Roche Holdings, Inc.
Half-Year Report 2020

Roche Holdings, Inc. Interim Consolidated Financial Statements

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Management Report

1. Review of the first six months ended June 30, 2020

Principal activities

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

RHI Group results

In the first half of 2020 the RHI Group reported sales of USD 15.8 billion, a decrease of 1%, and an operating profit of USD 5.6 billion, a decrease of 8% compared to the first half of 2019. Sales in the Pharmaceuticals Division decreased by 3% to USD 13.6 billion. The Diagnostics Division reported a sales growth of 16% to USD 2.2 billion, with the major growth area being Molecular Diagnostics.

The COVID-19 pandemic outbreak poses an unprecedented challenge for healthcare systems across the globe. With healthcare needs remaining high, the Roche Group's business has so far proved to be largely resilient in this difficult environment. The Pharmaceuticals Division has seen the continuing uptake of new medicines compensating for biosimilar erosion. In the Diagnostics Division sales of the SARS-CoV-2 PCR tests offset a decline in routine testing across the portfolio. The Roche Group has made important contributions to manage this global health crisis in close collaboration with authorities. The Diagnostics Division launched its SARS-CoV-2 PCR test for various systems (including the high throughput cobas 6800/8800 systems) in March and its Elecsys Anti-SARS-CoV-2 antibody test in May. The Pharmaceuticals Division has initiated a global phase III clinical trial (COVACTA) of Actemra/RoActemra in hospitalised patients with severe COVID-19 pneumonia and further studies as monotherapy or combination therapy. To date no major manufacturing supply chain issues have been identified and the Roche Group's planned drug launches, filings, pivotal phase III trial readouts and pivotal trial starts are largely on track.

The RHI Group had a positive cash flow from operating activities of USD 3.7 billion, a decrease of 18% compared to the first half of 2019, due to lower cash generated from operations and increased net working capital, partly offset by lower income tax payments. The Roche Group has maintained sufficient liquidity to support its ongoing global business activities and is well positioned to meet its financial obligations.

The RHI Group's operating profit decreased by 8% to USD 5.6 billion in the first half of 2020, driven by higher cost of sales and higher research and development costs, partly offset by higher royalties and other operating income and lower general and administration costs. The RHI Group's operating profit margin decreased to 35.2% of sales from 37.8% in the comparative period. Net income decreased by 4% to USD 4.1 billion due to lower income tax expenses.

Impact of the COVID-19 pandemic

Roche medicines and medical devices

Tests that detect the virus. In March 2020 the cobas SARS-CoV-2 molecular test to detect an active infection with the novel coronavirus received US FDA Emergency Use Authorization and became available in markets accepting the CE mark. Hospitals and reference laboratories can run the test on Roche Diagnostics' high-volume fully automated cobas 6800 and cobas 8800 systems based on PCR technology, which are installed in major hospitals and laboratories around the world. RHI Group's sales in the Molecular Diagnostics business area in the first half of 2020 were USD 0.8 billion, an increase of 53% compared to an increase of 7% in the full year 2019.

Tests that detect immune response. In May 2020 the Elecsys Anti-SARS-CoV-2 antibody test received US FDA Emergency Use Authorization and became available in markets accepting the CE mark. The test is designed to help determine if a patient has developed antibodies against the SARS-CoV-2 after exposure to the virus. The tests can be run on Roche Diagnostics' cobas e analysers, which are widely available around the world.

Investigating treatment options. In March 2020 the Pharmaceuticals Division initiated a global phase III clinical trial, COVACTA, to evaluate the safety and efficacy of intravenous Actemra/RoActemra on top of standard of care in hospitalised adult patients with severe COVID-19 pneumonia compared to placebo on top of standard of care. In May the Pharmaceuticals Division started a further global phase III study, REMDACTA, to evaluate the safety and efficacy of Actemra/RoActemra plus the antiviral remdesivir, versus placebo plus remdesivir in hospitalised patients with severe COVID-19 pneumonia, in collaboration with Gilead Sciences. Also in May, the Pharmaceuticals Division started two further

phase III studies to evaluate the safety and efficacy of Actemra/RoActemra in the treatment of adult patients with severe COVID-19 pneumonia: EMPACTA includes patients that are often underrepresented in clinical trials while MARIPOSA studies lower dose of Actemra/RoActemra. In addition to these trials, there are other independently led clinical trials, on multiple medicines including Actemra/RoActemra, that are taking place around the world. At the time of writing, there are no robust, well-controlled studies showing safety and efficacy of Actemra/RoActemra in clinical treatment of COVID-19 pneumonia, and the medicine is currently not approved for this use. RHI Group's sales of Actemra in the first half of 2020 were USD 0.7 billion, an increase of 58% compared to an increase of 8% in the full year 2019.

Impact on the RHI Group's business and results

Revenues. The COVID-19 pandemic had an impact on the RHI Group's revenues, both on the absolute amounts and in the phasing during the first half of 2020. The following factors affected sales across the whole portfolio in the Pharmaceuticals and Diagnostics businesses, although the impact varied from product to product:

- The restrictions on local travel and public gatherings discouraged some patients from visiting physicians, health practices and hospitals. This especially affected elderly patients.
- Many hospitals and health practices experienced a certain level of disruption leading to delays or cancellations of patient visits, especially for non-critical procedures.
- There was a certain level of forward purchasing as doctors wrote prescriptions for longer periods to minimise patient visits to pharmacies, and as patients and distributors stocked up in anticipation of restrictions and potential supply chain disruptions.

These factors manifested in a higher level of sales prior to restrictions being imposed, followed by a lower level of sales during the second quarter of 2020 and then a slow recovery beginning at the end of the second quarter as restrictions were progressively eased. It is uncertain how this recovery might continue in the second half of 2020, and this is highly contingent on the future development of the pandemic.

In the Pharmaceuticals Division the overall impact of COVID-19 was negative, partly compensated by additional sales of Actemra (+58%). The negative impacts were strongest for medicines where regular visits to health practices or hospitals are needed, for example for infusions. Sales of Lucentis (-19%), Ocrevus (+19%) and the oncology portfolio (-15%) were therefore particularly affected, although the oncology portfolio was also heavily impacted by biosimilar erosion. The new products Hemlibra (+80%) and Tecentriq (+52%) continued strongly, although the uptake of Hemlibra in the second quarter was also impacted to some extent by the pandemic. The Pharmaceuticals Division's overall interim results were influenced by the launch of new products and the US biosimilar erosion as well as the COVID-19 pandemic, although the impact of the pandemic falls almost entirely into the second quarter. Consequently within the Pharmaceuticals Division interim sales decrease of 3%, there was 2% year-on-year sales growth in the first quarter of 2020 followed by a sales decline of 9% in the second quarter.

In the Diagnostics Division the pandemic had a negative impact on sales across the whole portfolio, but this was compensated by sales of the cobas SARS-CoV-2 PCR tests. The pandemic led to a reduction in overall diagnostics testing, which translated into reduced instrument placements in the laboratory solutions business and reduced sales of reagents and consumables. This in turn led to a certain build-up in inventories as at June 30, 2020. Within the Diagnostics Division's sales growth of 16% in the first half of 2020, there is 13% year-on-year growth in the first quarter and 20% increase in the second quarter.

Manufacturing and supply. Despite some of the supply and logistics challenges due to the COVID-19 pandemic, the Roche Group has been able to continue to deliver medicines and diagnostics wherever possible for patients across a broad range of other disease areas under exceptional conditions. To date there has been limited disruption and the Roche Group is continually monitoring the situation. While a certain level of volatility in purchasing patterns was noted during the first half of 2020, this has not significantly impacted the supply chain.

With the announcement of new clinical trials, and a potential increase in demand for Actemra/RoActemra, the Pharmaceuticals Division has accelerated manufacturing capacity to maximise production with the goal of increasing available supply globally. While the Roche Group is ensuring a coordinated, global overview of additional supply requests, provision of medicines is managed on a country level according to local rules and regulations and in close collaboration with the authorities.

The Diagnostics Division of the Roche Group has ramped up production capacity for both the cobas SARS-CoV-2 PCR test and the Elecsys Anti-SARS-CoV-2 antibody test with further scale-up as fast as possible. The Roche Group is committed to delivering as many tests as possible within the limits of supply and delivering its novel coronavirus tests to

areas where they can be immediately effective. Tests will be shipped from production sites to locations where appropriate infrastructure is in place and testing can begin without delay.

Research and development. The Roche Group's planned drug launches, filings, pivotal phase III trial readouts and pivotal trial starts are largely on track. The Roche Group is continuously monitoring all ongoing studies, both in terms of missed doses and overall data integrity. The Roche Group's development teams are taking significant efforts to protect these studies with continued support by health authorities, but the ultimate impact will also depend on the length and severity of the pandemic. Should the pandemic have a prolonged duration then the launch of new clinical trials and the progress of ongoing clinical trials may be delayed by restrictions at medical facilities and by patients deferring visits or simply not volunteering.

Operating results. The major impact on the operating profit came from the above-mentioned factors for revenues. Overall operating expenses were impacted to some extent by the COVID-19 pandemic, but these impacts mostly offset. While some additional costs were incurred for areas such as IT infrastructure and distribution costs, there was less spending on travel and congresses. In particular, the 4% decline in RHI Group's marketing and distribution costs was driven by a general slowdown in marketing activities during the second quarter, including lower travel costs. There were no significant costs for idle manufacturing capacity or inventory write-offs that could be attributed directly to the pandemic, and construction projects incurred only minor costs for delays during restrictions.

Liquidity and financial position

The liquidity and financial position of the Roche Group and the RHI Group remained sound during this exceptional period.

