment	(515)	(489)	(1)	(1,005)
Investments in intangible assets	(182)	0	0	(182)
Operating free cash flow	**7,024**	**700**	**(279)**	**7,445**
Treasury activities				(900)
Taxes paid				(1,653)
Dividends paid				(6,284)
Free cash flow				**(1,392)**
2012				
Operating profit – IFRS basis	6,438	464	(570)	6,332
Operating profit cash adjustments	2,118	996	326	3,440
Operating profit, net of operating cash adjustments	**8,556**	**1,460**	**(244)**	**9,772**
(Increase) decrease in net working capital	(1,228)	(160)	(15)	(1,403)
Investments in property, plant and equipment	(482)	(480)	(1)	(963)
Investments in intangible assets	(147)	(15)	0	(162)
Operating free cash flow	**6,699**	**805**	**(260)**	**7,244**
Treasury activities				(1,147)
Taxes paid				(1,481)
Dividends paid				(5,851)
Free cash flow				**(1,235)**

Operating free cash flow increased by 4% at constant exchange rates to 7.4 billion Swiss francs, with the strong operating results being partly offset by increases in net working capital. There was a continued strong growth of the underlying operating business, which showed a 10% increase in core operating profit. In both divisions the increased cash generated by the business was partly absorbed by the cash utilisation of restructuring provisions. There was also an increase in public debt in Spain and Italy. It should be noted that the comparative first half of 2012 includes large cash settlement of public debt in Spain which was not repeated so far in 2013.

The cash outflow from treasury activities decreased to 0.9 billion Swiss francs mostly due to lower interest payments. Total taxes paid were 1.7 billion Swiss francs, an increase due to higher tax payments in the US. Total dividends paid were also higher due to the 8% increase of the annual Roche Group dividend.

Free cash flow showed an outflow of 1.4 billion Swiss francs, a higher outflow by 0.2 billion Swiss francs compared to the first half of 2012, mainly due to the higher dividend payments in 2013.

The Group has refined the calculation of the free cash flow in 2013 to exclude the impact of employee stock options, in line with its peer group (see page 82 for further details). Comparative 2012 free cash flow information has been restated accordingly.

Net debt in millions of CHF

At 31 December 2012	
Cash and cash equivalents	4,530
Marketable securities	9,461
Long-term debt	(17,860)
Short-term debt	(6,730)
Net debt at beginning of period	**(10,599)**
Change in net debt during interim period 2013	
Free cash flow for six months ended 30 June 2013	(1,392)
Transactions in own equity instruments	(1,046)
Business combinations, net of divestments of subsidiaries	(29)
Hedging and collateral arrangements	(101)
Currency translation, fair value and other movements	(453)
Net change in net debt	**(3,021)**
At 30 June 2013	
Cash and cash equivalents	3,566
Marketable securities	4,195
Long-term debt	(17,780)
Short-term debt	(3,601)
Net debt at end of period	**(13,620)**

Net debt – Currency profile in millions of CHF

	Cash and marketable securities		Debt	
	30 June 2013	31 Dec. 2012	30 June 2013	31 Dec. 2012
US dollar [1]	962	2,757	(16,423)	(19,748)
Euro	1,800	3,787	(1,240)	(1,210)
Swiss franc	1,874	4,041	(2,986)	(2,977)
Japanese yen	2,041	2,117	(1)	(1)
Pound sterling	704	794	(285)	(292)
Other	380	495	(446)	(362)
Total	**7,761**	**13,991**	**(21,381)**	**(24,590)**

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 2013 was 13.6 billion Swiss francs, an increase of 3.0 billion Swiss francs from 31 December 2012. The increase in net debt was mainly due to the negative free cash flow of 1.4 billion Swiss francs described above, which includes the annual dividend payment of 6.3 billion Swiss francs. Transactions in own equity to hedge the Group's employee stock option programmes totalled 1.0 billion Swiss francs.

In 2009 the Group entered into derivative contracts with third parties to hedge the foreign exchange risk arising from bonds and notes issued in currencies other than US dollar. At the same time collateral agreements were entered with the derivative counterparties to mitigate counterparty risk. As the fair value of derivative hedging instruments moved down due to the strengthening of the US dollar against the euro during the first six months of 2013, cash collateral of 0.1 billion Swiss francs was delivered by Roche. The collateral balance in relation to the hedges on the non-US dollar-denominated bonds and notes is mainly sensitive to the foreign exchange rate between the US dollar and the euro, but also to pound sterling. Currently the collateral balance moves by approximately 50 million US dollars if all of these foreign exchange rates move by 1% simultaneously.

The redemption and repurchase of bonds and notes during the first half of 2013 (see Note 12 to the Interim Financial Statements) had an impact on liquid funds, but had no impact on the net debt position.

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, 66% had already been repaid by 30 June 2013. This includes the redemption of 3.3 billion euro-denominated notes on the due date of 4 March 2013 and 1.75 billion US dollars of notes originally due 1 March 2014 that were redeemed on 21 March 2013 following an exercise of an early call option made in December 2012. On 28 June 2013 the Group resolved to exercise its option to call for early partial redemption of 400 million US dollars of notes originally due 1 March 2019 which will now be redeemed on 29 August 2013.

The maturity schedule of the Group's bonds and notes outstanding at 30 June 2013 is shown in the table below, which includes those instruments that were already in issue prior to the Genentech transaction.

Bonds and notes: nominal amounts at 30 June 2013 by contractual maturity

	US dollar (mUSD)	Euro (mEUR)	Pound sterling (mGBP)	Swiss franc (mCHF)	Total [1] (mUSD)	Total [1] (mCHF)
2013	400	–	–	400	823	778
2014	–	–	–	–	–	–
2015	1,000	–	900[3]	–	2,373	2,243
2016	–	2,100[2]	–	–	2,738	2,588
2017	–	–	–	1,500	1,587	1,500
2018–2022	4,100	2,750[2]	–	1,100	8,849	8,365
2023 and beyond	3,000	–	200	–	3,305	3,124
Total	**8,500**	**4,850**	**1,100**	**3,000**	**19,675**	**18,598**

1) Total translated at 30 June 2013 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.
3) Of the proceeds from these bonds and notes, 600 million pounds sterling have been swapped into US dollars, and therefore in the financial statements the bonds and notes have economic characteristics equivalent to US dollar-denominated bonds and notes.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In the full year 2012 the free cash flow was 4.6 billion Swiss francs, which included the cash generated from operations, as well as payment of interest, tax and dividends. In the first half of 2013 free cash flow was an outflow of 1.4 billion Swiss francs, which includes 6.3 billion Swiss francs used for the payment of dividends.

For short-term financing requirements, the Group has a commercial paper programme in the US under which it can issue up to 7.5 billion US dollars of unsecured commercial paper notes and committed credit lines of 3.9 billion euros available as back-stop lines. Commercial paper notes totalling 2.4 billion US dollars were outstanding as of 30 June 2013 (31 December 2012: 355 million 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.

Financial risks

As at 30 June 2013 the Group has a net debt position of 13.6 billion Swiss francs (31 December 2012: 10.6 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. During the first six months of 2013, Roche reduced its money market portfolio by 4.4 billion Swiss francs as the instruments matured or were sold.

Cash and marketable securities

	30 June 2013		31 December 2012	
	(mCHF)	(% of total)	(mCHF)	(% of total)
Cash and cash equivalents	3,566	46	4,530	32
Money market instruments	3,232	41	7,631	55
Bonds, debentures and other investments	598	8	1,558	11
Shares	365	5	272	2
Total cash and marketable securities	**7,761**	**100**	**13,991**	**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 7.4 billion Swiss francs fixed income marketable securities remained strong with 97% being invested in the A-AAA range. As noted previously the Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions.

The Group has trade receivables of 10.3 billion Swiss francs. Since the beginning of 2010 there have been increasing financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and at 30 June 2013 has trade receivables of 1.4 billion euros (1.7 billion Swiss francs) with the public customers in these countries. This is an increase of 0.1 billion euros from 31 December 2012, which is mainly due to delayed collections in Spain and Italy. The Group uses different measures to improve collections in these countries, including intense communication with customers, factoring, negotiations of payments plans, charging of interest for late payments, and legal action. The Group is applying new commercial arrangements with some public hospitals in Greece and Portugal.

