



Roche Holdings, Inc.
Half-Year Report 2022

Roche Holdings, Inc. Interim Consolidated Financial Statements

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Management Report

1. Review of the six months ended June 30, 2022

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 2022 the RHI Group reported sales of USD 16.1 billion, an increase of 6% compared to the first half of 2021, and an operating profit of USD 3.6 billion, a decrease of 7%.

The 6% sales growth was driven by the Diagnostics Division, with increased sales of COVID-19-related products and growth in routine testing. In the Pharmaceuticals Division sales were higher due to the continuing uptake of new medicines, which more than offset the negative impact from biosimilar competition.

The decrease of the RHI Group's operating profit by 7% to USD 3.6 billion is primarily due to increased cost of sales. Cost of sales increased by 17% due to higher manufacturing cost of sales and the impact of the reversal of an idle-plant impairment in 2021. The RHI Group's operating profit margin decreased to 22.5% of sales from 25.6% in the comparative period. Net income increased by 9% to USD 2.7 billion, despite of the operating profit decrease, driven by the resolution of several tax disputes in the first half of 2022.

The RHI Group had a positive cash flow from operating activities of USD 3.5 billion, an increase of 21.5% compared to the first half of 2021, due to a lower increase of net working capital, partly offset by lower cash generated from operations.

Pharmaceuticals Division

Sales in the Pharmaceuticals Division in the first half of 2022 were USD 12.7 billion (2021: USD 12.5 billion), an increase of 2%. There was continued growing demand for Hemlibra, Ocrevus, Tecentriq, Vabysmo, Phesgo and Evrysdi, which together contributed an additional USD 0.8 billion of sales. Sales of Rituxan, Herceptin and Avastin decreased by a combined USD 0.5 billion, as the impact of biosimilar competition further slowed down.

Sales in the oncology therapeutic area decreased by 4%, due to the biosimilar competition for Rituxan, Herceptin and Avastin described above, partially compensated by growth of Tecentriq and Phesgo. Tecentriq sales grew 13% due to higher demand driven by the new indications for first-line non-small cell lung cancer (NSCLC) and unresectable or metastatic hepatocellular carcinoma (HCC).

Sales in immunology increased by 2%, mainly driven by higher sales of Xolair and Actemra. Xolair sales increased 11% driven by steady growth in the chronic spontaneous urticaria indication. Actemra sales increased 6% due to increased sales to related parties. This increase in immunology was partly offset by lower sales for Esbriet due to generic competition and for Rituxan.

Sales in neuroscience grew by 15% mainly due to Ocrevus and Evrysdi. Ocrevus sales increased by 11% to USD 2.3 billion with growth driven both by new and returning patients. Evrysdi showed a continued uptake since its launch, with sales growth of 32%.

In haemophilia A Hemlibra continued to show strong uptake with sales reaching USD 1.2 billion, an increase of 26%, especially in the non-inhibitor segment. Sales in ophthalmology decreased by 2% as the fall in Lucentis sales of 17% due to competitive pressure was largely offset by the initial uptake of Vabysmo, which achieved USD 0.1 billion of sales since its launch. Infectious diseases sales decreased by 52% due to lower sales of Ronapreve to related parties. In other therapeutic areas, sales of Activase/TNKase were 10% lower, mainly due to temporary stockpiling by distributors and customers at the end of 2021.

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

The RHI Group's basic, primary patents for Rituxan, Herceptin and Avastin have expired. The in-licensed Halozyme patent rights for subcutaneous formulations of Rituxan and Herceptin expire beyond 2025. The first biosimilar versions of Herceptin and Avastin were launched from mid-2019 and the first biosimilar versions of Rituxan in late 2019. Interim sales for Rituxan, Herceptin and Avastin are disclosed in the table below. The year-on-year movements were also driven by regular price and volume changes. Biosimilar competition is only one factor in the overall picture.

2022 interim product sales affected by biosimilar launches

	2022 (USD m)	2021 (USD m)	% change	Comment
Rituxan	748	946	-21	First biosimilar launches from late 2019
Herceptin	348	457	-24	First biosimilar launches from mid-2019
Avastin	364	575	-37	First biosimilar launches from mid-2019
Total	1,460	1,978	-26	

The RHI Group's basic, primary patents for Lucentis have expired. The first biosimilar version of Lucentis with a restricted label has come to market at the beginning of the third quarter of 2022. Interim sales of Lucentis were USD 606 million (2021: USD 733 million), a decline of 17%. Following a negative decision from the US District Court for the District of Delaware in March 2022, which is currently under appeal, the first biosimilar version of Esbriet came to market in the second quarter of 2022. Interim sales of Esbriet were USD 331 million (2021: USD 400 million), a decline of 17%.

Royalties and other operating income decreased by 1% to USD 2.8 billion. Royalty income remained stable at USD 2.4 billion. Other operating income decreased by USD 0.1 billion to USD 0.4 billion driven by lower income from out-licensing agreements and lower income from sale of product rights.

Cost of sales increased by 13% to USD 7.1 billion in the first half of 2022. As a percentage of sales, cost of sales increased by 5.5 percentage points to 55.5%, mainly driven by the impact of the reversal of an idle-plant impairment in 2021 and higher manufacturing costs, which grew by 15%, despite the sales increase of 2%. This was due to product mix factors. Royalty expenses to third parties were 9% higher due to increased sales for certain royalty-bearing products, notably Ocrevus. Collaboration and profit-sharing expenses decreased by 6% driven by lower sales of Rituxan. Additionally in the first half of 2022, there was an impairment charge of USD 356 million related to a partial impairment charge of the product intangible asset relating to Flatiron's technology. Amortisation of intangible assets decreased USD 440 million compared to prior year first half, which was primarily attributable to the Esbriet intangible asset becoming fully amortised in late 2021.