Genentech transaction. The RHI Group completed the purchase of the non-controlling interest in Genentech effective March 26, 2009. Based on the International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by USD 46.6 billion, of which USD 7.6 billion was allocated to eliminate the book value of Genentech non-controlling interest. At June 30, 2020 the RHI Group had a negative equity of USD 19.6 billion (December 31, 2019: USD 21.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Liquidity. With a positive cash flow from operating activities of USD 3.7 billion the RHI Group continues to show strong cash generation ability. The RHI Group has committed credit lines with various financial institutions totalling USD 7.5 billion available as back-stop lines for the commercial paper program. As at June 30, 2020 no debt has been drawn under these credit lines. The Group did not renegotiate any major contracts for liquidity reasons. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of USD 10.2 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

The RHI Group did not observe a significant increase in credit risk in the first half of 2020 due to the COVID-19 pandemic. Bad debt expenses and overdue receivables remained at a relatively low level. Payment terms for certain products have been temporarily extended and this contributed to an increase in trade receivables at June 30, 2020. Income tax payments were very low due to the Internal Revenue Service providing a tax payment extension in response to the COVID-19 pandemic.

The RHI Group did not apply for public support measures which may require compliance with particular conditions. The COVACTA phase III clinical trial for Actemra/RoActemra referred to above has been carried out in collaboration with the Biomedical Advanced Research and Development Authority (BARDA), a part of the US Department of Health and Human Services Office of the Assistant Secretary for Preparedness and Response (ASPR).

Financial position as at June 30, 2020. As described previously, trade receivables and inventories increased in part due to COVID-19 effects. Income tax payables also increased due to the tax payment extension. There were no significant bad debts or write-offs of inventories that could be directly attributed to COVID-19 factors.

Intangible asset impairment charges of USD 0.4 billion were incurred as a result of a delay in clinical trials, partly caused by COVID-19, for the Spark Therapeutics' haemophilia A programme. No other impairment issues were noted for goodwill and intangible assets. The RHI Group will carry out further regular reviews for impairment in the second half of 2020, and any continued negative impacts from the pandemic, notably on the timing of clinical trials, would need to be considered.

The RHI Group continued to investigate external innovations and a total of USD 1.1 billion was spent on in-licensing deals and asset acquisitions.

No impairment issues were noted for financial assets, although the volatility in global markets had a corresponding impact on the carrying value of investments held at fair value. Similarly, there was a certain volatility in the fair value of pension assets and the discount rate during the first half of 2020, but the situation had largely stabilised by 30 June 2020 and no emergency funding payments to the RHI Group's pension plans are currently foreseen.

RHI Group results (continued)

Pharmaceuticals Division

To some extent the COVID-19 pandemic negatively affected sales across the whole business as described in the section on 'Impact of the COVID-19 pandemic'. Sales in the Pharmaceuticals Division decreased by 3% to USD 13.6 billion for the first six months in 2020.

The COVID-19 pandemic's overall negative impact on the division's sales was felt mostly in the second quarter, when there was a general dampening on sales from the restrictions during this time. Hospitalisations and outpatient visits decreased, which particularly impacted sales of Ocrevus, Hemlibra, Lucentis and Rituxan. This was partially offset by the Actemra sales increase driven by the adoption in treatment guidelines for patients with severe COVID-19 pneumonia.

The new products Hemlibra, Ocrevus, Tecentriq and Kadcyla together contributed an additional USD 1.0 billion of new sales that compensated for the increasing competition from biosimilars. The first biosimilar versions of Herceptin and Avastin were launched in the US from mid-2019 and the first biosimilar versions of Rituxan in late 2019. Sales of these three products were USD 1.7 billion lower in the first half of 2020. The COVID-19 pandemic also had an impact on sales of these three products, notably for Rituxan due to market contraction from the COVID-19 pandemic restrictions.

Sales in the oncology therapeutic area decreased by 15% due to the biosimilar competition for Herceptin, Rituxan and Avastin described above, partially compensated by growth of the new products Tecentriq and Kadcyla. Tecentriq sales grew by 52% due to higher demand driven by the new indications for extensive-stage small cell lung cancer and PD-L1-positive triple-negative breast cancer. Kadcyla sales increased by 42% notably in the early breast cancer setting. Kadcyla sales benefited from the positive readout from the KATHERINE study and by patients switching to the new standard of treatment. Perjeta grew by 1% due to growth in the early breast cancer setting, partly offset by COVID-19 restrictions. Alecensa showed continuing growth of 17%.

Sales in immunology grew by 7%, with Actemra and Esbriet increasing by 58% and 11%, respectively. The increase in Actemra sales was mostly due to the use for hospitalised patients with severe COVID-19 pneumonia. Rituxan sales in immunology decreased by 24% due to the impacts of the COVID-19 pandemic and biosimilar entry.

In neuroscience Ocrevus sales increased by 19% to USD 1.7 billion due to continuously growing demand in both relapsing and primary progressive forms of multiple sclerosis, with growth driven both by new and returning patients, with a higher proportion of sales coming from returning patients. Sales of Ocrevus were impacted by COVID-19 as the treatment is administered by intravenous infusion and requires hospital visits, which in many cases were cancelled or delayed during the pandemic restrictions.

In ophthalmology Lucentis sales decreased by 19%, in all approved indications. The COVID-19 pandemic caused some disruption in hospitals and ophthalmology practices and many patients delayed treatment during the restrictions.

Hemlibra continued to show strong uptake since being launched in November 2017 with sales reaching USD 0.7 billion, an increase of 80% due to strong demand in the non-inhibitor segment. COVID-19 restrictions caused a slowdown in growth due to missed patient visits affecting potential new patients, whereas existing patients remained on their treatment.

Infectious diseases sales were 13% lower mainly due to lower sales of Tamiflu, partly offset by growth of Xofluza sales. In other therapeutic areas, sales of Activase/TNKase were 4% higher, mainly driven by broader use in hospitals and a higher number of patients being treated.

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

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

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

Biosimilar competition for these three products had an estimated negative impact of USD 1.7 billion in the first half of 2020, as summarised in the table below. The year-on-year movements were also driven by regular price and volume changes, as well as by the impacts of the COVID-19 pandemic, particularly for Rituxan. Biosimilar competition is only one factor in the overall picture.

2020 interim product sales affected by biosimilar launches

	2020 (USD m)	2019 (USD m)	% change	Comment
Rituxan	1,784	2,318	-23%	First biosimilar launches from late 2019
Herceptin	1,030	1,659	-38%	First biosimilar launches from mid-2019
Avastin	1,131	1,681	-33%	First biosimilar launches from mid-2019

Royalties and other operating income increased by USD 0.4 billion to USD 3.0 billion. Royalty income remained stable at USD 2.3 billion. A settlement gain of USD 132 million more than offset the base effect of the residual income in the first half of 2019 from the expired Cabilly patent and the lower royalty income from Lucentis sales outside the US. Other operating income increased to USD 0.7 billion due to higher income from out-licensing agreements with related parties and higher profit-share income, mainly due to increased sales of Venclexta in the US.

Cost of sales increased by 7% to USD 6.2 billion in the first half of 2020. As a percentage of sales, cost of sales increased by 4.4 percentage points to 45.2%. Manufacturing cost grew by 12%, despite the sales decrease of 3%. This was primarily due to product mix factors in the first half of 2020, partially offset by lower inventory write-offs compared to the first half of 2019. Royalty expenses to third parties were 1% higher due to increased sales for certain royalty-bearing products, notably Ocrevus. Collaboration and profit-sharing expenses decreased by 14% driven by lower sales of Rituxan. Amortisation charges went up by 15% due to the Rozlytrek product intangible assets, which started being amortised after the product launch in the second half of 2019, and new Luxturna product intangible assets from the Spark Therapeutics acquisition.

Marketing and distribution costs decreased by 3% to USD 1.7 billion in the first half of 2020 driven by a general slowdown in marketing activities during the second quarter, including lower expenses for travel and congresses due to COVID-19 restrictions. As a percentage of sales, marketing and distribution costs increased slightly to 12.4% from 12.3% in the comparative period. Major marketing and distribution activities included supporting the continued rollouts of Ocrevus and Xofluza.

Pharmaceuticals Division – Research and development

Six months ended June 30,	2020 (USD m)	2019 (USD m)
Research and early development	(1,297)	(1,292)
Late stage development	(1,308)	(1,156)
Partnering, including Foundation Medicine, Flatiron Health and Spark	(158)	(92)
Restructuring plans	(3)	(29)
Amortisation of intangible assets	(107)	(74)
Impairment of intangible assets	(354)	(285)
Total	**(3,227)**	**(2,928)**
– of which related party	*(363)*	*(399)*

Research and development costs increased by 10% and, as a percentage of sales, increased to 23.7% from 20.8% in the comparative period. The oncology franchise remained the largest area of research and development with the cancer immunotherapy portfolio being a key driver. Ophthalmology also represents a significant area of spending. Growth in spend is mostly driven by late stage investments in oncology, ophthalmology and personalised healthcare as well as spending at Spark Therapeutics and Flatiron Health. Impairment charges in the first half of 2020 were a result of a delay in clinical trials for the Spark Therapeutics' haemophilia A intangible asset.

General and administration costs decreased by USD 0.3 billion to USD 0.1 billion in the first half of 2020 due to the income of USD 0.4 billion from the release of the Accutane litigation provision. This was partly offset by higher administration costs due to Spark Therapeutics, Flatiron Health and Foundation Medicine and due to the low costs for the US Branded Prescription Drug Fee in the first half of 2019.

The Pharmaceuticals Division's operating profit decreased by 7% to USD 5.4 billion in the first half of 2020, driven by lower gross profit, higher research and development costs, partially offset by higher other operating income and lower general and administration expenses.