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

Roche enjoys strong long-term investment-grade credit ratings of AA by Standard & Poor's and A1 by Moody's. At the same time Roche is rated at the highest available short-term ratings by those agencies. In the event of financing requirements, the ratings and the strong credit of Roche should permit efficient access to international capital markets, including the commercial paper market. The Group has committed credit lines with various financial institutions totalling 5.2 billion Swiss francs of which 4.8 billion Swiss francs serve as back-stop line for the commercial paper programme. As at 30 June 2013 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 in the first half of 2013.

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. As part of the Group's hedging management during the first half of 2013 the Group entered into interest rate swap contracts for a combined notional principal of 2.0 billion US dollars. These swapped the fixed interest rate of 6.0% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 4.74%. The maturity of the swaps is 1 March 2019.

Further information on financial risk management and financial risks and the VaR methodology is included in Note 31 to the 2012 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 2012 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.

Several new and revised standards have been implemented effective 1 January 2013. These are listed in Note 1 to the Interim Financial Statements. Except as noted below, these have no material impact on the Group's overall results and financial position.

Amongst other matters the revised version of IAS 19 'Employee Benefits' includes the following changes to the existing standard:

- Eliminating the option to defer the recognition of actuarial gains and losses from defined benefit post-employment plans, known as the 'corridor method'. The Group has not previously applied this option, but rather uses the option to recognise such gains and losses in other comprehensive income. The option previously applied by the Group will henceforth be a requirement under the revised standard and therefore this change has no impact on the Group's financial statements.
- The previous method of including the expected income from plan assets at an estimated asset return is replaced by using the discount rate that is used to discount the defined benefit obligation. In the restated results of 2012 this causes a reduction in net financial income of 164 million Swiss francs for the 2012 full year and 81 million Swiss francs for the 2012 half-year. The on-going impact for 2013 and beyond is expected to be of a similar magnitude. There was no impact on Roche's operating income or net assets from this change.
- Past service costs are recognised immediately in the income statement in the period of a plan amendment. Previously, past service costs had the portion related to unvested benefits deferred on the balance sheet, which was then progressively released.

Further information on this topic was published in an Investor Update on 21 March 2013. This is available at http://www.roche.com/investors/ir_update/inv-update-2013-03-21.htm.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations which the Group has not yet applied.

Roche Group Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by the Group's auditors and their review report is presented on page 77.

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

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**18,162**	**5,133**	**–**	**23,295**
Royalties and other operating income [2]	883	73	–	956
Cost of sales	(3,715)	(2,411)	–	(6,126)
Marketing and distribution	(2,822)	(1,287)	–	(4,109)
Research and development [2]	(4,002)	(534)	–	(4,536)
General and administration	(489)	(271)	(126)	(886)
Operating profit [2]	**8,017**	**703**	**(126)**	**8,594**
Associates				–
Financing costs [4]				(777)
Other financial income (expense) [4]				(61)
Profit before taxes				**7,756**
Income taxes [5]				(1,709)
Net income				**6,047**
Attributable to				
– Roche shareholders				5,941
– Non-controlling interests				106
Earnings per share and non-voting equity security [14]				
Basic (CHF)				7.00
Diluted (CHF)				6.88

Roche Group consolidated income statement for the six months ended 30 June 2012 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales [2]	**17,409**	**5,014**	**–**	**22,423**
Royalties and other operating income [2]	802	78	–	880
Cost of sales	(3,640)	(2,408)	–	(6,048)
Marketing and distribution	(2,791)	(1,313)	–	(4,104)
Research and development [2]	(4,472)	(486)	–	(4,958)
General and administration	(870)	(421)	(570)	(1,861)
Operating profit [2]	**6,438**	**464**	**(570)**	**6,332**
Associates				(2)
Financing costs [4]				(887)
Other financial income (expense) [4]				(13)
Profit before taxes				**5,430**
Income taxes [5]				(1,118)
Net income				**4,312**
Attributable to				
– Roche shareholders				4,199
– Non-controlling interests				113
Earnings per share and non-voting equity security [14]				
Basic (CHF)				4.96
Diluted (CHF)				4.93

As disclosed in Note 1, the income statement for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income statement is provided in Note 1.

Roche Group consolidated statement of comprehensive income in millions of CHF

	Six months ended 30 June	
	2013	2012
Net income recognised in income statement	**6,047**	**4,312**
Other comprehensive income		
Remeasurements of defined benefit plans	297	(844)
Items that will not be reclassified to the income statement	**297**	**(844)**
Available-for-sale investments	10	19
Cash flow hedges	24	(24)
Currency translation of foreign operations	(496)	(153)
Items that may be reclassified subsequently to the income statement	**(462)**	**(158)**
Other comprehensive income, net of tax	**(165)**	**(1,002)**
Total comprehensive income	**5,882**	**3,310**
Attributable to		
– Roche shareholders	5,958	3,183
– Non-controlling interests	(76)	127
Total	**5,882**	**3,310**

As disclosed in Note 1, the statement of comprehensive income for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published statement of comprehensive income is provided in Note 1.

Roche Group consolidated balance sheet in millions of CHF

	30 June 2013	31 December 2012
Non-current assets		
Property, plant and equipment	15,404	15,402
Goodwill [9]	7,635	7,480
Intangible assets [10]	3,953	4,214
Associates	17	24
Financial long-term assets	349	339
Other long-term assets	462	451
Deferred tax assets	5,271	4,849
Defined benefit plan assets	649	678
Total non-current assets	**33,740**	**33,437**
Current assets		
Inventories	5,877	5,542
Accounts receivable	9,613	9,465
Current income tax assets	170	339
Other current assets	2,253	2,034
Marketable securities	4,195	9,461
Cash and cash equivalents	3,566	4,530
Total current assets	**25,674**	**31,371**
Total assets	**59,414**	**64,808**
Non-current liabilities		
Long-term debt [12]	(17,780)	(17,860)
Deferred tax liabilities	(1,231)	(1,397)
Defined benefit plan liabilities	(6,768)	(7,231)
Provisions [11]	(1,029)	(1,042)
Other non-current liabilities	(328)	(319)
Total non-current liabilities	**(27,136)**	**(27,849)**
Current liabilities		
Short-term debt [12]	(3,601)	(6,730)
Current income tax liabilities	(2,235)	(2,210)
Provisions [11]	(2,079)	(2,158)
Accounts payable	(1,853)	(1,945)
Accrued and other current liabilities	(6,436)	(7,166)
Total current liabilities	**(16,204)**	**(20,209)**
Total liabilities	**(43,340)**	**(48,058)**
Total net assets	**16,074**	**16,750**
Equity		
Capital and reserves attributable to Roche shareholders	13,955	14,514
Equity attributable to non-controlling interests	2,119	2,236
Total equity	**16,074**	**16,750**

As disclosed in Note 1, the balance sheet at 31 December 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheet is provided in Note 1.

Roche Group consolidated statement of cash flows in millions of CHF

	Six months ended 30 June	
	2013	2012
Cash flows from operating activities		
Cash generated from operations [15]	10,913	10,203
(Increase) decrease in net working capital	(1,574)	(1,403)
Payments made for defined benefit plans	(199)	(208)
Utilisation of provisions	(514)	(370)
Disposal of products	2	78
Other operating cash flows	3	2
Cash flows from operating activities, before income taxes paid	**8,631**	**8,302**
Income taxes paid	(1,653)	(1,481)
Total cash flows from operating activities	**6,978**	**6,821**
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,005)	(963)
Purchase of intangible assets	(182)	(162)
Disposal of property, plant and equipment	25	35
Disposal of intangible assets	–	–
Business combinations [6]	(29)	(36)
Interest and dividends received	22	18
Sales of marketable securities	32,034	23,084
Purchases of marketable securities	(26,539)	(20,678)
Other investing cash flows	12	(18)
Total cash flows from investing activities	**4,338**	**1,280**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [12]	–	2,698
Redemption and repurchase of bonds and notes [12]	(5,790)	(3,179)
Increase (decrease) in commercial paper [12]	1,932	(80)
Increase (decrease) in other debt	106	16
Hedging and collateral arrangements [12]	(101)	(237)
Interest paid	(982)	(1,131)
Dividends paid [15]	(6,284)	(5,851)
Equity-settled equity compensation plans, net of transactions in own equity	(1,046)	(110)
Other financing cash flows	–	–
Total cash flows from financing activities	**(12,165)**	**(7,874)**
Net effect of currency translation on cash and cash equivalents	(115)	25
Increase (decrease) in cash and cash equivalents	**(964)**	**252**
Cash and cash equivalents at beginning of period	4,530	3,854
Cash and cash equivalents at end of period	**3,566**	**4,106**