Marketing and distribution costs remained stable at USD 1.6 billion in the first half of 2022, and as a percentage of sales, decreased to 12.8% from 13.0% in the comparative period. Major marketing and distribution activities included investments in ongoing launches, the rollouts of Ocrevus and Tecentriq, and pre-launch activities.

Research and development costs increased by 3% and, as a percentage of sales, increased to 28.5% from 28.0% in the comparative period. Oncology remained the primary area of research and development with the cancer immunotherapy portfolio being a key driver. Neuroscience, immunology and ophthalmology also represented significant areas of spending. There were intangible asset impairment charges of USD 0.1 billion for the full write-down of an asset following the decision to stop the development of a programme for small-molecule inhibitors.

General and administration costs decreased by USD 0.1 billion to USD 0.3 billion in the first half of 2022. Administration costs were lower mainly due to lower legal expenses. Business taxes and capital taxes decreased primarily due to lower excise tax expenses in 2022.

The Pharmaceuticals Division's operating profit decreased by 18% to USD 2.9 billion mainly due to the increased cost of sales.

Diagnostics Division

Sales in the Diagnostics Division increased by USD 0.7 billion to USD 3.3 billion in the first half of 2022 and included sales to related parties of USD 0.6 billion. The overall sales growth of 27% is mainly due to higher sales of COVID-19-related products, notably the SARS-CoV-2 Rapid Antigen test, and increased sales in routine testing.

The Point of Care customer area reported a sales growth of 237% led by COVID-19-related sales from SARS-CoV-2 Rapid Antigen tests. Sales in the Molecular Lab customer area grew 6% driven by growth in the base business across the portfolio and by the base effect of the GenMark business, which was acquired in April 2021. This growth was largely offset by lower COVID-19-related sales. Sales in the Core Lab customer area increased by 2% due to the growth of routine testing mainly in the areas of immunoassays, with cardiac tests as key contributors, and clinical chemistry. Sales in the Pathology Lab customer area increased by 8% due to growth in the advanced staining business and companion diagnostics business. Diabetes Care sales declined 21%, driven by the base effect of the resolution of a rebate dispute in the first quarter of 2021 and as a result of the continued contraction of the blood glucose monitoring market due to people switching to continuous glucose monitoring systems.

Royalties and other operating income increased by 48% to USD 0.1 billion due to higher royalty income from related parties.

Costs of sales increased by 35% to USD 2.0 billion, above the sales growth of 27%. This was due to a product mix effect from the increased sales volume of SARS-CoV-2 Rapid Antigen tests in 2022. As a percentage of sales, cost of sales increased by 3.5 percentage points to 58.6%.

Marketing and distribution costs decreased by 11% to USD 0.4 billion driven by lower personnel expenses. As a percentage of sales, marketing and distribution costs decreased to 11.7% compared to 16.6% in the comparative period.

Research and development costs decreased by 2% to USD 0.4 billion due to reimbursements received from related parties under research and development cost-sharing agreements, partly offset by higher investments for digital solutions as well as increased spending for projects in molecular point of care and sequencing. As a percentage of sales, research and development costs decreased to 11.9% compared to 15.4% in the comparative period.

General and administration costs decreased by 56%. This was mainly driven by the release of contingent consideration provisions, decreasing administration costs due to lower personnel expenses and lower legal expenses. As a percentage of sales, general and administration costs decreased to 1.2% compared to 3.4% in the comparative period.

Mergers and acquisitions

There were no significant developments in the first half of 2022. Further details are given in Note 6 to the Interim Financial Statements.

Alliance transactions

In the first half of 2022 in-licensing deals and other alliance transactions, including those with related parties, resulted in intangible assets totalling USD 0.1 billion (2021: USD 0.2 billion) being recognised.

Impairment of goodwill and intangible assets

There were intangible asset impairment charges of USD 0.4 billion in the Pharmaceuticals Division. These charges mainly related to a partial impairment of the product intangible asset relating to Flatiron's technology. There were no impairments in the Diagnostics Division. Further details are given in Note 8 to the Interim Financial Statements.

Legal and environmental cases

There were no significant developments in the first half of 2022. Further details are given in Note 9 to the Interim Financial Statements.

Treasury and taxation results

Financing costs increased by 47.1% in the first half of 2022 due to higher interest expenses attributable to the issuance of debt in December 2021 and March 2022 as well as due to increase in interest rates. 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 4.0% in the first half of 2022 compared to 22.8% in the comparative period. The main driver for the decrease was the resolution of several tax disputes in the first half of 2022. Total taxes paid in the first half of 2022 remained stable at USD 0.9 billion.

Cash flow

The cash inflows from operating activities increased by USD 0.6 billion to USD 3.5 billion in the first half of 2022. This was due to a lower increase of net working capital, partly offset by lower cash generated from operations. The net increase in net working capital was significantly lower than in the prior period, mainly due to related party payables and receivables. The decrease in cash outflows from investing activities by USD 2.0 billion to USD 0.7 billion was mainly driven by the acquisition of GenMark in 2021. The cash outflows from financing activities were USD 2.9 billion in the first half of 2022 as detailed in the statement of cash flows in the Interim Financial Statements.

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, 2022 the RHI Group had a negative equity of USD 15.5 billion (December 31, 2021: USD 18.7 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of USD 20.6 billion which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Total assets increased by USD 3.1 billion to USD 44.3 billion at June 30, 2022. Inventories increased by USD 1.2 billion driven by the ramp-up of launch products, and by ensuring supply resilience in the Pharmaceutical Division. The increase of USD 2.1 billion in trade receivables third and related parties is mainly due the movement in the net cash pool balance,

a receivable of USD 1.9 billion (December 31, 2021: a payable of USD 1.7 billion) as well as due to higher sales in the first half of 2022. Intangible assets decreased by USD 0.8 billion mainly due to regular amortisation and impairments.