Diagnostics Division

Diagnostics Division sales increased by 16% to USD 2.2 billion in the first half of 2020. The COVID-19 pandemic had contrasting impacts in the different parts of the business. Molecular Diagnostics sales increased by 53% to USD 0.8 billion due to the launch of the cobas SARS-CoV-2 PCR test, while Centralised and Point of Care Solutions sales fell by 3% to USD 0.7 billion due to the reduction of routine testing volume. Sales in Tissue Diagnostics grew by 12% to USD 0.4 billion due to recovery from manufacturing delays in the prior year. Diabetes Care sales increased by 3% to USD 0.3 billion.

Royalties and other operating income decreased by 13% to USD 67 million due to lower royalty income from related parties.

Costs of sales increased by 9% to USD 1.1 billion, below the sales growth of 16%, primarily driven by product mix factors resulting from higher volumes of products with relatively lower manufacturing costs. As a percentage of sales, cost of sales decreased by 3.4 percentage points to 52.1%.

Marketing and distribution costs decreased by 9% to USD 0.3 billion due to lower spending on congresses and travelling following the COVID-19 restrictions and due to cost containment measures. As a percentage of sales, marketing and distribution costs decreased to 15.4% compared to 19.6% in the comparative period.

Research and development costs increased by 0.2 billion to USD 0.5 billion mainly due to lower reimbursements from related parties under research and development cost-sharing agreements in the first half of 2020. As a percentage of sales, research and development costs increased by 4.6 percentage points to 24.5%.

General and administration costs increased by USD 132 million due to an income from the reversal of contingent consideration provisions in the first half of 2019.

Mergers and acquisitions

Spark Therapeutics. On December 17, 2019 the RHI Group acquired a 100% controlling interest in Spark Therapeutics, Inc. ('Spark Therapeutics'), a publicly owned US company based in Philadelphia, Pennsylvania, that had been listed on Nasdaq Stock Market. Spark Therapeutics is a fully integrated commercial company committed to discovering, developing and delivering gene therapies. Spark Therapeutics is reported in the Pharmaceuticals Division. The cash purchase consideration was USD 4.8 billion. In the 2019 Annual Financial Statements, the allocation of the purchase price recorded in the balance sheet was provisional. During the first half of 2020 the identification and valuation of intangible assets and other assets and liabilities was completed. Accordingly, the provisional amounts recorded in the balance sheet at December 31, 2019 were restated as set out in Note 6 to the Interim Financial Statements. As a result, the values for intangible assets were increased by USD 2.5 billion, deferred tax assets by USD 0.3 billion and deferred tax liabilities by USD 0.5 billion, with a consequent decrease in goodwill of USD 2.2 billion.

Asset acquisitions. In the first half of 2020 the RHI Group acquired a 100% controlling interest in Promedior, Inc. ('Promedior') and Lexent Bio, Inc. ('Lexent Bio') for the Pharmaceuticals Division and Stratos Genomics, Inc. ('Stratos Genomics') for the Diagnostics Division. The total initial cash consideration was USD 0.7 billion and additional contingent payments may be made based upon the achievement of performance-related milestones. Of this USD 0.4 billion relates to the Promedior acquisition, by which the Group obtained rights to Promedior's entire portfolio including phase III-ready asset PRM-151, a recombinant human pentraxin-2 molecule for the treatment of idiopathic pulmonary fibrosis (IPF). These transactions do not qualify as business combinations under IFRS 3 and have been accounted for as additions to intangible assets.

Further details are given in Note 6 to the Interim Financial Statements.

Alliance transactions

In total in-licensing deals and other alliance transactions completed in the first half of 2020, including those with related parties, resulted in intangible assets totalling USD 0.4 billion being recognised.

On July 14, 2020 the Roche Group announced a collaboration with Blueprint Medicines Corporation for the co-development and co-commercialisation rights for pralsetinib, an investigational, precision therapy in late-stage development for people with RET-altered non-small cell lung cancer, various types of thyroid cancer and other solid tumours. Under the terms of the agreement, the Roche Group will pay an upfront of USD 675 million in cash in addition to a USD 100 million equity investment in Blueprint Medicines. Additional payments may be made based upon the achievement of performance-related milestones and from royalty arrangements.

Restructuring plans

During the first half of 2020 the RHI Group continued with the implementation of various restructuring plans initiated in prior years. The total amount of expenditure in the first half of 2020 was USD 39 million. Further details are given in Note 7 to the Interim Financial Statements.

Impairment of goodwill and intangible assets

There were intangible asset impairment charges of USD 0.4 billion in the Pharmaceuticals Division coming from the partial impairment of the intangible asset for SPK-8011, a novel gene therapy for the treatment of haemophilia A, acquired as part of the Spark Therapeutics acquisition. The impairment is a result of a delay in clinical trials, partly impacted by the COVID-19 pandemic, leading to reduced sales expectations. There were no impairments in the Diagnostics Division. Further details are given in Note 9 to the Interim Financial Statements.

Legal and environmental cases

Based on the development of the various litigations, notably the Accutane case, some of the provisions previously held were released which resulted in an income of USD 0.4 billion. Further details are given in Note 10 to the Interim Financial Statements.

Treasury and taxation results

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

Financing costs decreased by 27% to USD 0.2 billion in the first half of 2020 driven by lower interest expenses due to repayment of debt in the second half of 2019. At June 30, 2020 debt was USD 43.7 billion compared to USD 42.4 billion at the end of 2019. In the first half of 2020 there was an increase in commercial paper of USD 0.5 billion and a net increase in related party debt of USD 0.8 billion. A full analysis of financing costs is given in Note 4 to the Interim Financial Statements.

The RHI Group's effective tax rate decreased to 15.1% in the first half of 2020 compared to 19.5% in the comparative period. The main drivers for the decrease were the resolution of several tax disputes partly offset by the deferred tax impact from equity compensation plans, which varies according to the price of the underlying equities.

Total taxes paid in the first half of 2020 decreased from USD 1.3 billion to CHF 0.1 billion due to the US Internal Revenue Service providing a tax payment extension in response to the COVID-19 pandemic, which defers the provisional 2020 US federal tax payments into the second half of 2020.

Cash flow

The cash inflows from operating activities decreased by USD 0.8 billion to USD 3.7 billion in the first half of 2020. This was due to a higher increase in net working capital and lower cash generated from operations, partly offset by lower income taxes paid. The increase in cash outflows from investing activities of USD 0.3 billion to USD 1.4 billion is driven by payments made for asset acquisitions, partially offset by lower investments in intangible assets and property, plant and equipment as well as by proceeds from the sale of equity and debt securities. The cash outflows from financing activities decreased by USD 1.0 billion compared to the first half of 2019. This was mainly due to the net cash inflow from related party debt, partly offset by higher interest and other financing costs paid to related parties, lower increase in commercial paper and higher payments for recharges to related parties for equity compensation plans.

Financial position

In 2009 the Genentech transaction was accounted for in full as an equity transaction and as a consequence, the carrying amount of the consolidated equity of the RHI Group was significantly reduced (see Note 1 to the Interim Financial Statements). At June 30, 2020 the RHI Group had a negative equity of USD 19.6 billion (December 31, 2019: USD 21.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of USD 10.2 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Total assets increased by USD 2.4 billion to USD 39.4 billion at June 30, 2020 mainly due to an increase of USD 1.4 billion in trade receivables, an increase of USD 0.5 billion in inventories and an increase of deferred tax assets by USD 0.4 billion. Trade receivables increased due to extended payment terms for certain products in the Pharmaceuticals Division. In the Pharmaceuticals Division the increase in inventories was driven by active management to ensure product availability and by launch supply. In the Diagnostics Division the increase in inventories was due to delayed installation of instruments in the Centralised and Point of Care Solutions business and reduced routine testing due to COVID-19. The increase in net deferred tax assets was driven by the deferred tax effects from the amortisation and impairment of intangible assets.

Total liabilities slightly increased by USD 0.4 billion to USD 59.1 billion at June 30, 2020. This was mainly driven by the changes in debt and the increase of current income tax liabilities due to the US tax payment extension, partly offset by the settlement of year-end positions and the release of legal provisions, notably for the Accutane case. In the first half of 2020 there was an increase in commercial paper debt of USD 0.5 billion and an increase in related party debt of USD 0.8 billion. At June 30, 2020 the carrying value of debt was USD 43.7 billion (December 31, 2019: USD 42.4 billion), of which USD 33.2 billion (December 31, 2019: USD 32.4 billion) is due to related parties.

2. Principal risks and uncertainties

Risks

The RHI Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. Information on risks the RHI Group is exposed to from its underlying operations is provided under provisions and contingent liabilities in Note 20 to the Annual Financial Statements. The RHI Group's financial risk exposures are predominantly related to changes in interest rates, equity prices and to an extent, foreign exchange rates, as well as the creditworthiness and the solvency of RHI's counterparties. The RHI Group's financial risk management is described in Note 30 to the Annual Financial Statements.

As noted above in the "Impact of the COVID-19 pandemic" section, the development of the pandemic in the second half of 2020 and beyond, both in the US and elsewhere, may have a significant impact on the RHI Group's business, results of operations and financial position.

Uncertainties

Key accounting judgements, estimates and assumptions are described in Note 1 to the Interim Financial Statements. Provisions and contingent liabilities are described in Note 20 to the Annual Financial Statements and these are updated, where appropriate, in Note 10 to the Interim Financial Statements.

3. International Financial Reporting Standards

New and revised standards applied in 2020

'Definition of a Business' (Amendments to IFRS 3)

In 2020 the RHI Group has applied the amendments to IFRS 3 'Business Combinations', effective January 1, 2020. These were issued in October 2018 by the International Accounting Standards Board and have been endorsed by the EU in April 2020. The amendments further clarify the definition of a business and add an optional 'concentration test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single asset or group of similar assets. The effect of the amendments is particularly applicable for many of the acquisitions carried out by the RHI Group, since the value in the acquired companies often largely consists of the rights to a single product or technology. The RHI Group applied these amendments prospectively and with no restatement of comparative period information.