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 2012								
At 1 January 2012	**160**	**17,286**	**124**	**(20)**	**(5,434)**	**12,116**	**2,390**	**14,506**
Net income recognised in income statement	–	4,199	–	–	–	4,199	113	4,312
Available-for-sale investments	–	–	16	–	–	16	3	19
Cash flow hedges	–	–	–	(25)	–	(25)	1	(24)
Currency translation of foreign operations	–	–	2	1	(166)	(163)	10	(153)
Remeasurements of defined benefit plans	–	(844)	–	–	–	(844)	–	(844)
Total comprehensive income	**–**	**3,355**	**18**	**(24)**	**(166)**	**3,183**	**127**	**3,310**
Dividends	–	(5,770)	–	–	–	(5,770)	(54)	(5,824)
Equity compensation plans, net of transactions in own equity	–	108	–	–	–	108	–	108
At 30 June 2012	**160**	**14,979**	**142**	**(44)**	**(5,600)**	**9,637**	**2,463**	**12,100**
Six months ended 30 June 2013								
At 1 January 2013	**160**	**20,041**	**113**	**40**	**(5,840)**	**14,514**	**2,236**	**16,750**
Net income recognised in income statement	–	5,941	–	–	–	5,941	106	6,047
Available-for-sale investments	–	–	5	–	–	5	5	10
Cash flow hedges	–	–	–	24	–	24	–	24
Currency translation of foreign operations	–	–	1	2	(312)	(309)	(187)	(496)
Remeasurements of defined benefit plans	–	297	–	–	–	297	–	297
Total comprehensive income	**–**	**6,238**	**6**	**26**	**(312)**	**5,958**	**(76)**	**5,882**
Dividends	–	(6,238)	–	–	–	(6,238)	(46)	(6,284)
Equity compensation plans, net of transactions in own equity	–	(279)	–	–	–	(279)	3	(276)
Changes in non-controlling interests	–	–	–	–	–	–	2	2
At 30 June 2013	**160**	**19,762**	**119**	**66**	**(6,152)**	**13,955**	**2,119**	**16,074**

As disclosed in Note 1, the statement of changes in equity for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published total equity at 1 January 2012 is provided in Note 1.

Notes to the Roche Group Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited 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 2013 (hereafter 'the interim period'). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2012 (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 23 July 2013.

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 were the same as those that applied in the Annual Financial Statements.

Seasonality

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

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. The following changes in accounting policies will be reflected in the Group's Consolidated Financial Statements for the year ended 31 December 2013.

Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IAS 19 (revised) 'Employee Benefits'
- IFRS 10 'Consolidated Financial Statements'
- IFRS 11 'Joint Arrangements'
- IFRS 12 'Disclosure of Interests in Other Entities'
- IFRS 13 'Fair Value Measurement'
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- Annual Improvements to IFRS 2009–2011 cycle

With the exception of the revisions to IAS 19, these do not have a material impact on the Group's overall results and financial position. The nature and the effects of the changes most relevant to the Group's financial statements are explained below.

Pensions and other post-employment benefits

As a result of IAS 19 (revised) the Group amended its accounting policy with respect to the basis for determining the income or expense related to defined benefit plans and restated the 2012 results retrospectively. The main changes are as follows:

- The revised standard eliminated the option to defer the recognition of actuarial gains and losses from defined benefit plans, known as the 'corridor method'. The Group did not apply this option, but rather uses the option to recognise such gains and losses directly in other comprehensive income. The option currently applied by the Group is the requirement under the revised standard and therefore this change had no impact on the Group's financial statements.
- Net interest on the net defined benefit liability comprises of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the limit on the recognition of pension assets. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking account of any changes from contribution or benefit payments. Previously, expected income on plan assets was based on the estimated long-term rate of the underlying assets in the various plans. The impact on the restated 2012 results was a reduction in net financial income of 164 million Swiss francs for the year ended 31 December 2012 and a reduction of 81 million Swiss francs for the six months ended 30 June 2012. The ongoing impact for 2013 and beyond is expected to be of a similar magnitude. There was no impact on the Group's operating income or net assets from this change.
- Past service costs are now recognised immediately in the income statement in the period of a plan amendment. Previously, past service costs had the portion related to unvested benefits deferred on the balance sheet, which was then progressively released. The impact of this change was an increase in the Group's net assets by 22 million Swiss francs at 31 December 2012 and an increase of 24 million Swiss francs at 30 June 2012.

Following the revision to IAS 19 disclosed above the Group has also made a presentational change to the income statement, which has renamed 'Financial income' to 'Other financial income (expense)' and moved this caption below 'Financing costs'.

The reconciliations between the results published previously in 2012 (using the previous accounting policy) and the restated amounts which are reported as comparatives in 2013 (using the revised accounting policy) are presented below.

Restated Roche Group consolidated income statement in millions of CHF

	Year ended 31 December 2012			Six months ended 30 June 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Operating profit	**14,125**	**–**	**14,125**	**6,332**	**–**	**6,332**
Associates	–	–	–	(2)	–	(2)
Financing costs	(2,273)	350	(1,923)	(1,058)	171	(887)
Other financial income (expense)	471	(514)	(43)	239	(252)	(13)
Profit before taxes	**12,323**	**(164)**	**12,159**	**5,511**	**(81)**	**5,430**
Income taxes	(2,550)	51	(2,499)	(1,143)	25	(1,118)
Net income	**9,773**	**(113)**	**9,660**	**4,368**	**(56)**	**4,312**
Attributable to						
– Roche shareholders	9,539	(112)	9,427	4,255	(56)	4,199
– Non-controlling interests	234	(1)	233	113	–	113
Earnings per share and non-voting equity security						
Basic (CHF)	11.25	(0.13)	11.12	5.02	(0.06)	4.96
Diluted (CHF)	11.16	(0.13)	11.03	4.99	(0.06)	4.93

Restated Roche Group consolidated statement of comprehensive income in millions of CHF

	Year ended 31 December 2012			Six months ended 30 June 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Net income recognised in the income statement	9,773	(113)	9,660	4,368	(56)	4,312
Other comprehensive income, net of tax	(1,948)	111	(1,837)	(1,058)	56	(1,002)
Total comprehensive income	**7,825**	**(2)**	**7,823**	**3,310**	**–**	**3,310**
Attributable to						
– Roche shareholders	7,864	(1)	7,863	3,183	–	3,183
– Non-controlling interests	(39)	(1)	(40)	127	–	127

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

	31 December 2012			30 June 2012		
	As originally published	Application of IAS 19 (revised)	Restated	As originally published	Application of IAS 19 (revised)	Restated
Deferred tax assets	4,856	(7)	4,849	3,200	(8)	3,192
Defined benefit plan assets	668	10	678	580	13	593
Deferred tax liabilities	(1,394)	(3)	(1,397)	(235)	(3)	(238)
Defined benefit plan liabilities	(7,253)	22	(7,231)	(6,684)	22	(6,662)
Other net assets	19,851	–	19,851	15,215	–	15,215
Net assets	**16,728**	**22**	**16,750**	**12,076**	**24**	**12,100**
Capital and reserves attributable to Roche shareholders	14,494	20	14,514	9,616	21	9,637
Equity attributable to non-controlling interests	2,234	2	2,236	2,460	3	2,463
Total equity	**16,728**	**22**	**16,750**	**12,076**	**24**	**12,100**

Restated Roche Group consolidated equity at 1 January 2012 in millions of CHF

	As originally published	Application of IAS 19 (revised)	Restated
Capital and reserves attributable to Roche shareholders	12,095	21	12,116
Equity attributable to non-controlling interests	2,387	3	2,390
Total equity	**14,482**	**24**	**14,506**

Consolidation policy

As a result of IFRS 10, the Group has amended its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. This change had no impact on the Group's financial statements.

Fair values

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. IFRS 13 unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 'Financial Instruments: Disclosures'. See Note 16 for additional disclosures. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. The change had no impact on the measurements of the Group's assets and liabilities.

Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of comprehensive income, to present separately items that may be reclassified to the income statement in the future from those that would not. The 2012 comparative information has been restated for this change. The change had no impact on the Group's overall results and financial position.

Future new and revised standards

The Group is currently assessing the potential impacts of other new and revised standards and interpretations that will be effective from 1 January 2014 and beyond. 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.