Total liabilities remained relatively stable at USD 59.8 billion at June 30, 2022, compared to the end of 2021. This was mainly driven by increase of debt, offset by the reduction in accounts payables and other current liabilities. In the first half of 2022 there was an increase in bonds and commercial papers of USD 6.9 billion and a net decrease in related party debt of USD 4.8 billion. At June 30, 2022 the carrying value of debt was USD 45.1 billion (December 31, 2021: USD 42.9 billion), of which USD 24.2 billion is due to related parties (December 31, 2021: USD 28.9 billion).

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 19 to the 2021 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 did not observe a significant increase in risks due to the COVID-19 pandemic. The RHI Group's financial risk management is described in Note 28 to the 2021 Annual Financial Statements.

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 19 to the 2021 Annual Financial Statements and these are updated, where appropriate, in Note 9 to the Interim Financial Statements.

3. International Financial Reporting Standards

The RHI Group has 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 22, 2022:

- the Interim Consolidated Financial Statements at June 30, 2022, 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 29.

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2022 in millions of USD

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales ^{2,3}	12,748	3,347	-	16,095
Royalties and other operating income ^{2,3}	2,826	127	-	2,953
Revenue ^{2,3}	15,574	3,474	-	19,048
Cost of sales	(7,069)	(1,960)	-	(9,029)
Marketing and distribution	(1,636)	(390)	-	(2,026)
Research and development	(3,629)	(397)	-	(4,026)
General and administration	(330)	(40)	29	(341)
Operating profit ²	2,910	687	29	3,626
Financing costs ⁴				(250)
Financing costs – related parties ¹⁴				(512)
Other financial income (expense) ⁴				(64)
Other financial income (expense) – related parties ¹⁴				3
Profit before taxes				2,803
Income taxes ⁵				(112)
Net income				2,691
Attributable to				
- Roche Holdings, Inc. shareholder				2,693
- Non-controlling interests				(2)

Roche Holdings, Inc. consolidated income statement for the six months ended June 30, 2021 *in millions of USD*

	Pharmaceuticals	Diagnostics	Corporate	RHI Group
Sales ^{2,3}	12,517	2,638	-	15,155
Royalties and other operating income ^{2,3}	2,865	86	-	2,951
Revenue ^{2,3}	15,382	2,724	-	18,106
Cost of sales	(6,263)	(1,453)	-	(7,716)
Marketing and distribution	(1,629)	(439)	-	(2,068)
Research and development	(3,508)	(405)	-	(3,913)
General and administration	(423)	(91)	(14)	(528)
Operating profit ²	3,559	336	(14)	3,881
Financing costs ⁴				(170)
Financing costs – related parties ¹⁴				(559)
Other financial income (expense) ⁴				57
Other financial income (expense) – related parties ¹⁴				(23)
Profit before taxes				3,186
Income taxes ⁵				(728)
Net income				2,458
Attributable to				
- Roche Holdings, Inc. shareholder				2,459
- Non-controlling interests				(1)

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

	Six months ended June 30,	
	2022	2021
Net income recognised in income statement	2,691	2,458
Other comprehensive income (OCI)		
Remeasurements of defined benefit plans	47	159
Fair value changes on equity investments at fair value through OCI	(46)	(20)
Items that will never be reclassified to the income statement	1	139
Fair value changes on debt investments at fair value through OCI	(4)	(1)
Cash flow hedges	0	(8)
Currency translation of foreign operations	(4)	(9)
Items that are or may be reclassified to the income statement	(8)	(18)
Other comprehensive income, net of tax	(7)	121
Total comprehensive income	2,684	2,579
Attributable to		
- Roche Holdings, Inc. shareholder	2,686	2,580
- Non-controlling interests	(2)	(1)
Total	2,684	2,579

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

	June 30, 2022	December 31, 2021
Non-current assets		
Property, plant and equipment	7,853	7,893
Right-of-use assets	613	615
Goodwill ⁷	10,053	10,053
Intangible assets ⁸	9,105	9,876
Deferred tax assets	1,600	726
Defined benefit plan assets	281	326
Other non-current assets	918	1,022
Total non-current assets	30,423	30,511
Current assets		
Inventories	5,024	3,835
Accounts receivable – trade	4,151	3,932
Accounts receivable – related parties ¹⁴	3,600	1,745
Other current assets	1,059	1,001
Other current assets – related parties ¹⁴	0	109
Marketable securities	1	2
Cash and cash equivalents	0	0
Total current assets	13,835	10,624
Total assets	44,258	41,135
Non-current liabilities		
Long-term debt ¹⁰	(18,462)	(13,464)
Long-term debt – related parties ¹⁴	(20,380)	(25,505)
Defined benefit plan liabilities	(1,398)	(1,476)
Provisions ⁹	(273)	(362)
Other non-current liabilities	(757)	(753)
Other non-current liabilities – related parties ¹⁴	(97)	(313)
Total non-current liabilities	(41,367)	(41,873)
Current liabilities		
Short-term debt ¹⁰	(2,456)	(547)
Short-term debt – related parties ¹⁴	(3,775)	(3,400)
Current income tax liabilities	(1,086)	(821)
Provisions ⁹	(1,134)	(1,105)
Accounts payable – trade	(1,100)	(1,362)
Accounts payable – related parties ¹⁴	(2,745)	(3,016)
Other current liabilities	(5,133)	(5,922)
Other current liabilities – related parties ¹⁴	(977)	(1,771)
Total current liabilities	(18,406)	(17,944)
Total liabilities	(59,773)	(59,817)
Total net liabilities	(15,515)	(18,682)
Equity		
Capital and reserves attributable to Roche Holdings, Inc. shareholder	(15,515)	(18,684)
Equity attributable to non-controlling interests	-	2
Total equity	(15,515)	(18,682)