The RHI Group has also implemented various minor amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position. See Note 1 to the Interim Financial Statements for further details.

4. Responsibility statement

The directors of Roche Holdings, Inc. confirm that, to the best of their knowledge as of the date of their approval of the Interim Consolidated Financial statements at July 24, 2020:

- the Interim Consolidated Financial Statements at June 30, 2020, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole; and that
- the Management Report gives a true and fair view of the development and performance of the business and the position of Roche Holdings, Inc. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Severin Schwan Chairman of the Board	Alan Hippe Vice Chairman of the Board	Bruce Resnick Member of the Board
Roger Brown Member of the Board	Sean A. Johnston Member of the Board	David P. McDede Member of the Board

Roche Holdings, Inc. Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by Roche Holdings, Inc.'s auditor and their review report is presented on page 35.

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2020 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2, 3]	13,642	2,204	–	15,846
Royalties and other operating income [2, 3]	2,985	67	–	3,052
Revenue [2, 3]	**16,627**	**2,271**	**–**	**18,898**
Cost of sales	(6,171)	(1,148)	–	(7,319)
Marketing and distribution	(1,686)	(340)	–	(2,026)
Research and development	(3,227)	(539)	–	(3,766)
General and administration	(133)	(69)	(10)	(212)
Operating profit [2]	**5,410**	**175**	**(10)**	**5,575**
Financing costs [4]				(227)
Financing costs – related parties [15]				(582)
Other financial income (expense) [4]				(2)
Other financial income (expense) – related parties [15]				6
Profit before taxes				**4,770**
Income taxes [5]				(718)
Net income				**4,052**
Attributable to				
- Roche Holdings, Inc. shareholder				4,053
- Non-controlling interests				(1)

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2019 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales [2, 3]	14,092	1,894	-	15,986
Royalties and other operating income [2, 3]	2,568	77	-	2,645
Revenue [2, 3]	**16,660**	**1,971**	**-**	**18,631**
Cost of sales	(5,748)	(1,052)	-	(6,800)
Marketing and distribution	(1,731)	(372)	-	(2,103)
Research and development	(2,928)	(377)	-	(3,305)
General and administration	(425)	63	(26)	(388)
Operating profit [2]	**5,828**	**233**	**(26)**	**6,035**
Financing costs [4]				(313)
Financing costs – related parties [15]				(541)
Other financial income (expense) [4]				16
Other financial income (expense) – related parties [15]				22
Profit before taxes				**5,219**
Income taxes [5]				(1,016)
Net income				**4,203**
Attributable to				
- Roche Holdings, Inc. shareholder				4,204
- Non-controlling interests				(1)

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

	Six months ended June 30,	
	2020	2019
Net income recognised in income statement	**4,052**	**4,203**
Other comprehensive income (OCI)		
Remeasurements of defined benefit plans	(35)	18
Fair value changes on equity investments at fair value through OCI	4	0
Items that will never be reclassified to the income statement	**(31)**	**18**
Fair value changes on debt investments at fair value through OCI	2	2
Cash flow hedges	(14)	(19)
Currency translation of foreign operations	4	4
Items that are or may be reclassified to the income statement	**(8)**	**(13)**
Other comprehensive income, net of tax	**(39)**	**5**
Total comprehensive income	**4,013**	**4,208**
Attributable to		
- Roche Holdings, Inc. shareholder	4,014	4,209
- Non-controlling interests	(1)	(1)
Total	**4,013**	**4,208**

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

	June 30, 2020	December 31, 2019
Non-current assets		
Property, plant and equipment	7,154	7,098
Right-of-use assets	512	429
Goodwill [8]	9,087	9,087
Intangible assets [9]	9,563	9,648
Deferred tax assets	749	364
Defined benefit plan assets	139	136
Other non-current assets	483	468
Other non-current assets – related parties [15]	0	0
Total non-current assets	**27,687**	**27,230**
Current assets		
Inventories	3,327	2,834
Accounts receivable – trade and other	5,037	3,658
Accounts receivable – related parties [15]	2,307	2,323
Current income tax assets	0	0
Other current assets	942	721
Other current assets – related parties [15]	0	56
Marketable securities	59	131
Cash and cash equivalents	77	127
Total current assets	**11,749**	**9,850**
Total assets	**39,436**	**37,080**
Non-current liabilities		
Long-term debt [11]	(8,549)	(8,540)
Long-term debt – related parties [15]	(28,655)	(27,875)
Deferred tax liabilities	0	0
Defined benefit plan liabilities	(1,753)	(1,668)
Provisions [10]	(421)	(420)
Other non-current liabilities	(664)	(575)
Other non-current liabilities – related parties [15]	(270)	(494)
Total non-current liabilities	**(40,312)**	**(39,572)**
Current liabilities		
Short-term debt [11]	(1,990)	(1,450)
Short-term debt – related parties [15]	(4,500)	(4,530)
Current income tax liabilities	(2,322)	(1,442)
Provisions [10]	(1,549)	(1,967)
Accounts payable – trade and other	(895)	(1,105)
Accounts payable – related parties [15]	(975)	(1,489)
Other current liabilities	(4,708)	(5,645)
Other current liabilities – related parties [15]	(1,826)	(1,510)
Total current liabilities	**(18,765)**	**(19,138)**
Total liabilities	**(59,077)**	**(58,710)**
Total net liabilities	**(19,641)**	**(21,630)**
Equity		
Capital and reserves attributable to Roche Holdings, Inc. shareholder	(19,642)	(21,632)
Equity attributable to non-controlling interests	1	2
Total equity	**(19,641)**	**(21,630)**

As disclosed in Note 6, the balance sheet at December 31, 2019 has been restated following the finalisation of the valuation of the net assets acquired related to the Spark Therapeutics acquisition in 2019. A reconciliation to the previously published balance sheet is provided in Note 6.

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

	Six months ended June 30,	
	2020	2019
Cash flows from operating activities		
Cash generated from operations [13]	7,225	7,852
(Increase) decrease in net working capital	(3,142)	(2,566)
(Increase) decrease in net working capital - related parties	(53)	743
Payments made for defined benefit plans	(42)	(27)
Utilisation of provisions	(278)	(248)
Disposal of products	25	0
Income taxes paid	(62)	(1,295)
Total cash flows from operating activities	**3,673**	**4,459**
Cash flows from investing activities		
Purchase of property, plant and equipment	(457)	(529)
Purchase of intangible assets	(399)	(596)
Disposal of property, plant and equipment	8	42
Disposal of intangible assets	8	0
Business combinations [6]	0	(68)
Asset acquisitions [6]	(669)	0
Interest received	2	1
Interest received from related parties	9	30
Other current assets – related parties	56	0
Sales of equity securities and debt securities	74	0
Other investing cash flows	(21)	13
Total cash flows from investing activities	**(1,389)**	**(1,107)**
Cash flows from financing activities		
Proceeds from issue of bonds and notes [11]	0	0
Proceeds from issue of related party debt [11]	3,530	0
Redemption and repurchase of bonds and notes [11]	0	0
Repayment of related party debt [11]	(2,780)	(750)
Increase (decrease) in commercial paper [11]	540	739
Increase (decrease) in other debt [11]	0	2
Hedging arrangements - related parties	(23)	(9)
Interest paid	(242)	(322)
Principal portion of lease liabilities paid	(41)	(30)
Dividends paid to related parties [12]	(1,500)	(1,500)
Interests and other financing - related parties	(885)	(657)
Recharges and prepayments to related parties for equity compensation plans	(802)	(604)
(Increase) decrease of cash pool balance with related parties [15]	(130)	(197)
Other financing cash flows	(1)	(1)
Total cash flows from financing activities	**(2,334)**	**(3,329)**
Net effect of currency translation on cash and cash equivalents	0	**0**
Increase (decrease) in cash and cash equivalents	**(50)**	**23**
Cash and cash equivalents at beginning of period	127	(28)
Cash and cash equivalents at end of period [a)]	**77**	**(5)**

a) At June 30, 2019 cash overdrafts of USD 5 million were included within other current liabilities in the balance sheet.

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended June 30, 2019								
At January 1, 2019	**1**	**(24,021)**	**(1)**	**48**	**(3)**	**(23,976)**	**1**	**(23,975)**
Net income recognised in income statement	-	4,204	-	-	-	4,204	(1)	4,203
Net change in fair value – financial assets at fair value through OCI	-	0	2	-	-	2	0	2
Cash flow hedges	-	-	-	(19)	-	(19)	0	(19)
Currency translation of foreign operations	-	-	0	-	4	4	0	4
Remeasurements of defined benefit plans	-	18	-	-	-	18	0	18
Total comprehensive income	**-**	**4,222**	**2**	**(19)**	**4**	**4,209**	**(1)**	**4,208**
Dividends	-	(1,500)	-	-	-	(1,500)	0	(1,500)
Equity compensation plans	-	(485)	-	-	-	(485)	-	(485)
Changes in non-controlling interests	-	(2)	-	-	-	(2)	2	-
At June 30, 2019	**1**	**(21,786)**	**1**	**29**	**1**	**(21,754)**	**2**	**(21,752)**
Six months ended June 30, 2020								
At January 1, 2020	**1**	**(21,656)**	**1**	**20**	**2**	**(21,632)**	**2**	**(21,630)**
Net income recognised in income statement	-	4,053	-	-	-	4,053	(1)	4,052
Net change in fair value – financial assets at fair value through OCI	-	4	2	-	-	6	0	6
Cash flow hedges	-	-	-	(14)	-	(14)	0	(14)
Currency translation of foreign operations	-	-	-	-	4	4	0	4
Remeasurements of defined benefit plans	-	(35)	-	-	-	(35)	0	(35)
Total comprehensive income	**-**	**4,022**	**2**	**(14)**	**4**	**4,014**	**(1)**	**4,013**
Dividends	-	(1,500)	-	-	-	(1,500)	0	(1,500)
Equity compensation plans	-	(524)	-	-	-	(524)	-	(524)
Changes in non-controlling interests	-	0	-	-	-	0	0	-
At June 30, 2020	**1**	**(19,658)**	**3**	**6**	**6**	**(19,642)**	**1**	**(19,641)**

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

1. Accounting policies

Basis of preparation

These financial statements are the unaudited condensed interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries (hereafter 'RHI' or 'the RHI Group') for the six months ended June 30, 2020 (hereafter 'the interim period'). RHI is 100% indirectly owned by Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group. The RHI Group is therefore a member of the Roche Group. These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2019 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on July 24, 2020.