2. Operating segment information

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

Divisional information in millions of CHF

Six months ended 30 June	Pharmaceuticals 2013	Pharmaceuticals 2012	Diagnostics 2013	Diagnostics 2012	Corporate 2013	Corporate 2012	Group 2013	Group 2012
Revenues from external customers								
Sales	18,162	17,409	5,133	5,014	–	–	23,295	22,423
Royalties and other operating income	883	802	73	78	–	–	956	880
Total	**19,045**	**18,211**	**5,206**	**5,092**	**–**	**–**	**24,251**	**23,303**
Revenues from other operating segments								
Sales	–	–	5	5	–	–	5	5
Royalties and other operating income	–	–	–	–	–	–	–	–
Elimination of inter-divisional revenue							(5)	(5)
Total	**–**	**–**	**5**	**5**	**–**	**–**	**–**	**–**
Segment results								
Operating profit	8,017	6,438	703	464	(126)	(570)	8,594	6,332
Capital expenditure								
Business combinations	–	–	–	17	–	–	–	17
Additions to property, plant and equipment	470	425	480	465	1	1	951	891
Additions to intangible assets	182	147	–	15	–	–	182	162
Total capital expenditure	**652**	**572**	**480**	**497**	**1**	**1**	**1,133**	**1,070**
Research and development								
Research and development costs	4,002	4,472	534	486	–	–	4,536	4,958
Other segment information								
Depreciation of property, plant and equipment	511	531	419	405	4	3	934	939
Amortisation of intangible assets	87	89	166	177	–	–	253	266
Impairment of property, plant and equipment	4	431	8	7	–	–	12	438
Impairment of goodwill	–	–	35	185	–	–	35	185
Impairment of intangible assets	268	461	12	16	–	–	280	477
Equity compensation plan expenses	147	144	18	18	9	7	174	169

Pharmaceuticals sub-divisional information in millions of CHF

Six months ended 30 June	Roche Pharmaceuticals 2013	Roche Pharmaceuticals 2012	Chugai 2013	Chugai 2012	Pharmaceuticals Division 2013	Pharmaceuticals Division 2012
Revenues from external customers						
Sales	16,490	15,466	1,672	1,943	18,162	17,409
Royalties and other operating income	810	771	73	31	883	802
Total	**17,300**	**16,237**	**1,745**	**1,974**	**19,045**	**18,211**
Revenues from other operating segments						
Sales	538	426	180	156	718	582
Royalties and other operating income	21	12	46	32	67	44
Elimination of income within division					(785)	(626)
Total	**559**	**438**	**226**	**188**	**–**	**–**
Segment results						
Operating profit	7,699	6,009	342	382	8,041	6,391
Elimination of inter-divisional profit					(24)	47
Operating profit	**7,699**	**6,009**	**342**	**382**	**8,017**	**6,438**
Capital expenditure						
Business combinations	–	–	–	–	–	–
Additions to property, plant and equipment	429	363	41	62	470	425
Additions to intangible assets	182	147	–	–	182	147
Total capital expenditure	**611**	**510**	**41**	**62**	**652**	**572**
Research and development						
Research and development costs	3,663	4,108	357	375	4,020	4,483
Elimination of costs within division					(18)	(11)
Total	**3,663**	**4,108**	**357**	**375**	**4,002**	**4,472**
Other segment information						
Depreciation of property, plant and equipment	444	458	67	73	511	531
Amortisation of intangible assets	65	52	22	37	87	89
Impairment of property, plant and equipment	1	431	3	–	4	431
Impairment of goodwill	–	–	–	–	–	–
Impairment of intangible assets	268	461	–	–	268	461
Equity compensation plan expenses	146	143	1	1	147	144

Net operating assets in millions of CHF

	Assets 30 June 2013	Assets 31 December 2012	Liabilities 30 June 2013	Liabilities 31 December 2012	Net assets 30 June 2013	Net assets 31 December 2012
Pharmaceuticals	27,259	26,785	(7,716)	(8,282)	19,543	18,503
Diagnostics	17,543	17,261	(2,513)	(2,532)	15,030	14,729
Corporate	167	156	(600)	(536)	(433)	(380)
Total operating	**44,969**	**44,202**	**(10,829)**	**(11,350)**	**34,140**	**32,852**
Non-operating	14,445	20,606	(32,511)	(36,708)	(18,066)	(16,102)
Group	**59,414**	**64,808**	**(43,340)**	**(48,058)**	**16,074**	**16,750**

As disclosed in Note 1, the non-operating net assets at 31 December 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published balance sheet is provided in Note 1.

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

	Assets		Liabilities		Net assets	
	30 June 2013	31 December 2012	30 June 2013	31 December 2012	30 June 2013	31 December 2012
Roche Pharmaceuticals	23,902	22,962	(6,965)	(7,323)	16,937	15,639
Chugai	4,034	4,532	(751)	(959)	3,283	3,573
Elimination within division	(677)	(709)	–	–	(677)	(709)
Pharmaceuticals Division	**27,259**	**26,785**	**(7,716)**	**(8,282)**	**19,543**	**18,503**

3. Chugai

The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE: 4519'. Chugai prepares financial statements in accordance with International Financial Reporting Standards (IFRS) which are filed on a quarterly basis with the Tokyo Stock Exchange. Due to certain consolidation entries there are minor differences between Chugai's stand-alone IFRS results and the results of Chugai as consolidated by the Roche Group in accordance with IFRS. At 30 June 2013 the Group's interest in Chugai was 61.6% (31 December 2012: 61.6%).

Dividends

The dividends distributed to third parties holding Chugai shares during the six months ended 30 June 2013 totalled 41 million Swiss francs (six months ended 30 June 2012: 49 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.

4. Net financial expense

Financing costs in millions of CHF

	Six months ended 30 June	
	2013	2012
Interest expense	(563)	(702)
Amortisation of debt discount [12]	(12)	(15)
Gains (losses) on debt derivatives, net	–	–
Gains (losses) on redemption and repurchase of bonds and notes, net [12]	(79)	(47)
Time cost of provisions	(9)	(6)
Net interest cost of defined benefit plans	(114)	(117)
Total financing costs	**(777)**	**(887)**

Other financial income (expense) in millions of CHF

	Six months ended 30 June	
	2013	2012
Gains on sale of equity securities	38	24
(Losses) on sale of equity securities	–	(2)
Dividend income	2	1
Gains (losses) on equity security derivatives, net	2	1
Write-downs and impairments of equity securities	(9)	(4)
Net income from equity securities	**33**	**20**
Interest income	16	19
Gains on sale of debt securities	–	–
(Losses) on sale of debt securities	–	(1)
Gains (losses) on debt security derivatives, net	–	–
Write-downs and impairments of long-term loans	–	–
Net interest income and income from debt securities	**16**	**18**
Foreign exchange gains (losses), net	(58)	(87)
Gains (losses) on foreign currency derivatives, net	(53)	47
Net foreign exchange gains (losses)	**(111)**	**(40)**
Net other financial income (expense)	1	(11)
Total other financial income (expense)	**(61)**	**(13)**

Net financial expense in millions of CHF

	Six months ended 30 June	
	2013	2012
Financing costs	(777)	(887)
Other financial income (expense)	(61)	(13)
Net financial expense	**(838)**	**(900)**
Financial result from Treasury management	(724)	(783)
Financial result from Pension management	(114)	(117)
Net financial expense	**(838)**	**(900)**

As disclosed in Note 1, the net financial expense for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net financial expense is provided in Note 1.

5. Income taxes

Income tax expense is recognised based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended 30 June 2013.

Income tax expenses in millions of CHF

	Six months ended 30 June	
	2013	2012
Current income taxes	(2,119)	(1,528)
Adjustments recognised for current tax of prior periods	140	(3)
Deferred taxes	270	413
Total income tax (expense)	**(1,709)**	**(1,118)**

As disclosed in Note 1, the income tax expense for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published income tax expense is provided in Note 1.

The Group's effective tax rate for the six months ended 30 June 2013 increased to 22.0% (six months ended 30 June 2012: 20.6%). This was mainly due to the higher percentage of the Group's profit contribution coming from tax jurisdictions with relatively higher local tax rates than the average Group rate, notably in the US. This was partially offset by the retrospective re-enactment of the 2012 US research and development tax credits in January 2013, which means that the 2013 half year results include a whole year of tax credits in respect of 2012 as well as six months of tax credits for 2013.