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

	Six months ended June 30,	
	2022	2021
Cash flows from operating activities		
Cash generated from operations ¹²	5,307	5,602
(Increase) decrease in net working capital	(2,242)	(1,057)
(Increase) decrease in net working capital - related parties	1,545	(606)
Payments made for defined benefit plans	(46)	(42)
Utilisation of provisions	(159)	(247)
Disposal of products	55	99
Other operating cash flows	0	2
Income taxes paid	(941)	(855)
Total cash flows from operating activities	3,519	2,896
Cash flows from investing activities		
Purchase of property, plant and equipment	(449)	(545)
Purchase of intangible assets	(284)	(264)
Disposal of property, plant and equipment	5	6
Disposal of intangible assets	15	69
Business combinations ⁶	0	(1,850)
Asset acquisitions ⁶	(44)	(115)
Interest received	1	0
Interest received from related parties	3	0
Other current assets - related parties	106	79
Other investing cash flows	(7)	5
Total cash flows from investing activities	(654)	(2,615)
Cash flows from financing activities		
Proceeds from issue of bonds and notes ¹⁰	4,994	1,498
Proceeds from issue of related party debt ¹⁰	0	10,750
Redemption and repurchase of bonds and notes ¹⁰	0	(1,376)
Repayment of related party debt ¹⁰	(4,750)	(7,000)
Increase (decrease) in commercial paper ¹⁰	1,909	212
Increase (decrease) in other debt ¹⁰	0	(76)
Hedging arrangements - related parties	0	(37)
Interest paid	(203)	(230)
Principal portion of lease liabilities paid	(59)	(51)
Dividends paid to related parties ¹¹	0	(2,750)
Interests and other financing - related parties	(563)	(557)
Recharges and prepayments to related parties for equity compensation plans	(573)	(763)
(Increase) decrease of cash pool balance with related parties ¹⁴	(3,624)	83
Total cash flows from financing activities	(2,869)	(297)
Net effect of currency translation on cash and cash equivalents	(1)	0
Increase (decrease) in cash and cash equivalents	(5)	(16)
Cash and cash equivalents at beginning of period	(15)	1
Cash and cash equivalents at end of period ^{a)}	(20)	(15)

a) At June 30, 2022 cash overdrafts of USD 20 million (June 30, 2021 USD 15 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, 2021								
At January 1, 2021	1	(18,542)	30	8	30	(18,473)	1	(18,472)
Net income recognised in income statement	-	2,459	-	-	-	2,459	(1)	2,458
Net change in fair value – financial assets at fair value through OCI	-	0	(21)	-	-	(21)	0	(21)
Cash flow hedges	-	-	-	(8)	-	(8)	0	(8)
Currency translation of foreign operations	-	-	-	-	(9)	(9)	0	(9)
Remeasurements of defined benefit plans	-	159	-	-	-	159	0	159
Total comprehensive income	-	2,618	(21)	(8)	(9)	2,580	(1)	2,579
Dividends	-	(2,750)	-	-	-	(2,750)	0	(2,750)
Equity compensation plans, net of transactions in own equity	-	269	-	-	-	269	-	269
At June 30, 2021	1	(18,405)	9	0	21	(18,374)	0	(18,374)
Six months ended June 30, 2022								
At January 1, 2022	1	(18,730)	25	0	20	(18,684)	2	(18,682)
Net income recognised in income statement	-	2,693	-	-	-	2,693	(2)	2,691
Net change in fair value – financial assets at fair value through OCI	-	0	(50)	-	-	(50)	0	(50)
Cash flow hedges	-	-	-	0	-	0	0	0
Currency translation of foreign operations	-	-	-	-	(4)	(4)	0	(4)
Remeasurements of defined benefit plans	-	47	-	-	-	47	0	47
Total comprehensive income	-	2,740	(50)	0	(4)	2,686	(2)	2,684
Dividends	-	0	-	-	-	0	0	0
Equity compensation plans, net of transactions in own equity	-	483	-	-	-	483	-	483
At June 30, 2022	1	(15,507)	(25)	0	16	(15,515)	0	(15,515)

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 referred to as 'the Interim Financial Statements') of Roche Holdings, Inc., a company incorporated in the State of Delaware, and its subsidiaries (hereafter referred to as 'RHI' or 'the RHI Group') for the six months ended June 30, 2022 (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, 2021 (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 22, 2022.

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, 2022 the RHI Group had a negative equity of USD 15.5 billion (December 31, 2021: USD 18.7 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment. In addition, RHI has bonds, notes and commercial paper outstanding with a carrying value of USD 20.6 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 2022 interim period, the RHI Group generated an operating profit of USD 3.6 billion and a positive operating cash flow of USD 3.5 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

During the six months ended June 30, 2022 there was no material accounting impact related to the COVID-19 pandemic.

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 also be reflected in the RHI Group's Consolidated Financial Statements for the year ending December 31, 2022.

Changes in accounting policies

In 2022 the RHI Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the RHI Group's overall results and financial position.

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, 2023 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 2023.