Statement of compliance

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

Going concern

The RHI Group completed the purchase of the non-controlling interests in Genentech, effective March 26, 2009. Based on the International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by USD 46.6 billion, of which USD 7.6 billion was allocated to eliminate the book value of Genentech non-controlling interests. At June 30, 2020 the RHI Group had a negative equity of USD 19.6 billion (December 31, 2019: USD 21.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of USD 10.2 billion which are guaranteed by Roche Holding Ltd. Management has assessed that it remains appropriate to prepare the RHI Group's financial statements on a going concern basis. In the 2020 interim period, the RHI Group generated an operating profit of USD 5.6 billion and a positive operating cash flow of USD 3.7 billion.

Management judgements and estimates

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

Impact of the COVID-19 pandemic

The RHI Group has assessed certain accounting matters that generally require consideration of forecast financial information taking into account the potential future impacts of the COVID-19 pandemic. The accounting matters assessed included, but were not limited to, the Group's provisions for product returns, allowances for doubtful accounts for trade and lease receivables, inventory allowances, the carrying value of goodwill, intangible assets, property, plant and equipment and defined benefit pension plan assets and liabilities. Any continued negative impacts from the pandemic in the second half of 2020 may have an impact on these, or other, matters.

Bad debt expenses and overdue receivables remained at a relatively low level. There were no significant costs for idle manufacturing capacity or inventory write-offs that could be directly attributed to the pandemic, and only minor additional COVID-19-related costs were incurred on construction projects.

Intangible asset impairment charges of USD 354 million were incurred as a result of a delay in clinical trials, partly impacted by the COVID-19 pandemic (see Note 9). No other impairment issues were noted for goodwill and intangible

assets. The RHI Group will carry out further reviews for impairment in the second half of 2020, and any continued negative impacts from the pandemic will be considered.

No impairment issues were noted for financial assets, although the volatility in global markets had a corresponding impact on the carrying value of equity investments held at fair value. Similarly there was volatility in the fair value of pension plan assets and discount rates during the six months ended June 30, 2020.

While there was no significant impact from the areas assessed on the RHI Group's Interim Financial Statements, the RHI Group will continue to monitor these areas of increased judgements and risk for material changes.

Seasonality

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

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. Changes in accounting policies will be reflected in the RHI Group's Consolidated Financial Statements for the year ending December 31, 2020.

Changes in accounting policies

In 2020 the RHI Group has applied the amendments to IFRS 3 'Business Combinations', effective January 1, 2020. The nature and the effects of the changes from applying these amendments most relevant to the RHI Group's financial statements are given below.

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

'Definition of a Business' (Amendments to IFRS 3)

In October 2018 the International Accounting Standards Board issued amendments to IFRS 3 'Business Combinations' that have been endorsed by the EU in April 2020 and are mandatorily applicable in 2020. The amendments further clarify the definition of a business and add an optional 'concentration test' to aid the assessment of whether a transaction represents a business combination or is simply in substance the purchase of a single asset or group of similar assets. The effect of the amendments is particularly applicable for many of the acquisitions carried out by the RHI Group, since the value in the acquired companies often largely consists of the rights to a single product or technology. The RHI Group applied these amendments prospectively and with no restatement of comparative period information.

Future new and revised standards

The RHI Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from January 1, 2021 which the RHI Group has not yet applied. Based on the analysis to date, the RHI Group does not anticipate that these will have a material impact on the RHI Group's overall results and financial position. The RHI Group is also assessing other new and revised standards which are not mandatory until after 2021.

2. Operating segment information

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

Divisional information *in millions of USD*

Six months ended June 30,	Pharmaceuticals 2020	Pharmaceuticals 2019	Diagnostics 2020	Diagnostics 2019	Corporate 2020	Corporate 2019	RHI Group 2020	RHI Group 2019
Revenue from external customers and related parties								
Sales	13,642	14,092	2,204	1,894	–	–	15,846	15,986
Royalties and other operating income	2,985	2,568	67	77	–	–	3,052	2,645
Total	**16,627**	**16,660**	**2,271**	**1,971**	**–**	**–**	**18,898**	**18,631**
Segment results								
Operating profit	5,410	5,828	175	233	(10)	(26)	5,575	6,035

Net assets *in millions of USD*

	Assets		Liabilities		Net assets	
Net operating assets	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Pharmaceuticals	30,059	28,548	(6,078)	(7,747)	23,981	20,801
Diagnostics	7,375	6,871	(1,872)	(1,906)	5,503	4,965
Corporate	96	99	(125)	(158)	(29)	(59)
Total	**37,530**	**35,518**	**(8,075)**	**(9,811)**	**29,455**	**25,707**
Current income tax net assets (liabilities)					(2,322)	(1,442)
Deferred tax net assets (liabilities)					749	364
Defined benefit plan net assets (liabilities)					(1,614)	(1,532)
Lease liabilities					(582)	(483)
Marketable securities					59	131
Cash and cash equivalents					77	127
Debt					(10,539)	(9,990)
Debt – related parties					(33,155)	(32,405)
Other net assets (liabilities)					(1,769)	(2,107)
Total net assets					**(19,641)**	**(21,630)**

3. Revenue

Disaggregated revenue information

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

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Revenue from contracts with customers	Revenue from other sources	Total	Revenue from contracts with customers	Revenue from other sources	Total
Pharmaceuticals Division						
Sales by therapeutic area						
Oncology	6,121	–	6,121	7,202	–	7,202
Immunology	3,194	–	3,194	2,976	–	2,976
Neuroscience	1,764	–	1,764	1,489	–	1,489
Ophthalmology	767	–	767	942	–	942
Haemophilia A	687	–	687	381	–	381
Infectious diseases	74	–	74	85	–	85
Other therapeutic areas	1,035	–	1,035	1,017	–	1,017
Sales	**13,642**	**–**	**13,642**	**14,092**	**–**	**14,092**
Royalty income	491	–	491	489	–	489
Royalty income from related parties	1,819	–	1,819	1,837	–	1,837
Income from out-licensing agreements	23	–	23	27	–	27
Income from out-licensing agreements with related parties	352	–	352	2	–	2
Income from disposal of products and other	25	275	300	0	213	213
Royalties and other operating income	**2,710**	**275**	**2,985**	**2,355**	**213**	**2,568**

Diagnostics Division						
Sales by business area						
Centralised and Point of Care Solutions	693	34	727	720	30	750
Molecular Diagnostics	795	12	807	521	6	527
Tissue Diagnostics	384	15	399	342	13	355
Diabetes Care	271	0	271	262	0	262
Sales	**2,143**	**61**	**2,204**	**1,845**	**49**	**1,894**
Royalty income	3	–	3	3	–	3
Royalty income from related parties	61	–	61	71	–	71
Income from out-licensing agreements	0	–	0	0	–	0
Income from disposal of products and other	0	3	3	0	3	3
Royalties and other operating income	**64**	**3**	**67**	**74**	**3**	**77**
Total	**18,559**	**339**	**18,898**	**18,366**	**265**	**18,631**

Revenue from other sources primarily relates to lease revenue and collaboration income for which the counterparty is not considered a customer, such as income from profit-sharing arrangements.

Gross-to-net sales reconciliation for the Pharmaceuticals Division

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

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

	Six months ended June 30,	
	2020	2019
Gross sales	17,138	17,328
Government and regulatory mandatory price reductions	(2,754)	(2,841)
Contractual price reductions	(1,153)	(788)
Cash discounts	(69)	(62)
Customer returns reserves	(77)	(81)
Others	(184)	(184)
Net sales to third parties	**12,901**	**13,372**
Net sales to related parties	741	720
Net sales	**13,642**	**14,092**

Government and regulatory mandatory price reductions. These consist of mandatory price reductions. The major elements are 340B Drug Discount Program, Medicaid and other plans in the US, which totalled USD 2.8 billion (six months ended June 30, 2019: USD 2.8 billion).

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

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

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

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

4. Net financial expense

Financing costs *in millions of USD*

	Six months ended June 30,	
	2020	2019
Interest expense	(191)	(270)
Amortisation of debt discount [11]	(4)	(5)
Net gains (losses) on redemption and repurchase of bonds and notes [11]	0	0
Discount unwind	(2)	(5)
Net interest cost of defined benefit plans	(24)	(29)
Interest expenses on lease liabilities	(6)	(4)
Total financing costs	**(227)**	**(313)**

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

	Six months ended June 30,	
	2020	2019
Net gains (losses) on equity investments / securities at fair value through profit or loss	0	0
Interest income from debt securities at fair value through OCI and at amortised cost	2	1
Net foreign exchange gains (losses)	1	1
Net other financial income (expense)	(5)	14
Total other financial income (expense)	**(2)**	**16**

Net financial expense *in millions of USD*

	Six months ended June 30,	
	2020	2019
Financing costs	(227)	(313)
Other financial income (expense)	(2)	16
Net financial expense	**(229)**	**(297)**
Financial result from Treasury management	(205)	(268)
Financial result from Pension management	(24)	(29)
Net financial expense	**(229)**	**(297)**

5. Income taxes

Income tax expense is recognised based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended June 30, 2020.