6. Business combinations

Future acquisitions – 2013

Constitution Medical Investors, Inc. On 1 July 2013 the Group acquired a 100% controlling interest in Constitution Medical Investors, Inc. ('CMI'), a US private company based in Massachusetts. CMI is the developer of a highly innovative hematology testing system, which is designed to provide faster and more accurate diagnosis of blood-related diseases, helping to improve patient care. CMI will be reported in the Diagnostics operating segment. The purchase consideration is 220 million US dollars in cash and up to 255 million US dollars from a contingent consideration arrangement. The initial accounting for the transaction was not complete at the date these Interim Financial Statements were approved for issue by the Board of Directors on 23 July 2013 and therefore various disclosures, including the fair value of the net assets acquired, cannot be made.

Acquisitions – 2012

Verum. On 3 January 2012 the Group acquired a 100% controlling interest in Verum Diagnostica GmbH ('Verum'), a German private company based in Munich. Verum is reported as part of the Diagnostics operating segment. The total consideration was 11 million euros of which 10 million euros were paid in cash and 1 million euros arose from a contingent consideration arrangement. The acquisition of Verum did not have a material impact on the Group's results or financial position.

Cash flows from business combinations

Acquisitions: net cash outflow in millions of CHF

	Six months ended 30 June	
	2013	2012
Cash consideration paid	–	(13)
Cash in acquired company	–	–
Contingent consideration paid on prior year acquisitions	(29)	(23)
Total net cash outflow	**(29)**	**(36)**

7. Global restructuring plans

During the six months ended 30 June 2013 the Group continued with the implementation of several major global restructuring plans initiated in prior years, notably the reorganisation of research and development in the Pharmaceuticals Division and programmes to address the long-term profitability in the Diabetes Care and Applied Science businesses in Diagnostics.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics [1]	Pharma R&D [2]	Other plans [3]	Total
Six months ended 30 June 2013				
Global restructuring costs				
– Employee-related costs	83	22	61	166
– Site closure costs	16	2	26	44
– Other reorganisation expenses	30	36	24	90
Total global restructuring costs	**129**	**60**	**111**	**300**
Additional costs				
– Impairment of goodwill	35	–	–	35
– Impairment of intangible assets	12	–	–	12
– Legal and environmental costs	3	–	–	3
Total costs	**179**	**60**	**111**	**350**
Six months ended 30 June 2012				
Global restructuring costs				
– Employee-related costs	67	194	124	385
– Site closure costs	15	367	110	492
– Other reorganisation expenses	12	10	184	206
Total global restructuring costs	**94**	**571**	**418**	**1,083**
Additional costs				
– Impairment of goodwill	185	–	–	185
– Impairment of intangible assets	10	45	112	167
– Legal and environmental costs	–	242	–	242
Total costs	**289**	**858**	**530**	**1,677**

1) Includes restructuring of the Diabetes Care and former Applied Science business areas.
2) Includes closure of the Nutley site and associated infrastructure and environmental remediation costs.
3) Includes Operational Excellence (Pharmaceuticals and Diagnostics) and in 2012 dalcetrapib (Pharmaceuticals).

Diagnostics Division – Diabetes Care and Applied Science restructuring

Various initiatives were announced in 2012 for the Diabetes Care and Applied Science businesses, which include increasing the efficiency of marketing and distribution operations and research and development activities. On 23 April 2013 the Group announced that the Applied Science business area's portfolio of products will be integrated within the Group's other Diagnostics business areas. This will streamline decision-making and enhance technology flow from research use to the clinical setting.

During the six months ended 30 June 2013 total costs of 129 million Swiss francs (six months ended 30 June 2012: 94 million Swiss francs) were incurred related to employee termination and site closure costs. In addition, goodwill impairment charges of 35 million Swiss francs were incurred for the full write-off of the goodwill from the Innovatis and 454 Life Sciences acquisitions in the former Applied Science business area. Intangible asset impairment charges of 12 million Swiss francs were also incurred related to the restructuring. During the six months ended 30 June 2012 a goodwill impairment charge of 185 million Swiss francs was incurred for the full write-off of the goodwill from the NimbleGen acquisition and intangible asset impairment charges of 10 million Swiss francs were incurred.

Pharmaceuticals Division – Research and Development reorganisation

On 26 June 2012 the Group announced a streamlining of the research and development activities within the Pharmaceuticals Division. The planned operational closure of the US site in Nutley, New Jersey, by the end of 2013 is on schedule. The first results of the environmental investigations are expected in early 2014.

During the six months ended 30 June 2013 total costs of 60 million Swiss francs were incurred, mainly for employee-related costs, property taxes and outside services. During the six months ended 30 June 2012 total costs of 571 million Swiss francs were incurred mainly for severance, other employee-related costs and property, plant and equipment impairments at the Nutley site. In addition there were environmental remediation costs at the Nutley site of 242 million Swiss francs and intangible asset impairment charges of 45 million Swiss francs as a result of portfolio prioritisation decisions linked to the reorganisation.

Other global restructuring plans

During the six months ended 30 June 2013 costs of 91 million Swiss francs (six months ended 30 June 2012: 239 million Swiss francs) were incurred for the previously announced Operational Excellence programme, mainly for employee-related costs in the Pharmaceuticals Division and employee-related and site closure costs in the Diagnostics Division for the sites in Burgdorf, Switzerland and Graz, Austria. Other smaller plans totalled 20 million Swiss francs (six months ended 30 June 2012: 49 million Swiss francs). The six months ended 30 June 2012 also include 130 million Swiss francs of restructuring costs and intangible asset impairment charges of 112 million Swiss francs in respect of the termination of the dalcetrapib dal-OUTCOMES trial and all the studies in the dal-HEART programme.

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

	Six months ended 30 June	
	2013	2012
Employee-related costs		
– Termination costs	143	452
– Pensions and other defined benefit plans	1	(83)
– Other employee-related costs	22	16
Total employee-related costs	**166**	**385**
Site closure costs		
– Impairment of property, plant and equipment	10	428
– Accelerated depreciation of property, plant and equipment	3	21
– (Gains) losses on disposal of property, plant and equipment	–	–
– Other site closure costs	31	43
Total site closure costs	**44**	**492**
Other reorganisation expenses	90	206
Total global restructuring costs	**300**	**1,083**
Additional costs		
– Impairment of goodwill [9]	35	185
– Impairment of intangible assets [10]	12	167
– Legal and environmental costs	3	242
Total costs	**350**	**1,677**

Global restructuring plans: classification of costs in millions of CHF

	Six months ended 30 June 2013			Six months ended 30 June 2012		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
– Pharmaceuticals	1	27	28	35	31	66
– Diagnostics	–	36	36	16	33	49
Marketing and distribution						
– Pharmaceuticals	–	31	31	–	40	40
– Diagnostics	–	51	51	2	54	56
Research and development						
– Pharmaceuticals	4	34	38	267	313	580
– Diagnostics	20	40	60	2	27	29
General and administration						
– Pharmaceuticals	–	39	39	294	106	400
– Diagnostics	35	27	62	185	22	207
– Corporate	–	5	5	–	250	250
Total	**60**	**290**	**350**	**801**	**876**	**1,677**
Total by operating segment						
– Roche Pharmaceuticals	5	129	134	596	490	1,086
– Chugai	–	2	2	–	–	–
– Diagnostics	55	154	209	205	136	341
– Corporate	–	5	5	–	250	250
Total	**60**	**290**	**350**	**801**	**876**	**1,677**

8. Pensions and other post-employment benefits

During the six months ended 30 June 2013 operating income of 252 million Swiss francs was recorded for past service costs from changes to the Group's pension plans in Switzerland and the United Kingdom. This represents the one-time impact of the adjustment of the pension liability for the plan changes. Of this amount, 121 million Swiss francs were recorded in the Pharmaceuticals Division and 28 million Swiss francs in the Diagnostics Division. The remaining 103 million Swiss francs were allocated to Corporate, mainly attributable to previously divested businesses. The past service income was recorded within general and administration.

9. Goodwill

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

Cost	
At 1 January 2013	7,662
Business combinations [6]	–
Currency translation effects	197
Balance at 30 June 2013	**7,859**
Impairment losses	
At 1 January 2013	(182)
Impairment charge	(35)
Currency translation effects	(7)
Balance at 30 June 2013	**(224)**
Net book value	
At 1 January 2013	7,480
Balance at 30 June 2013	**7,635**
Allocation by operating segment	
– Roche Pharmaceuticals	2,108
– Chugai	106
– Diagnostics	5,421
Total Group	**7,635**

On 23 April 2013 the Group announced a reorganisation of the Applied Science business area (see Note 7). A goodwill impairment charge of 35 million Swiss francs was incurred in the six months ended 30 June 2013 for the full write-off of the goodwill from the 454 Life Sciences acquisition in 2007 and the Innovatis acquisition in 2009 in the former Applied Science business area.