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		Diagnostics		Corporate		RHI Group	
	2022	2021	2022	2021	2022	2021	2022	2021
Revenue from external customers and related parties								
Sales	12,748	12,517	3,347	2,638	-	-	16,095	15,155
Royalties and other operating income	2,826	2,865	127	86	-	-	2,953	2,951
Total	15,574	15,382	3,474	2,724	-	-	19,048	18,106
Segment results								
Operating profit	2,910	3,559	687	336	29	(14)	3,626	3,881

Net assets *in millions of USD*

Net operating assets	June 30,	Assets	June 30,	Liabilities	June 30,	Net assets
	2022	December 31,	2022	December 31,	2022	December 31,
		2021		2021		2021
Pharmaceuticals	29,939	29,402	(8,148)	(7,512)	21,791	21,890
Diagnostics	10,081	10,009	(1,800)	(2,002)	8,281	8,007
Corporate	79	79	(84)	(122)	(5)	(43)
Total	40,099	39,490	(10,032)	(9,636)	30,067	29,854
Current income tax net assets (liabilities)					(1,086)	(821)
Deferred tax net assets (liabilities)					1,600	726
Defined benefit plan net assets (liabilities)					(1,117)	(1,150)
Lease liabilities					(694)	(702)
Marketable securities					1	2
Cash and cash equivalents					0	0
Debt					(20,918)	(14,011)
Debt – related parties					(24,155)	(28,905)
Other net assets (liabilities)					787	(3,675)
Total net assets					(15,515)	(18,682)

3. Revenue

Disaggregated revenue information

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

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	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	4,361	-	4,361	4,565	-	4,565
Immunology	2,867	-	2,867	2,814	-	2,814
Neuroscience	2,580	-	2,580	2,244	-	2,244
Haemophilia A	1,163	-	1,163	922	-	922
Ophthalmology	715	-	715	733	-	733
Infectious diseases	72	-	72	149	-	149
Other therapeutic areas	990	-	990	1,090	-	1,090
Sales	12,748	-	12,748	12,517	-	12,517
Royalty income	321	-	321	430	-	430
Royalty income from related parties	2,070	-	2,070	1,952	-	1,952
Income from out-licensing agreements	23	-	23	37	-	37
Income from out-licensing agreements with related parties	1	-	1	10	-	10
Income from disposal of products and other	55	356	411	99	337	436
Royalties and other operating income	2,470	356	2,826	2,528	337	2,865
Diagnostics Division						
Sales by customer area						
Point of Care ^{a)}	954	0	954	283	0	283
Molecular Lab ^{a)}	918	17	935	866	15	881
Core Lab ^{a)}	697	40	737	684	42	726
Pathology Lab	453	20	473	421	15	436
Diabetes Care	248	0	248	312	0	312
Sales	3,270	77	3,347	2,566	72	2,638
Royalty income	3	-	3	4	-	4
Royalty income from related parties	121	-	121	79	-	79
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	124	3	127	83	3	86
Total	18,612	436	19,048	17,694	412	18,106

a) In 2022 sales in the Point of Care customer area included sales from the Liat business (POC molecular), and sales in the Core Lab customer area included sales from the Life Science Alliances business. These were both previously shown as part of the Molecular Lab customer area. The comparative information for 2021 has been restated accordingly. Sales during the six months ended June 30, 2021 were USD 159 million for the POC molecular business and USD 3 million for the Life Science Alliances business.

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,	
	2022	2021
Gross sales	16,227	16,228
Government and regulatory mandatory price reductions	(2,546)	(2,711)
Contractual price reductions	(1,216)	(1,223)
Cash discounts	(64)	(66)
Customer returns reserves	(97)	(113)
Others	(268)	(213)
Net sales to third parties	12,036	11,902
Net sales to related parties	712	615
Net sales	12,748	12,517

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 2.5 billion (six months ended June 30, 2021: USD 2.7 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,	
	2022	2021
Interest expense	(221)	(140)
Amortisation of debt discount ¹⁰	(4)	(4)
Net gains (losses) on redemption and repurchase of bonds and notes ¹⁰	0	0
Discount unwind	(2)	(2)
Net interest cost of defined benefit plans	(17)	(19)
Interest expenses on lease liabilities	(6)	(5)
Total financing costs	(250)	(170)

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

	Six months ended June 30,	
	2022	2021
Net gains (losses) on equity investments / securities at fair value through profit or loss	(9)	22
Interest income from debt securities at fair value through OCI and at amortised cost	0	0
Net foreign exchange gains (losses)	(3)	22
Net other financial income (expense)	(35)	13
Associates	(17)	0
Total other financial income (expense)	(64)	57

Net financial expense *in millions of USD*

	Six months ended June 30,	
	2022	2021
Financing costs	(250)	(170)
Other financial income (expense)	(64)	57
Net financial expense	(314)	(113)
Financial result from Treasury management	(280)	(94)
Financial result from Pension management	(17)	(19)
Associates	(17)	0
Net financial expense	(314)	(113)

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, 2022.

Income tax expenses *in millions of USD*

	Six months ended June 30,	
	2022	2021
Current income taxes	(1,264)	(774)
Deferred taxes	1,152	46
Total income tax (expense)	(112)	(728)

The RHI Group's effective tax rate for the six months ended June 30, 2022 decreased to 4.0% (six months ended June 30, 2021: 22.8%). The main driver for the decrease was the resolution of several tax disputes in the first half of 2022.

6. Mergers and acquisitions

Business combinations – 2022

The RHI Group did not complete any business combination during the six months ended June 30, 2022.

Business combinations – 2021

GenMark Diagnostics, Inc. On April 22, 2021 the RHI Group acquired a 100% controlling interest in GenMark Diagnostics, Inc. ('GenMark'), a publicly owned US company based in Carlsbad, California, that had been listed on Nasdaq. GenMark is reported in the Diagnostics Division. The total consideration was USD 1,865 million, which was paid in cash.