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2020	2019
Current income taxes	(1,032)	(1,314)
Deferred taxes	314	298
Total income tax (expense)	**(718)**	**(1,016)**

The RHI Group's effective tax rate for the six months ended June 30, 2020 decreased to 15.1% (six months ended June 30, 2019: 19.5%). The main drivers for the decrease were the resolution of several tax disputes partly offset by the deferred tax impact from equity compensation plans, which varies according to the price of the underlying equities.

6. Mergers and acquisitions

Business combinations – 2020

The RHI Group did not complete any business combination during the six months ended June 30, 2020.

Business combinations – 2019

The RHI Group did not complete any business combination during the six months ended June 30, 2019.

Finalisation of the Spark Therapeutics acquisition accounting

Spark Therapeutics, Inc. On December 17, 2019 the RHI Group acquired a 100% controlling interest in Spark Therapeutics, Inc. ('Spark Therapeutics'), a publicly owned US company based in Philadelphia, Pennsylvania, that had been listed on Nasdaq. Spark Therapeutics is a fully integrated commercial company committed to discovering, developing and delivering gene therapies. Spark Therapeutics is reported in the Pharmaceuticals Division as part of the Pharmaceuticals operating segment. The total consideration was USD 4,772 million, which was paid in cash.

In the 2019 Annual Financial Statements the accounting for the Spark Therapeutics acquisition was provisional based on preliminary information because the transaction closed shortly before December 31, 2019. The identification and valuation of intangible assets, other assets and liabilities were finalised in 2020. The identifiable assets acquired and liabilities assumed are set out in the table below

Business combinations – 2019: net assets acquired in millions of USD

	Spark Therapeutics
Property, plant and equipment	79
Right-of-use assets	66
Intangible assets	
- Product intangibles: in use	465
- Product intangibles: not available for use	2,003
Deferred tax assets	304
Cash and cash equivalents	160
Marketable securities	135
Deferred tax liabilities	(543)
Other non-current liabilities	
- Deferred income	(135)
- Lease liabilities	(78)
- Other long-term liabilities	(2)
Other net assets (liabilities)	(30)
Net identifiable assets	**2,424**
Goodwill	2,348
Total consideration	**4,772**
Cash	4,772
Total consideration	**4,772**

Intangible assets include Spark Therapeutics' lead clinical asset SPK-8011, a novel gene therapy for the treatment of haemophilia A, and Luxturna, Spark Therapeutics' marketed gene therapy for the treatment of patients with confirmed biallelic RPE65 mutation-associated retinal dystrophy (an inherited retinal disease). Luxturna was the first gene therapy to receive an FDA approval in 2017. The European Commission granted marketing authorisation for Luxturna in 2018. Intangible assets also include Spark Therapeutics' other clinical and pre-clinical assets. The fair value of the intangible assets was determined using an excess earning method that is based on management forecasts and observable market data for discount rates, tax rates and foreign exchange rates. The present value was calculated using a risk-adjusted discount rate of 10.0%. The valuation was performed by an independent valuer.

Goodwill represents Spark Therapeutics' technological capabilities in gene therapy, such as gene therapy manufacturing, adeno-associated viral vector engineering and immunology. Furthermore, goodwill represents a control premium, the acquired workforce and the expected synergies, notably in the areas of research and development as well as in commercialisation of gene therapies. None of the goodwill is expected to be deductible for income tax purposes.

The Spark Therapeutics accounts receivable was comprised of gross contractual amounts due of USD 12 million which were all expected to be collectable at the date of the acquisition.

Directly attributable transaction costs of USD 25 million were reported in the Pharmaceuticals operating segment within general and administration expenses.

Cash flows from business combinations

Business combinations: net cash outflow *in millions of USD*

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	0	0	0	0	0	0
Deferred consideration paid	0	0	0	0	(3)	(3)
Contingent consideration paid [14]	0	0	0	0	(65)	(65)
Cash in acquired company	0	0	0	0	0	0
Total net cash outflow	**0**	**0**	**0**	**0**	**(68)**	**(68)**

Asset acquisitions – 2020

Promedior, Inc. On February 13, 2020 the RHI Group acquired a 100% controlling interest in Promedior, Inc. ('Promedior'), a privately owned US company based in Lexington, Massachusetts. With the acquisition, the RHI Group obtained rights to Promedior's entire portfolio including phase III-ready asset PRM-151, a recombinant human pentraxin-2 molecule for the treatment of idiopathic pulmonary fibrosis. Promedior is reported in the Pharmaceuticals Division. The cash consideration paid at the acquisition date was USD 414 million. Additional contingent payments may be made based upon the achievement of performance-related milestones.

Stratos Genomics, Inc. On May 20, 2020 the RHI Group acquired a 100% controlling interest in Stratos Genomics, Inc. ('Stratos Genomics'), a privately owned US company based in Seattle, Washington. Stratos Genomics is an early-stage sequencing technology company, which the RHI Group acquired to advance the development of the RHI Group's nanopore sequencer. The acquisition provides the RHI Group access to Stratos Genomics' unique chemistry, Sequencing by Expansion. Stratos Genomics is reported in the Diagnostics Division. The cash consideration paid at the acquisition date was USD 250 million. Additional contingent payments may be made based upon the achievement of performance-related milestones.

Lexent Bio, Inc. On June 12, 2020 the RHI Group acquired a 100% controlling interest in Lexent Bio, Inc. ('Lexent Bio'), a privately owned US company based in San Francisco and San Diego, California. The acquisition provides the RHI Group access to Lexent Bio's novel multiomics liquid biopsy platforms. Lexent Bio is reported in the Pharmaceuticals Division. The cash consideration paid at the acquisition date was USD 30 million. An additional contingent payment may be made based upon the achievement of a performance-related milestone.

Asset acquisitions – 2020: net assets acquired *in millions of USD*

	Promedior	Stratos Genomics	Lexent Bio	Total
Intangible assets				
- Product intangibles: not available for use [9]	368	262	27	657
Deferred tax assets	26	12	3	41
Cash and cash equivalents	18	7	0	25
Other net assets (liabilities)	2	1	0	3
Net identifiable assets	**414**	**282**	**30**	**726**
Fair value of previously held equity interest	0	(26)	0	(26)
Total consideration	**414**	**256**	**30**	**700**
Cash	414	250	30	694
Deferred consideration	0	6	0	6
Total consideration	**414**	**256**	**30**	**700**

Asset acquisitions – 2019

The RHI Group did not complete any asset acquisition during the six months ended June 30, 2019.

Cash flows from asset acquisitions

Asset acquisitions: net cash outflow *in millions of USD*

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	(444)	(250)	(694)	0	0	0
Cash in acquired company	18	7	25	0	0	0
Total net cash outflow	**(426)**	**(243)**	**(669)**	**0**	**0**	**0**

Restated balance sheet – December 31, 2019

In the 2019 Annual Financial Statements the accounting for the Spark Therapeutics acquisition was provisional based on preliminary information because the transaction closed shortly before December 31, 2019. The identification and valuation of intangible assets, other assets and liabilities were finalised in 2020 and as a result the comparative balance sheet information at December 31, 2019 has been restated. The reconciliation between the balance sheet and the net assets acquired published previously for 2019 (using provisional acquisition accounting) and the restated amounts which are reported as comparatives in 2019 (using final acquisition accounting), as required by IFRS 3 'Business Combinations', are presented below.

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

	December 31, 2019		
	As originally published	Measurement adjustment	Restated
Goodwill	11,316	(2,229)	9,087
Intangible assets	7,180	2,468	9,648
Deferred tax assets	603	(239)	364
Other net liabilities	(40,729)	–	(40,729)
Total net liabilities	**(21,630)**	**–**	**(21,630)**

Restated Spark Therapeutics acquisition – 2019: net assets acquired (selected items) *in millions of USD*

	Spark Therapeutics		
	As originally published	Measurement adjustment	Restated
Intangible assets			
- Product intangibles: in use [9]	–	465	465
- Product intangibles: not available for use [9]	–	2,003	2,003
Deferred tax assets	–	304	304
Deferred tax liabilities	–	(543)	(543)
Other net assets (liabilities)	195	0	195
Net identifiable assets	**195**	**2,229**	**2,424**
Goodwill	4,577	(2,229)	2,348
Total consideration	**4,772**	–	**4,772**

7. Restructuring plans

During the six months ended June 30, 2020 the RHI Group continued with the implementation of various restructuring plans initiated in prior years.