10. 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	Technology intangibles	Total
Six months ended 30 June 2013					
At 1 January 2013	2,381	1,775	8	50	4,214
Business combinations [6]	–	–	–	–	–
Additions	63	119	–	–	182
Disposals	–	–	–	–	–
Transfers	2	(2)	–	–	–
Amortisation charge	(245)	–	(3)	(5)	(253)
Impairment charge	(26)	(254)	–	–	(280)
Currency translation effects	48	41	–	1	90
At 30 June 2013	**2,223**	**1,679**	**5**	**46**	**3,953**
Allocation by operating segment					
– Roche Pharmaceuticals	595	1,191	–	39	1,825
– Chugai	121	–	2	–	123
– Diagnostics	1,507	488	3	7	2,005
Total Group	**2,223**	**1,679**	**5**	**46**	**3,953**

Classification of amortisation and impairment expenses in millions of CHF

	Six months ended 30 June 2013		Six months ended 30 June 2012	
	Amortisation	Impairment	Amortisation	Impairment
Cost of sales				
– Pharmaceuticals	61	–	75	13
– Diagnostics	162	–	173	16
Marketing and distribution				
– Pharmaceuticals	–	–	–	–
– Diagnostics	3	–	3	–
Research and development				
– Pharmaceuticals	26	268	14	448
– Diagnostics	1	12	1	–
Total	**253**	**280**	**266**	**477**

Intangible asset impairment charges – 2013

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

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

Diagnostics Division. Impairment charges totalling 12 million Swiss francs were recorded from the Applied Science business area reorganisation (see Note 7). The assets concerned, which were not yet being amortised, were fully written down.

Intangible asset impairment charges – 2012

Pharmaceuticals Division. Impairment charges totalling 461 million Swiss francs were recorded which related to:

- A clinical data assessment of a project acquired as part of the Marcadia acquisition (160 million Swiss francs);
- Various global restructuring initiatives (157 million Swiss francs), mainly related to the termination of the dalcetrapib trials (see Note 7);
- Portfolio prioritisation decisions (103 million Swiss francs), mainly related to the return of the monoclonal antibody RG 7334 anti-PLGF MAb to the alliance partners;
- A clinical data assessment of one collaboration project with an alliance partner (28 million Swiss francs); and
- A decision to stop development of one compound with an alliance partner (13 million Swiss francs).

Diagnostics Division. Impairment charges totalling 16 million Swiss francs were recorded which mainly related to global restructuring initiatives in the Diabetes Care and Applied Science businesses (see Note 7).

11. Provisions and contingent liabilities

Provisions in millions of CHF

	30 June 2013	31 December 2012
Legal provisions	699	728
Environmental provisions	575	566
Restructuring provisions	607	698
Employee provisions	325	313
Other provisions	902	895
Total provisions	**3,108**	**3,200**
Of which		
– Current portion	2,079	2,158
– Non-current portion	1,029	1,042
Total provisions	**3,108**	**3,200**

In total 514 million Swiss francs of provisions were utilised during the six months ended 30 June 2013 (six months ended 30 June 2012: 370 million Swiss francs), mainly related to the utilisation of restructuring provisions.

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

Rituxan arbitration (Sanofi/Hoechst). In the arbitration between Hoechst GmbH and Genentech described in Note 24 to the Annual Financial Statements on 25 February 2013 the arbitrator issued a final decision and awarded damages to Hoechst (an affiliate of Sanofi). On 10 May 2013 the US Court of Appeals for the Federal Circuit affirmed the US District Court's decision denying Genentech's motion for an injunction to prevent Sanofi and Hoechst from pursuing the arbitration award. Subsequently, Hoechst initiated proceedings in the US, France and Germany seeking to enforce the arbitration award which proceedings are ongoing. At 30 June 2013 the Group recorded a back royalty expense of 42 million Swiss francs, net of the assumed reimbursement of a portion of the Group's obligation by its co-promotion partner in the US, and a corresponding amount in accrued liabilities. Genentech continues to appeal against the arbitrator's final decision and award of damages and to defend against the enforcement actions that Hoechst initiated.

There have been certain procedural developments in the other significant litigation matters described in Note 24 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.

12. Debt

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

Six months ended 30 June 2013	
At 1 January 2013	24,590
Proceeds from issue of bonds and notes	–
Redemption and repurchase of bonds and notes	(5,790)
Increase (decrease) in commercial paper	1,932
Increase (decrease) in other debt	106
(Gains) losses on redemption and repurchase of bonds and notes, net [4]	79
Amortisation of debt discount [4]	12
Foreign currency transaction (gains) losses, net	(214)
Currency translation effects and other	666
At 30 June 2013	**21,381**
Consisting of	
– Bonds and notes	18,436
– Commercial paper	2,286
– Amounts due to banks and other financial institutions	425
– Finance lease obligations	201
– Other borrowings	33
Total debt	**21,381**
Reported as	
– Long-term debt	17,780
– Short-term debt	3,601
Total debt	**21,381**

Foreign currency transaction gains of 214 million Swiss francs are mainly related to the stronger US dollar compared to the euro. These gains were recorded in the income statement, where they have been partially offset by losses on the hedging derivatives.

The increase in debt of 666 million Swiss francs from currency translation effects and other is mainly due to the stronger US dollar compared to the Swiss franc. This foreign currency translation loss occurred upon translating the debt issued by the Group's foreign affiliates into Swiss francs upon consolidation and is recorded in equity within 'currency translation of foreign operations'.

Issuance of bonds and notes – 2013

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

Issuance of bonds and notes – 2012

The Group raised net proceeds of approximately 2.7 billion Swiss francs through a series of debt offerings in the six months ended 30 June 2012. All newly issued debt is senior, unsecured and has been guaranteed by Roche Holding Ltd.

Redemption and repurchase of bonds and notes – 2013

Redemption of euro-denominated notes. On the due date of 4 March 2013 the Group redeemed the 4.625% fixed rate notes with a principal of 3.313 billion euros. The cash outflow was 4,068 million Swiss francs, plus accrued interest and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 5.53%.

Redemption of US dollar-denominated notes. On 20 December 2012 the Group resolved to exercise its option to call for redemption of the entire outstanding US dollar-denominated 5.0% fixed rate notes due 1 March 2014. On 21 March 2013 the Group redeemed the remaining outstanding principal of 1.75 billion US dollars at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The cash outflow was 1,722 million Swiss francs, plus accrued interest and there was an additional 1 million Swiss francs loss recorded on redemption. The effective interest rate of these notes was 4.85%.

Early partial redemption of US dollar-denominated notes in August 2013. On 28 June 2013 the Group resolved to exercise its option to call for early partial redemption of US dollar-denominated 6.0% fixed rate notes due 1 March 2019. The Group will redeem an outstanding principal of 400 million US dollars on 29 August 2013 at an amount equal to the sum of the present values of the remaining scheduled payments of these notes discounted to the redemption date at the US Treasury rate plus 0.50%, together with accrued and unpaid interest on the principal. The US Treasury rate will be determined by an independent investment banker. A cash outflow of approximately 479 million US dollars, plus accrued interest, is expected on redemption. The Group has revised the carrying value of these notes to take into account the changes to the amounts and timings of the estimated cash flows. The increase in carrying value of 84 million US dollars (78 million Swiss francs) is recorded within financing costs (see Note 4) as a loss on redemption. The effective interest rate of these notes is 6.37%.

Redemption and repurchase of bonds and notes – 2012

During the six months ended 30 June 2012 the Group redeemed 2.2 billion Swiss francs of bonds on their due date and completed a tender offer to repurchase 0.8 billion euros of notes (1 billion 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	
	2013	2012
European Medium Term Note programme euro-denominated notes	–	1,201
Swiss franc-denominated bonds	–	1,497
Total cash inflows from issuance of bonds and notes	**–**	**2,698**

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

	Six months ended 30 June	
	2013	2012
European Medium Term Note programme euro-denominated notes	(4,068)	(981)
US dollar-denominated notes	(1,722)	–
Swiss franc-denominated bonds	–	(2,198)
Total cash outflows from redemption and repurchase of bonds and notes	**(5,790)**	**(3,179)**

Interest rate hedging

During the six months ended 30 June 2013 the Group entered into interest rate swap contracts for a combined notional principal of 2.0 billion US dollars. These swapped the fixed interest rate of 6.0% to an effective floating interest rate of 3 months USD-LIBOR plus an average spread of 4.74%. The maturity of the swaps is 1 March 2019.