Cash flows from business combinations

Business combinations: net cash outflow in millions of USD

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	0	0	0	0	(1,865)	(1,865)
Deferred consideration paid	0	0	0	0	0	0
Contingent consideration paid	0	0	0	0	0	0
Cash in acquired company	0	0	0	0	15	15
Total net cash outflow	0	0	0	0	(1,850)	(1,850)

Asset acquisitions – 2022

The RHI Group did not complete any asset acquisition during the six months ended June 30, 2022.

Asset acquisitions – 2021

The RHI Group did not complete any asset acquisition during the six months ended June 30, 2021.

Cash flows from asset acquisitions

Asset acquisitions: net cash outflow in millions of USD

	Six months ended June 30, 2022			Six months ended June 30, 2021		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	0	0	0	0	0	0
Cash in acquired company	0	0	0	0	0	0
Contingent payments related to previous acquisitions	0	(44)	(44)	(40)	(75)	(115)
Total net cash outflow	0	(44)	(44)	(40)	(75)	(115)

For asset acquisitions previously closed the RHI Group recorded additions to product intangible assets related to contingent payments for the achievement of performance-related milestones of USD 44 million (six months ended June 30, 2021: USD 40 million). During the six month ended June 30, 2021 the RHI Group made contingent payments of USD 75 million related to product intangible assets recognised already at December 31, 2020.

7. Goodwill

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

Six months ended June 30, 2022

At January 1, 2022	10,053
Business combinations	0
At June 30, 2022	10,053

Allocated by operating segment

Pharmaceuticals	5,896
Diagnostics	4,157
Total RHI Group	10,053

Impairment charges - 2022

There were no impairments of goodwill during the six months ended June 30, 2022.

Impairment charges - 2021

There were no impairments of goodwill during the six months ended June 30, 2021.

8. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Other intangibles	Total
Six months ended June 30, 2022				
At January 1, 2022	5,479	3,911	486	9,876
Asset acquisitions	0	44	0	44
Additions	36	34	0	70
Disposals	0	(15)	0	(15)
Transfers	41	(41)	0	-
Amortisation charge	(394)	-	(28)	(422)
Impairment charge	(357)	(91)	0	(448)
Currency translation effects	0	0	0	0
At June 30, 2022	4,805	3,842	458	9,105
Allocated by operating segment				
Pharmaceuticals	3,406	3,450	436	7,292
Diagnostics	1,399	392	22	1,813
Total RHI Group	4,805	3,842	458	9,105

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

Six months ended June 30,	Amortisation		Impairment	
	2022	2021	2022	2021
Cost of sales				
- Pharmaceuticals	(193)	(632)	(356)	0
- Diagnostics	(103)	(88)	0	0
Marketing and distribution				
- Pharmaceuticals	(1)	(2)	0	0
- Diagnostics	(6)	(3)	0	0
Research and development				
- Pharmaceuticals	(118)	(110)	(92)	(119)
- Diagnostics	(1)	(5)	0	0
Total	(422)	(840)	(448)	(119)

Impairment charges – 2022

Pharmaceuticals Division. Impairment charges totalling USD 448 million were recorded which related mainly to:

- A charge of USD 356 million for the partial impairment of the product intangible asset relating to the technology acquired as part of the Flatiron acquisition. The impairment is a result of reduced sales expectations. The asset concerned was written down to its estimated recoverable amount of USD 64 million. The intangible asset continues to be amortised over its remaining estimated useful life of ten years.
- A charge of USD 91 million following a clinical data assessment and the decision to stop the development of NLRP3 inhibitors, acquired as part of the Jecure Therapeutics acquisition. The asset concerned, which was not yet being amortised, was fully written down.

Impairment charges – 2021

Pharmaceuticals Division. Impairment charges totalling USD 119 million were recorded which related mainly to:

- A charge of USD 42 following a clinical data assessment. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 41 million due to the decision to stop the development of a compound with an alliance partner. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of USD 20 million due to the decision to stop a collaboration project with an alliance partner. The asset concerned, which was being amortised, was fully written down.
- A charge of USD 13 million due to the decision to stop a collaboration project with an alliance partner following a data assessment. The asset concerned, which was not yet being amortised, was fully written down.

9. Provisions and contingent liabilities

Provisions in millions of USD

	June 30, 2022	December 31, 2021
Legal provisions	293	310
Environmental provisions	123	128
Restructuring provisions	176	217
Contingent consideration provisions ¹³	42	69
Other provisions	773	743
Total provisions	1,407	1,467
Current	1,134	1,105
Non-current	273	362
Total provisions	1,407	1,467

During the six months ended June 30, 2022 USD 159 million of provisions were utilised (six months ended June 30, 2021: USD 247 million). This amount is entirely included in the cash flow from operating activities and mainly relates to the utilisation of restructuring and other provisions.

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

Meso litigation. On April 8, 2022 the US Court of Appeal issued its ruling. It reversed the induced infringement decision and vacated the damages award. The US Court of Appeal also affirmed that Roche directly infringed one patent and vacated the District Court's decision on December 23, 2020 of non-infringement of three other patents. The case is remanded back to the District Court for a new damages trial. The RHI Group is vigorously defending itself in this matter.

University of Pennsylvania litigation. On January 31, 2022 the University of Pennsylvania filed a patent litigation action in the US against Genentech, Inc. ("Genentech") based on a claim that Herceptin, Perjeta, Phesgo, and Herceptin Hylecta would infringe their US Patent No. 7,625,558 (the '558 patent). According to the complaint, the '558 patent generally relates to methods of treating ErbB (HER2) protein-mediated cancer tumours by administering a compound that inhibits the formation of ErbB (HER2). Genentech filed a partial motion to dismiss University of Pennsylvania's claims of wilfulness on March 24, 2022, which is still pending. 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 19 to the Annual Financial Statements. These do not significantly affect the assessment of the RHI Group's management concerning the adequacy of the total provisions recorded for legal matters.