Restructuring plans: costs incurred *in millions of USD*

	Diagnostics	Site consolidation	Other Plans	Total
Six months ended June 30, 2020				
Restructuring costs				
- Employee-related costs	4	(1)	4	7
- Site closure costs	6	1	0	7
- Divestment of products and businesses	0	0	0	0
- Other reorganisation expenses	5	0	20	25
Total restructuring costs	**15**	**0**	**24**	**39**
Six months ended June 30, 2019				
Restructuring costs				
- Employee related costs	30	6	27	63
- Site closure costs	8	1	0	9
- Divestment of products and businesses	0	0	0	0
- Other reorganisation expenses	2	2	13	17
Total restructuring costs	**40**	**9**	**40**	**89**

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

	Six months ended June 30,	
	2020	2019
Termination costs	7	60
Other employee-related costs	0	3
Total employee-related costs	**7**	**63**
Impairment of property, plant and equipment and right-of-use assets	8	0
Accelerated depreciation of property, plant and equipment and right-of-use assets	1	7
(Gains) losses on disposal of property, plant and equipment and right-of-use assets	0	1
Other site closure costs	(2)	1
Total site closure costs	**7**	**9**
Other reorganisation expenses	25	17
Total restructuring costs	**39**	**89**

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

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Depreciation, amortisation and impairment	Other costs	Total	Depreciation, amortisation and impairment	Other costs	Total
Cost of sales						
- Pharmaceuticals	1	(1)	0	0	5	5
- Diagnostics	1	(4)	(3)	0	9	9
Marketing and distribution						
- Pharmaceuticals	0	16	16	0	10	10
- Diagnostics	0	3	3	0	2	2
Research and development						
- Pharmaceuticals	0	3	3	0	29	29
- Diagnostics	6	5	11	6	19	25
General and administration						
- Pharmaceuticals	0	4	4	0	3	3
- Diagnostics	1	2	3	1	4	5
- Corporate	0	2	2	0	1	1
Total	**9**	**30**	**39**	**7**	**82**	**89**
Total by operating segment						
- Pharmaceuticals	1	22	23	0	47	47
- Diagnostics	8	6	14	7	34	41
- Corporate	0	2	2	0	1	1
Total	**9**	**30**	**39**	**7**	**82**	**89**

8. Goodwill

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

Six months ended June 30, 2020	
At January 1, 2020	9,087
At June 30, 2020	**9,087**
Allocated by operating segment	
Pharmaceuticals	5,868
Diagnostics	3,219
Total RHI Group	**9,087**

As disclosed in Note 6, the goodwill at December 31, 2019 has been restated following the finalisation of the valuation of the net assets acquired related to the Spark Therapeutics acquisition in 2019. A reconciliation to the previously published goodwill is provided in Note 6.

Impairment charges – 2020

There were no impairments of goodwill during the first six months ended June 30, 2020.

Impairment charges – 2019

There were no impairments of goodwill during the first six months ended June 30, 2019.

9. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
Six months ended June 30, 2020					
At January 1, 2020	5,933	3,267	56	392	9,648
Asset acquisition [6]	0	657	0	0	657
Additions	264	91	0	15	370
Disposals	(8)	0	0	0	(8)
Transfers	0	0	0	0	0
Amortisation charge	(703)	-	(6)	(47)	(756)
Impairment charge	0	(354)	0	0	(354)
Currency translation effects	6	0	0	0	6
At June 30, 2020	**5,492**	**3,661**	**50**	**360**	**9,563**
Allocated by operating segment					
Pharmaceuticals	5,035	3,392	43	360	8,830
Diagnostics	457	269	7	0	733
Total RHI Group	**5,492**	**3,661**	**50**	**360**	**9,563**

As disclosed in Note 6, the intangible assets at December 31, 2019 have been restated following the finalisation of the valuation of the net assets acquired related to the Spark Therapeutics acquisition in 2019. A reconciliation to the previously published intangible assets is provided in Note 6.

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

	Amortisation		Impairment	
Six months ended June 30,	2020	2019	2020	2019
Cost of sales				
- Pharmaceuticals	(614)	(536)	0	0
- Diagnostics	(28)	(41)	0	0
Marketing and distribution				
- Pharmaceuticals	(5)	(10)	0	0
- Diagnostics	(1)	(1)	0	0
Research and development				
- Pharmaceuticals	(107)	(73)	(354)	(285)
- Diagnostics	(1)	0	0	0
Total	**(756)**	**(661)**	**(354)**	**(285)**

Impairment charges – 2020

Pharmaceuticals Division. Impairment charges totalling USD 354 million were recorded which related to:

- A charge of USD 354 million for the partial impairment of the intangible asset for SPK-8011, a novel gene therapy for the treatment of haemophilia A, acquired as part of the Spark Therapeutics acquisition. The impairment is a result of a delay in clinical trials, partly impacted by the COVID-19 pandemic, leading to reduced sales expectations. The asset concerned, which was not yet being amortised, was written down to its estimated recoverable amount of USD 1,118 million.

Impairment charges – 2019

Pharmaceuticals Division. Impairment charges totalling USD 285 million were recorded. The major items related to:

- A charge of USD 125 million due to the decision to stop the development of a compound. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 99 million following clinical data assessment of two compounds. The assets concerned, which were not yet being amortised, were fully written down.
- A charge of USD 60 million due to the decision to stop the development of a compound and the related collaboration activities with an alliance partner. The asset concerned, which was not yet being amortised, was fully written down.

10. Provisions and contingent liabilities

Provisions *in millions of USD*

	June 30, 2020	December 31, 2019
Legal provisions	349	686
Environmental provisions	147	159
Restructuring provisions	288	342
Contingent consideration provisions [14]	96	95
Other provisions	1,090	1,105
Total provisions	**1,970**	**2,387**
Current	1,549	1,967
Non-current	421	420
Total provisions	**1,970**	**2,387**

During the six months ended June 30, 2020 USD 278 million of provisions were utilised (six months ended June 30, 2019: USD 316 million), of which the entire amount is included in the cash flow from operating activities and mainly related to the utilisation of restructuring and other provisions (six months ended June 30, 2019: USD 248 million). During the six months ended June 30, 2019 USD 68 million were included in the cash flows from business combinations for payments made from deferred and contingent consideration arrangements (see Note 6).

As part of the regular review of litigation matters, management has reassessed the provisions recorded for certain litigation matters. Based on the development of the various litigations, notably the Accutane case, some of the provisions previously held were released which resulted in an income of USD 352 million for the six months ended June 30, 2020. This was a major element in the expenses for legal and environmental cases during the six months ended 30 June 2020, which show a net income of USD 331 million included in general and administration (six months ended June 30, 2019: net expenses of USD 20 million).

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

Accutane. The litigation related to Accutane is described in Note 20 to the Annual Financial Statements. At December 31, 2019 Hoffmann-La Roche Inc. ('HLR') was defending no pending actions in the US and there were approximately 3,422 cases on appeal. After a hearing on January 7, 2020, on January 17, 2020 the New Jersey Appellate Division issued its decision on whether plaintiffs' experts can testify that Accutane causes ulcerative colitis. It affirmed the trial court's ruling and concluded that the trial court properly had excluded the experts thereby dismissing cases alleging that Accutane caused plaintiffs' ulcerative colitis. The plaintiffs filed a petition for appeal to the New Jersey Supreme Court. On May 8, 2020 the Supreme Court entered an order denying the petition. Plaintiffs cannot further appeal. All remaining cases were permanently dismissed. The Supreme Court had dismissed previously other inflammatory bowel disease ('IBD') cases in 2018. With this the matter in the US is now concluded.

Meso litigation. The litigation related to the lawsuit filed by Roche Diagnostics Corporation ('Roche') against Meso Scale Diagnostics, LLC ('Meso') is described in Note 20 to the Annual Financial Statements. In 2020 post-trial motions have been filed by both parties. Meso has moved for enhancement, pre-judgment interest and post-judgment royalties. The court hearing took place on May 6, 2020. The court has not issued any final order of judgment yet.

Iraqi Ministry of Health. The litigation related to the Iraqi Ministry of Health is described in Note 20 to the Annual Financial Statements. In October 2017 F. Hoffmann-La Roche Ltd ('FHLR'), Hoffmann-La Roche Inc. ('HLR') and Genentech and certain other pharmaceutical and/or medical device companies were named as defendants in a complaint filed in the Federal District Court for the District of Columbia, US, on behalf of US service-members and their relatives who allege that they were killed or injured in Iraq between 2005 and 2009. On July 17, 2020 the Federal District Court granted the defendants' motions to dismiss. The plaintiffs may appeal this decision. The RHI Group is vigorously defending itself in this matter. The outcome of this matter cannot be determined at this time.

There have been certain procedural developments in the other significant litigation matters described in Note 20 to the Annual Financial Statements. These do not significantly affect the assessment of the RHI Group's management concerning the adequacy of the total provisions recorded for legal matters.

11. Debt

Debt: movements in carrying value of recognised liabilities *in millions of USD*	
Six months ended June 30, 2020	
At January 1, 2020	42,395
Proceeds from issue of bonds and notes	0
Redemption and repurchase of bonds and notes	0
Increase (decrease) in commercial paper	540
Increase (decrease) in amounts due to related parties	750
Increase (decrease) in other debt	0
Changes from financing cash flows	**1,290**
Net (gains) losses on redemption and repurchase of bonds and notes [4]	0
Amortisation of debt discount [4]	4
Financing costs	**4**
Net foreign exchange (gains) losses	5
Currency translation effects	0
Changes in foreign exchange rates	**5**
At June 30, 2020	**43,694**
Bonds and notes	8,549
Commercial paper	1,990
Amounts due to related parties [15]	33,155
Total debt	**43,694**
Long-term debt	37,204
Short-term debt	6,490
Total debt	**43,694**

Unamortised discount included in the carrying value of bonds and notes at 30 June 2020 was USD 68 million (30 June 2019: USD 83 million).

Issuance of bonds and notes – 2020

The RHI Group did not issue any bonds or notes during the six months ended June 30, 2020.

Issuance of bonds and notes – 2019

The RHI Group did not issue any bonds or notes during the six months ended June 30, 2019.

Redemption and repurchase of bonds and notes – 2020

The RHI Group did not redeem any bonds or notes during the six months ended June 30, 2020.

Redemption and repurchase of bonds and notes – 2019

The RHI Group did not redeem any bonds or notes during the six months ended June 30, 2019.