Collateral agreements

As disclosed in Note 26 to the Annual Financial Statements, the Group has entered into various currency swaps for certain non-US dollar debt instruments that were issued in 2009. Collateral agreements were entered into with the counterparties to the currency swaps to mitigate counterparty risk. As the fair value of the derivative instruments decreased during the first half of 2013, mainly due to a stronger US dollar compared to the euro, a total of 0.1 billion Swiss francs cash collateral was delivered by the Group during the interim period (six months ended 30 June 2012: 0.3 billion Swiss francs delivered by the Group). This collateral delivered was recorded as a decrease in cash and a corresponding decrease in accrued liabilities. The carrying value of accrued liabilities in respect of these agreements at 30 June 2013 was 0.3 billion Swiss francs (31 December 2012: accrued liabilities of 0.4 billion Swiss francs).

Commercial paper

Roche Holdings, Inc. commercial paper program. In March 2009 Roche Holdings Inc. established a 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 2013 unsecured commercial paper notes with a principal of 2.4 billion US dollars and an average interest rate of 0.12% were outstanding.

Movements in obligations under commercial paper programmes in millions of CHF

Six months ended 30 June 2013	
At 1 January 2013	324
Net cash proceeds (payments)	1,932
Currency translation effects	30
At 30 June 2013	**2,286**

13. Equity

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

The authorised and called-up share capital of the Group and the number of issued non-voting equity securities have not changed during the first half of 2013. The weighted average number of shares and non-voting equity securities in issue during the six months ended 30 June 2013 was 849 million (six months ended 30 June 2012: 847 million).

Dividends

On 5 March 2013 the shareholders approved the distribution of a dividend of 7.35 Swiss francs per share and non-voting equity security (2012: 6.80 Swiss francs) in respect of the 2012 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled 6,238 million Swiss francs (2012: 5,770 million Swiss francs) and has been recorded against retained earnings in the six months ended 30 June 2013.

Own equity instruments

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

	30 June 2013 (millions)	31 December 2012 (millions)
Shares	1.3	–
Non-voting equity securities	14.2	14.1
Derivative instruments	5.5	8.9
Total	**21.0**	**23.0**

Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's employee stock options and other equity compensation plans. These are fully described in Note 10 to the Annual Financial Statements. The derivative instruments mainly consist of call options that are exercisable at any time up to their maturity.

Retained earnings

In addition to net income attributable to Roche shareholders of 5,941 million Swiss francs (six months ended 30 June 2012: 4,199 million Swiss francs) and the dividend payments described above, retained earnings also includes gains on remeasurements of defined benefit plans of 297 million Swiss francs, after tax (2012: losses of 844 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 2012.

14. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	Six months ended 30 June	
	2013	2012
Net income attributable to Roche shareholders (CHF millions)	**5,941**	**4,199**
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)	(14)	(16)
Weighted average number of shares and non-voting equity securities in issue (millions)	**849**	**847**
Basic earnings per share and non-voting equity security (CHF)	**7.00**	**4.96**

Diluted earnings per share and non-voting equity security

	Six months ended 30 June	
	2013	2012
Net income attributable to Roche shareholders (CHF millions)	5,941	4,199
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)	**5,941**	**4,198**
Weighted average number of shares and non-voting equity securities in issue (millions)	849	847
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	15	6
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	**864**	**853**
Diluted earnings per share and non-voting equity security (CHF)	**6.88**	**4.93**

As disclosed in Note 1, the earnings per share and non-voting equity security for the six months ended 30 June 2012 have been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published earnings per share and non-voting equity security is provided in Note 1.

15. Statement of cash flows

Cash generated from operations in millions of CHF

	Six months ended 30 June	
	2013	2012
Net income	6,047	4,312
Add back non-operating (income) expense		
– Associates	–	2
– Financing costs [4]	777	887
– Other financial income (expense) [4]	61	13
– Income taxes [5]	1,709	1,118
Operating profit	**8,594**	**6,332**
Depreciation of property, plant and equipment [2]	934	939
Amortisation of intangible assets [2]	253	266
Impairment of goodwill [2]	35	185
Impairment of intangible assets [2]	280	477
Impairment of property, plant and equipment [2]	12	438
Operating (income) expense for defined benefit plans	(33)	91
Operating expense for equity-settled equity compensation plans	174	163
Net (income) expense for provisions	360	1,015
Bad debt expense	26	61
Inventory write-downs	146	204
Other adjustments	132	32
Cash generated from operations	**10,913**	**10,203**

As disclosed in Note 1, the net income for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013. A reconciliation to the previously published net income is provided in Note 1.

Dividends paid in millions of CHF

	Six months ended 30 June	
	2013	2012
Dividends to Roche Group shareholders	(6,238)	(5,770)
Dividends to non-controlling shareholders – Chugai	(41)	(49)
Dividends to non-controlling shareholders – Other	(5)	(5)
Increase (decrease) in dividends payable	1	1
Dividend withholding tax	(1)	(28)
Total	**(6,284)**	**(5,851)**

16. Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in Note 31 to the Annual Financial Statements.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments at 30 June 2013 in millions of CHF

	Level 1	Level 2	Level 3	Total
Financial assets recognised at fair value				
Marketable securities:				
– Money market instruments and time accounts over three months	440	2,792	–	3,232
– Bonds and debentures	592	6	–	598
– Shares	365	–	–	365
Derivative financial instruments	–	279	–	279
Available-for-sale investments	3	121	–	124
Total	**1,400**	**3,198**	**–**	**4,598**
Financial liabilities recognised at fair value				
Derivative financial instruments	–	(292)	–	(292)
Contingent consideration	–	–	(54)	(54)
Total	**–**	**(292)**	**(54)**	**(346)**

At 30 June 2013 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 based on the most recently published financial data.

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 and vice versa during the six months ended 30 June 2013.

Level 3 fair values

Details of the determination of Level 3 fair value measurements and the transfer out of Level 3 of the fair value hierarchy during the six months ended 30 June 2013 are set out below.

Movements in Level 3 fair values in millions of CHF

	Contingent consideration
Six months ended 30 June 2013	
At 1 January 2013	(81)
Arising from business combination [6]	–
Total unrealised gains and losses included in the income statement – operating profit	–
Total gains and losses included in other comprehensive income – currency translation effects	(2)
Transfers out of Level 3 – utilised during the period	29
At 30 June 2013	**(54)**

Contingent consideration arrangements

The Group is party to certain contingent consideration arrangements arising from previous business combination arrangements. The fair value is determined considering the expected payment, discounted to present value using a risk-adjusted discount rate. The expected payments are determined by considering the possible scenarios of forecast sales or other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales or other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rate was higher or the risk-adjusted discount rate was lower. At 30 June 2013 the payments under contingent consideration arrangements could be up to 77 million Swiss francs.

Carrying value and fair value

At 30 June 2013 the carrying value of bonds and notes is 18.4 billion Swiss francs compared to a fair value of 21.6 billion Swiss francs and the carrying value of total debt is 21.4 billion Swiss francs compared to a fair value of 24.6 billion Swiss francs. The carrying values of financial assets are a reasonable approximation of the fair values at 30 June 2013.

17. Subsequent events

On 10 July 2013 the Group announced that following the results of a regular safety review of the aleglitazar AleCardio phase III trial, the independent Data and Safety Monitoring Board (DSMB) has recommended to halt the trial due to safety signals and lack of efficacy. Based on this recommendation, the Group has decided to terminate the AleCardio trial and all other trials involving aleglitazar. This termination had no impact on the Group's overall results and financial position at 30 June 2013.

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 2013 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 48 to 76. 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 2013 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

KPMG

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

François Rouiller
Licensed Audit Expert

Basel, 23 July 2013

Supplementary Information

Supplementary Core results and EPS information

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 7) are excluded.
- Amortisation and impairment of intangible assets (see Note 10) and impairment of goodwill (see Note 9) 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 or settlement of pension plans (both currently none) would be excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to the price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 5).