10. Debt

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

Six months ended June 30, 2022

At January 1, 2022	42,916
Proceeds from issue of bonds and notes	4,994
Redemption and repurchase of bonds and notes	0
Proceeds from issue of related party debt	0
Repayment of related party debt	(4,750)
Increase (decrease) in commercial paper	1,909
Increase (decrease) in other debt	0
Changes from financing cash flows	2,153
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	0
Currency translation effects	0
Changes in foreign exchange rates	0
At June 30, 2022	45,073
Bonds and notes	18,460
Commercial paper	2,456
Amounts due to related parties ¹⁴	24,155
Other borrowings	2
Total debt	45,073
Long-term debt	38,842
Short-term debt	6,231
Total debt	45,073

Unamortised discount included in the carrying value of bonds and notes at June 30, 2022 was USD 80 million (June 30, 2021: USD 62 million).

Issuance of bonds and notes - 2022

On March 10, 2022 the RHI Group completed an offering of USD 1.25 billion fixed rate notes with a coupon of 1.882%, USD 1.0 billion fixed rate notes with a coupon of 2.132% and USD 1.25 billion fixed rate notes with a coupon of 2.314%. The notes will mature on March 8, 2024, March 10, 2025 and March 10, 2027, respectively. The RHI Group received USD 3,495 million aggregate net proceeds from the issuance and sale of these fixed rate notes.

Also on March 10, 2022 the RHI Group completed an offering of USD 0.75 billion floating rate notes at a rate equal to SOFR plus a margin of 0.33% and USD 0.75 billion floating rate notes at a rate equal to SOFR plus a margin of 0.56%. The notes will mature on September 11, 2023 and March 10, 2025, respectively. The RHI Group received USD 1,499 million aggregate net proceeds from the issuance and sale of these floating rate notes.

Issuance of bonds and notes - 2021

On March 5, 2021 the RHI Group completed an offering of USD 0.5 billion and USD 0.65 billion fixed rate notes with a coupon of 0.45% and 0.991%, respectively. The notes will mature on March 5, 2024 and March 5, 2026, respectively. The RHI Group received USD 1,148 million aggregate net proceeds from the issuance and sale of these fixed rate notes.

Also on March 5, 2021 the RHI Group completed an offering of USD 0.35 billion floating rate notes at a rate equal to SOFR plus a margin of 0.24%. The notes will mature on March 5, 2024. The RHI Group received USD 350 million aggregate net proceeds from the issuance and sale of these floating rate notes.

Redemption and repurchase of bonds and notes – 2022

During the six months ended June 30, 2022 the RHI Group did not redeem or repurchase any bonds or notes.

Redemption and repurchase of bonds and notes – 2021

On the due date of March 4, 2021 the RHI Group redeemed notes with an outstanding amount of EUR 1.14 billion. The effective interest rate of these notes was 6.66%. The cash outflow was USD 1,376 million and there was no gain or loss recorded on the redemption.

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, 2022. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At June 30, 2022 unsecured commercial paper notes with a principal amount of USD 2.5 billion and an average interest rate of 1.32% were outstanding (December 31, 2021: USD 0.5 billion and an average interest rate of 0.08%).

Movements in commercial paper obligations *in millions of USD*

Six months ended June 30, 2022	
At January 1, 2022	547
Net cash proceeds (payments)	1,909
At June 30, 2022	2,456

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, 2022	
At January 1, 2022	28,905
Proceeds from issue of related party debt	0
Repayment of related party debt	(4,750)
At June 30, 2022	24,155

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,	
	2022	2021
Term note 0.14% issued March 4, 2021	-	1,500
Term note 0.16% issued April 6, 2021	-	1,500
Term note 0.16% issued April 22, 2021	-	1,000
Term note 0.16% issued April 23, 2021	-	500
Term note 2.82% issued May 6, 2021	-	1,500
Term note 0.17% issued May 13, 2021	-	500
Term note 0.17% issued May 17, 2021	-	1,000
Term note 2.82% issued May 21, 2021	-	1,500
Term note 0.17% issued June 11, 2021	-	500
Term note 0.17% issued June 17, 2021	-	500
Term note 0.17% issued June 25, 2021	-	500
Term note 1.9% issued February 3, 2021	-	250
Total	0	10,750

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

Cash outflows to related parties *in millions of USD*

	Six months ended June 30,	
	2022	2021
Term note 3.13% due March 10, 2022	(1,000)	-
Term note 3.48% due March 10, 2022	(1,000)	-
Term note 2.54% due March 10, 2022	(750)	-
Term note 2.7% due March 10, 2022	(500)	-
Term note 2.82% due March 10, 2022	(1,500)	-
Term note 0.14% due April 6, 2021	-	(1,500)
Term note 0.16% due May 6, 2021	-	(1,500)
Term note 2.09% due May 17, 2021	-	(1,000)
Term note 0.16% due May 21, 2021	-	(1,000)
Term note 0.16% due May 21, 2021	-	(500)
Term note 0.17% due June 11, 2021	-	(500)
Term note 0.17% due June 17, 2021	-	(1,000)
Total	(4,750)	(7,000)

11. 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, 2022 the RHI Group had a negative equity of USD 15.5 billion (December 31, 2021: USD 18.7 billion). The capacity of the RHI Group to generate positive cash flows and operating profit is not affected by this accounting treatment.

Share capital

At June 30, 2022 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 2022. All shares are indirectly owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

During the six months ended June 30, 2022 no dividends were declared or paid.