Commercial paper

Roche Holdings, Inc. commercial paper program. Roche Holdings, Inc. has an established commercial paper program under which it can issue up to USD 7.5 billion of unsecured commercial paper notes guaranteed by Roche Holding Ltd. The total committed credit lines that are available as a back-stop supporting the commercial paper program are USD 7.5 billion at June 30, 2020. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2020 unsecured commercial paper notes with a principal amount of USD 2.0 billion and an average interest rate of 0.15% were outstanding.

Movements in commercial paper obligations *in millions of USD*	
Six months ended June 30, 2020	
At January 1, 2020	1,450
Net cash proceeds (payments)	540
At June 30, 2020	**1,990**

Recognised liabilities due to related parties

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

Recognised liabilities due to related parties *in millions of USD*	
Six months ended June 30, 2020	
At January 1, 2020	32,405
Cash inflows from related parties	3,530
Cash outflows to related parties	(2,780)
Currency translation of foreign operations	0
At June 30, 2020	**33,155**

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

Cash inflows from related parties *in millions of USD*		
	Six months ended June 30,	
	2020	2019
Term note 2.27% issued February 25, 2020	500	-
Term note 2.8% issued February 25, 2020	1,000	-
Term note 0.23% issued June 5, 2020	1,000	-
Term note 1.31% issued June 8, 2020	280	-
Term note 0.23% issued June 25, 2020	750	-
Total	**3,530**	**-**

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

Cash outflows to related party issues *in millions of USD*		
	Six months ended June 30,	
	2020	2019
Term note 5.79% due February 25, 2020	(1,500)	-
Term note 2.09% due June 5, 2020	(1,000)	-
Term note 5.6% due June 8, 2020	(280)	-
Term note 3.1% due January 25, 2019	-	(750)
Total	**(2,780)**	**(750)**

12. Equity attributable to RHI shareholder

Genentech transaction

The RHI Group completed the purchase of the non-controlling interest in Genentech effective March 26, 2009. Based on the International Accounting Standard 27 'Consolidated and Separate Financial Statements' (IAS 27) and consistent with the International Financial Reporting Standard 10 'Consolidated Financial Statements' (IFRS 10), this transaction was accounted for in full as an equity transaction. As a consequence, the carrying amount of the consolidated equity of the RHI Group at that time was reduced by USD 46.6 billion, of which USD 7.6 billion was allocated to eliminate the book value of Genentech non-controlling interest. At June 30, 2020 the RHI Group had a negative equity of USD 19.6 billion (December 31, 2019: USD 21.6 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

At June 30, 2020 the share capital of Roche Holdings, Inc., which is the RHI Group's parent company, consisted of 1,000 shares with a nominal value of USD 1,000 each and has not changed during the first half of 2020. All shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On January 9, 2020 the Board of Directors of RHI resolved to declare a dividend of USD 1.5 million per share to RHI's sole stockholder, Roche Finance Ltd, which has been paid in the first half of 2020.

Own equity instruments

The RHI Group holds none of its own equity shares.

Retained earnings

In addition to net income attributable to the RHI shareholder of USD 4,053 million (six months ended June 30, 2019: USD 4,204 million) and the dividend payments described above, retained earnings also includes losses on remeasurements of defined benefit plans of USD 35 million, after tax (six months ended June 30, 2019: gains of USD 18 million, after tax).

13. Statement of cash flows

Cash generated from operations *in millions of USD*

	Six months ended June 30,	
	2020	2019
Net income	4,052	4,203
Add back non-operating (income) expense		
- Financing costs [4]	227	313
- Financing costs – related parties [15]	582	541
- Other financial (income) expense [4]	2	(16)
- Other financial (income) expense – related parties [15]	(6)	(22)
- Income taxes [5]	718	1,016
Operating profit	**5,575**	**6,035**
Depreciation of property, plant and equipment	341	318
Depreciation of right-of-use assets	45	35
Amortisation of intangible assets	756	661
Impairment of goodwill	0	0
Impairment of intangible assets	354	285
Impairment of property, plant and equipment	2	14
Impairment of right-of-use assets	8	0
Operating (income) expense for defined benefit plans	57	47
Operating expense for equity-settled equity compensation plans	264	195
Net (income) expense for provisions	(147)	144
Bad debt (reversal) expense	(3)	(1)
Inventory write-downs	14	133
Net (gain) loss on disposal of products	(25)	0
Other adjustments	(16)	(14)
Cash generated from operations	**7,225**	**7,852**

14. Financial risk management

The RHI Group's financial risk management objectives and policies are consistent with those disclosed in Note 30 to the Annual Financial Statements. For accounts receivables from related parties, excluding receivables on cash pool balances, the RHI Group measures the allowance for doubtful accounts at an amount equal to lifetime expected credit losses (ECL). For surplus fund deposited with Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates (see Note 15) the allowance for doubtful accounts is measured on a 12-month ECL basis, which is equal to the lifetime ECLs for those exposures as the amounts from the cash pool are repayable on demand.

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments *in millions of USD*

	Level 1	Level 2	Level 3	Total
At June 30, 2020				
Marketable securities				
- Equity securities at fair value through profit or loss	3	-	-	3
- Debt securities at fair value through OCI	56	-	-	56
Derivative financial instruments – related parties [15]	-	2	-	2
Equity investments at fair value through profit or loss	0	9	-	9
Financial assets recognised at fair value	**59**	**11**	**-**	**70**
Derivative financial instruments – related parties [15]	-	(135)	-	(135)
Contingent consideration	-	-	(96)	(96)
Financial liabilities recognised at fair value	**-**	**(135)**	**(96)**	**(231)**

At June 30, 2020 Level 1 financial assets consist of treasury bills, bonds and quoted shares. Level 2 financial assets consist of equity investments and derivative financial instruments.

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

- 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.
- Equity investments at fair value through profit or loss are based on a valuation model that uses the most recently published observable market data.

The RHI Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 2020.

Level 3 fair values

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

Contingent consideration arrangements *in millions of USD*

Six months ended June 30, 2020	
At January 1, 2020	(95)
Utilised for settlements [6]	0
Total gains and losses included in the income statement	
- Unused amounts reversed – recorded within general and administration	0
- Additional amounts created – recorded within general and administration	0
- Discount unwind included in financing costs	(1)
At June 30, 2020	**(96)**

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements arising from business combinations and asset acquisitions. The fair values of contingent consideration from business combinations are determined considering the expected payments, discounted to present value using a risk-adjusted discount rate of 3.2% at June 30, 2020 (December 31, 2019: 3.2%). The expected payments are determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales, other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rates were higher or the risk-adjusted discount rate was lower. At June 30, 2020 the total payments under contingent consideration arrangements arising from business combinations could be up to USD 0.2 billion (December 31, 2019: USD 0.2 billion).

Carrying value and fair value

At June 30, 2020 the carrying value of bonds and notes is USD 8.5 billion compared to a fair value of USD 10.1 billion and the carrying value of total debt is USD 43.7 billion compared to a fair value of USD 45.3 billion. The carrying values of financial assets are a reasonable approximation of the fair values at June 30, 2020.

15. Related parties

Controlling shareholder

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

As a member of the Roche Group, all of the RHI Group's related party transactions are with Roche Group affiliates. The transactions include purchases of inventory and other materials, sales of inventory and other materials, services received and rendered, allocation of research and development costs under cost-sharing agreements and collaborations, allocation of marketing and distribution costs under cost-sharing agreements, allocation of other expenses attributable to the US business as well as the payment and receipt of royalties and income from out-licensing agreements.

Related party transactions *in millions of USD*

	Six months ended June 30,	
	2020	2019
Sales	1,237	1,108
Royalty income	1,880	1,908
Contract revenue (income from out-licensing agreements)	352	2
Purchases of pharmaceutical products and materials	(3,422)	(2,893)
Purchases of diagnostic instruments, reagents and consumables	(385)	(284)
Payments issued under marketing and distribution cost-sharing and collaboration agreements	(122)	(82)
Reimbursements received under marketing and distribution cost-sharing and collaboration agreements	74	305
Payments issued under research and development cost-sharing and collaboration agreements	(1,011)	(708)
Reimbursements received under research and development cost-sharing and collaboration agreements	464	10
Services rendered	90	61
Services received	(102)	(86)
Other income (expense)	(79)	5
Financing costs – related parties		
Interest expense	(560)	(515)
Guarantee fees	(22)	(26)
Total financing costs – related parties	**(582)**	**(541)**
Other financial income (expense) – related parties		
Net gains (losses) on foreign currency derivatives	(3)	(8)
Other financial income (expense)	9	30
Total other financial income (expense) – related parties	**6**	**22**

Related party balances *in millions of USD*

	June 30, 2020	December 31, 2019
Other non-current assets	0	0
Other current assets	0	56
Accounts receivable	2,307	2,323
- of which derivative financial assets	*2*	*0*
- other financial assets	*0*	*0*
Total receivable – related parties	**2,307**	**2,379**
Long-term debt	(28,655)	(27,875)
Short-term debt	(4,500)	(4,530)
Total debt – related parties	**(33,155)**	**(32,405)**
Other non-current liabilities	(270)	(494)
Other current liabilities	(1,826)	(1,510)
Accounts payable	(975)	(1,489)
- of which derivative financial liabilities	*(135)*	*(140)*
- interest payables	*(317)*	*(620)*
Total payable – related parties	**(3,071)**	**(3,493)**

Accounts receivable from related parties include surplus funds deposited with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited of USD 0.9 billion (December 31, 2019: USD 0.7 billion) are immediately available and bear variable interest referenced to one month LIBOR.

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

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

Introduction

We have been engaged to review the accompanying consolidated balance sheet of Roche Holdings, Inc., as at 30 June 2020 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 11 to 34. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the EU. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements as at 30 June 2020 are not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the EU.

KPMG AG

Mark Baillache
Licensed Audit Expert

Marc Ziegler
Licensed Audit Expert

Basel, 24 July 2020