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 2013 in millions of CHF

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

Core results reconciliation – six months ended 30 June 2012 in millions of CHF

	IFRS	Global restructuring	Intangibles amortisation	Intangibles impairment	Alliances & business combinations	Legal & environmental	Normalisation of ECP tax benefit	Core
Sales	22,423	–	–	–	–	–	–	22,423
Royalties and other operating income	880	–	–	–	–	–	–	880
Cost of sales	(6,048)	105	248	29	–	–	–	(5,666)
Marketing and distribution	(4,104)	96	3	–	–	–	–	(4,005)
Research and development	(4,958)	452	15	448	–	–	–	(4,043)
General and administration	(1,861)	430	–	185	(39)	337	–	(948)
Operating profit	**6,332**	**1,083**	**266**	**662**	**(39)**	**337**	**–**	**8,641**
Associates	(2)	–	–	–	–	–	–	(2)
Financing costs	(887)	–	–	–	–	–	–	(887)
Other financial income (expense)	(13)	–	–	–	–	–	–	(13)
Profit before taxes	**5,430**	**1,083**	**266**	**662**	**(39)**	**337**	**–**	**7,739**
Income taxes	(1,118)	(309)	(91)	(157)	(3)	(101)	19	(1,760)
Net income	**4,312**	**774**	**175**	**505**	**(42)**	**236**	**19**	**5,979**
Attributable to								
– Roche shareholders	4,199	774	175	505	(42)	236	19	5,866
– Non-controlling interests	113	–	–	–	–	–	–	113

As disclosed in Note 1, the core results for the six months ended 30 June 2012 have been restated following the accounting policy changes which were adopted in 2013. The adjustments made to the published IFRS results are the same for the core results.

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

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

Divisional core results reconciliation – six months ended 30 June 2012 in millions of CHF

	IFRS	Global restruc-turing	Intangibles amorti-sation	Intangibles impairment	Alliances & business combi-nations	Legal & environ-mental	Core
Pharmaceuticals							
Sales	17,409	–	–	–	–	–	17,409
Royalties and other operating income	802	–	–	–	–	–	802
Cost of sales	(3,640)	66	75	13	–	–	(3,486)
Marketing and distribution	(2,791)	40	–	–	–	–	(2,751)
Research and development	(4,472)	423	14	448	–	–	(3,587)
General and administration	(870)	400	–	–	(44)	16	(498)
Operating profit	**6,438**	**929**	**89**	**461**	**(44)**	**16**	**7,889**
Diagnostics							
Sales	5,014	–	–	–	–	–	5,014
Royalties and other operating income	78	–	–	–	–	–	78
Cost of sales	(2,408)	39	173	16	–	–	(2,180)
Marketing and distribution	(1,313)	56	3	–	–	–	(1,254)
Research and development	(486)	29	1	–	–	–	(456)
General and administration	(421)	21	–	185	5	6	(204)
Operating profit	**464**	**145**	**177**	**201**	**5**	**6**	**998**
Corporate							
General and administration	(570)	9	–	–	–	315	(246)
Operating profit	**(570)**	**9**	**–**	**–**	**–**	**315**	**(246)**

Core EPS (basic)

	Six months ended 30 June	
	2013	2012
Core net income attributable to Roche shareholders (CHF millions)	6,542	5,866
Weighted average number of shares and non-voting equity securities in issue (millions) [14]	849	847
Core earnings per share (basic) (CHF)	**7.71**	**6.93**

Core EPS (diluted)

	Six months ended 30 June	
	2013	2012
Core net income attributable to Roche shareholders (CHF millions)	6,542	5,866
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)	**6,542**	**5,865**
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions) [14]	**864**	**853**
Core earnings per share (diluted) (CHF)	**7.58**	**6.88**

As disclosed in Note 1, the core earnings per share for the six months ended 30 June 2012 has been restated following the accounting policy changes which were adopted in 2013.

Supplementary operating free cash flow information

Divisional operating free cash flow information in millions of CHF

Six months ended 30 June	Pharmaceuticals 2013	Pharmaceuticals 2012	Diagnostics 2013	Diagnostics 2012	Corporate 2013	Corporate 2012	Group 2013	Group 2012
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	511	531	419	405	4	3	934	939
Amortisation of intangible assets	87	89	166	177	–	–	253	266
Impairment of property, plant and equipment	4	431	8	7	–	–	12	438
Impairment of goodwill	–	–	35	185	–	–	35	185
Impairment of intangible assets	268	461	12	16	–	–	280	477
Total	**870**	**1,512**	**640**	**790**	**4**	**3**	**1,514**	**2,305**
Other adjustments								
Add back								
– Expenses for equity-settled equity compensation plans	147	141	18	16	9	6	174	163
– Net (income) expense for provisions	204	577	152	117	4	321	360	1,015
– Net gain (loss) from disposals	2	(74)	(1)	4	–	–	1	(70)
– Non-cash working capital and other items	80	188	75	97	(105)	(1)	50	284
Deduct								
– Utilisation of provisions	(369)	(314)	(121)	(53)	(24)	(3)	(514)	(370)
– Proceeds from disposals	5	88	22	25	–	–	27	113
Total	**69**	**606**	**145**	**206**	**(116)**	**323**	**98**	**1,135**
Operating profit cash adjustments	**939**	**2,118**	**785**	**996**	**(112)**	**326**	**1,612**	**3,440**
EBITDA								
Core operating profit	8,522	7,889	1,083	998	(117)	(246)	9,488	8,641
Depreciation and impairment of property, plant and equipment – core basis	510	523	419	402	4	3	933	928
EBITDA	**9,032**	**8,412**	**1,502**	**1,400**	**(113)**	**(243)**	**10,421**	**9,569**
– margin, % of sales	49.7	48.3	29.3	27.9	–	–	44.7	42.7

The Group has refined the calculation of free cash flow in 2013 to exclude the impact of employee stock options, in line with its peer group. As a result the operating profit cash adjustments for the six months ended 30 June 2012 have been restated to exclude the net cash flow from equity-settled compensation plans. This resulted in an increase of 74 million Swiss francs in the Group operating profit cash adjustments for the six months ended 30 June 2012. The divisional impacts were increases of 60 million Swiss francs in Pharmaceuticals, 12 million Swiss francs in Diagnostics and 2 million Swiss francs in Corporate.

Supplementary balance sheet information

Net operating assets to balance sheet reconciliation 30 June 2013 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Taxation and Treasury	Roche Group
Property, plant and equipment	10,629	4,634	141	–	15,404
Goodwill	2,214	5,421	–	–	7,635
Intangible assets	1,948	2,005	–	–	3,953
Inventories	3,874	2,003	–	–	5,877
Provisions	(2,044)	(543)	(521)	–	(3,108)
Associates	–	–	–	17	17
Current income tax net liabilities	–	–	–	(2,065)	(2,065)
Deferred tax net assets	–	–	–	4,040	4,040
Defined benefit plan net liabilities	–	–	–	(6,119)	(6,119)
Marketable securities	–	–	–	4,195	4,195
Cash and cash equivalents	–	–	–	3,566	3,566
Debt	–	–	–	(21,381)	(21,381)
Other net assets (liabilities)					
– Net working capital	2,682	1,601	(38)	–	4,245
– Long-term net operating assets	240	(91)	(15)	–	134
– Other	–	–	–	(319)	(319)
Total net assets	**19,543**	**15,030**	**(433)**	**(18,066)**	**16,074**

Roche Securities

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

	30 June 2013	31 December 2012
Number of shares	160,000,000	160,000,000
Number of non-voting equity securities *(Genussscheine)*	702,562,700	702,562,700
Total	**862,562,700**	**862,562,700**
Number of own shares held	(1,300,000)	–
Number of own non-voting equity securities *(Genussscheine)* held	(14,208,457)	(14,093,890)
Total in issue	**847,054,243**	**848,468,810**

Data per share and non-voting equity security in CHF

		Six months ended 30 June 2013	2012
Earnings (basic)		7.00	4.96
Earnings (diluted)		6.88	4.93
Core earnings (basic)		7.71	6.93
Core earnings (diluted)		7.58	6.88
Stock price of share [b]	Opening	186.90	166.60
	High	258.50	176.60
	Low	186.90	157.10
	Period end	234.80	170.70
Stock price of non-voting equity security *(Genussscheine)* [b]	Opening	184.00	159.20
	High	258.50	168.70
	Low	184.00	149.20
	Period end	235.00	163.60

Market capitalisation in millions of CHF

	30 June 2013	31 December 2012	30 June 2012
Period end	199,026	156,582	139,737

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

b) All stock price data reflect daily closing prices.

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