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 2,693 million (six months ended June 30, 2021: USD 2,459 million), retained earnings also includes gains on remeasurements of defined benefit plans of USD 47 million, after tax (six months ended June 30, 2021: gains of USD 159 million, after tax). These were based on updated actuarial calculations for major plans and the net gains were due to a change in the discount rate, partly offset by a negative performance of plan assets since the end of 2021.

12. Statement of cash flows

Cash generated from operations *in millions of USD*

	Six months ended June 30,	
	2022	2021
Net income	2,691	2,458
Add back non-operating (income) expense		
- Financing costs ⁴	250	170
- Financing costs – related parties ¹⁴	512	559
- Other financial (income) expense ⁴	64	(57)
- Other financial (income) expense – related parties ¹⁴	(3)	23
- Income taxes ⁵	112	728
Operating profit	3,626	3,881
Depreciation of property, plant and equipment	404	366
Depreciation of right-of-use assets	56	49
Amortisation of intangible assets	422	840
Impairment of intangible assets	448	119
Impairment (reversal) of property, plant and equipment	0	(195)
Impairment of right-of-use assets	0	0
Operating (income) expense for defined benefit plans	58	61
Operating expense for equity-settled equity compensation plans	268	265
Net (income) expense for provisions	94	265
Bad debt (reversal) expense	5	1
Inventory write-downs	(2)	76
Inventory fair value adjustments	0	12
Net (gain) loss on disposal of products	(55)	(99)
Other adjustments	(17)	(39)
Cash generated from operations	5,307	5,602

13. Financial risk management

The RHI Group's financial risk management objectives and policies are consistent with those disclosed in Note 28 to the Annual Financial Statements. 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 Roche Finance Ltd. in its function as corporate cash pool leader for numerous Roche affiliates (see Note 14) 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, 2022				
Marketable securities				
- Equity securities at fair value through profit or loss	1	-	-	1
- Debt securities at fair value through OCI	0	0	-	0
Equity investments at fair value through OCI	52	0	-	52
Equity investments at fair value through profit or loss	5	14	-	19
Financial assets recognised at fair value	58	14	-	72
Contingent consideration	-	-	(42)	(42)
Financial liabilities recognised at fair value	-	-	(42)	(42)

At June 30, 2022 Level 1 financial assets consist of quoted shares. Level 2 financial assets consist of equity investments.

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

- 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, 2022.

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, 2022

At January 1, 2022	(69)
Utilised for settlements	0
Total gains and losses included in the income statement	
- Unused amounts reversed – recorded within general and administration	28
- Additional amounts created – recorded within general and administration	0
- Discount unwind included in financing costs	(1)
At June 30, 2022	(42)

Contingent consideration arrangements

The RHI Group is party to certain contingent consideration arrangements, including those from business combinations. 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 2.9% at June 30, 2022 (December 31, 2021: 2.9%). 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, 2022 the total payments under contingent consideration arrangements arising from business combinations could be up to USD 0.2 billion (December 31, 2021: USD 0.2 billion). At June 30, 2022 the remaining provision of USD 42 million has been reclassified from non-current to current contingent consideration provisions.

Carrying value and fair value

At June 30, 2022 the carrying value of bonds and notes is USD 18.5 billion compared to a fair value of USD 17.5 billion and the carrying value of total debt is USD 45.1 billion compared to a fair value of USD 44.1 billion. The carrying values of financial assets are a reasonable approximation of the fair values at June 30, 2022.

14. 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,	
	2022	2021
Sales	1,299	1,138
Royalty income	2,191	2,031
Income from out-licensing agreements	1	10
Purchases of pharmaceutical products and materials	(5,272)	(3,893)
Purchases of diagnostic instruments, reagents and consumables	(790)	(414)
Transfers of intangible assets from related parties	35	41
Transfers of intangible assets to related parties	(15)	(63)
Payments issued under marketing and distribution cost-sharing and collaboration agreements	(198)	(188)
Reimbursements received under marketing and distribution cost-sharing and collaboration agreements	129	99
Payments issued under research and development cost-sharing and collaboration agreements	(931)	(845)
Reimbursements received under research and development cost-sharing and collaboration agreements	385	323
Services rendered	48	63
Services received	(111)	(137)
Other income (expense)	7	6
Financing costs – related parties		
Interest expense	(491)	(542)
Guarantee fees	(21)	(17)
Total financing costs – related parties	(512)	(559)
Other financial income (expense) – related parties		
Net gains (losses) on foreign currency derivatives	0	(25)
Other financial income (expense)	3	2
Total other financial income (expense) – related parties	3	(23)

Related party balances *in millions of USD*

	June 30, 2022	December 31, 2021
Other current assets	0	109
Accounts receivable	3,600	1,745
- of which derivative financial assets	0	0
Total receivable – related parties	3,600	1,854
Long-term debt	(20,380)	(25,505)
Short-term debt	(3,775)	(3,400)
Total debt – related parties	(24,155)	(28,905)
Other non-current liabilities	(97)	(313)
Other current liabilities	(977)	(1,771)
Accounts payable	(2,745)	(3,016)
- of which derivative financial liabilities	0	0
- of which interest payables	(295)	(346)
Total payable – related parties	(3,819)	(5,100)

Accounts receivable from related parties include cash pool receivables of USD 1.9 billion with Roche Finance Ltd in its function as corporate cash pool leader for numerous Roche affiliates (December 31, 2021: cash pool payables of USD 1.7 billion). Cash pool balances with Roche Finance Ltd bear variable interest referenced to SOFR for USD, ESTR for EUR, SARON for CHF, SONIA for GBP, TONAR for JPY and for all other currencies to a one month money market interest rate of the respective currency. Surplus funds deposited with Roche Finance Ltd are immediately available.



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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 2022 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 7 to 28. 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 2022 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

François Rouiller
Licensed Audit Expert

Basel, 22 July 2022