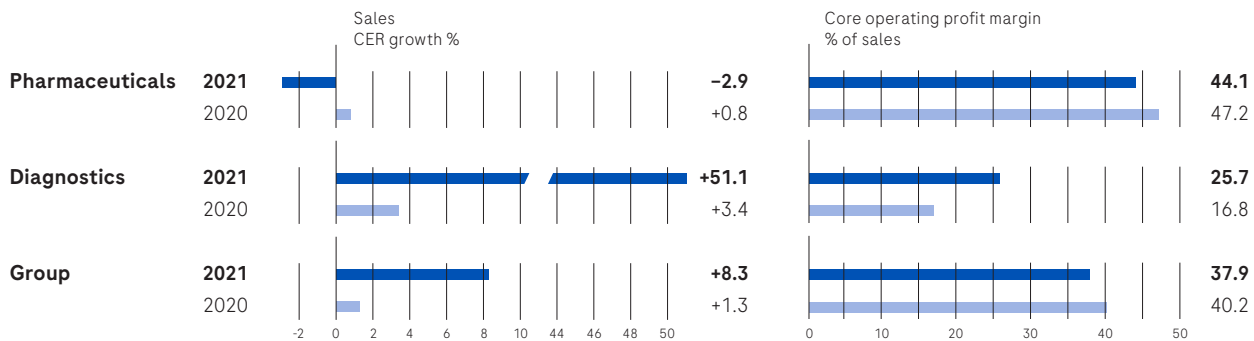




HALF-YEAR REPORT 2021

Finance in Brief

Key interim results



	Six months ended 30 June 2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)	% of sales (2021)	% of sales (2020)
IFRS results						
Sales	30,713	29,281	+5	+8		
Operating profit	10,077	10,638	-5	-1	32.8	36.3
Net income	8,216	8,465	-3	+2	26.8	28.9
Net income attributable to Roche shareholders	7,803	8,079	-3	+2	25.4	27.6
Diluted EPS (CHF)	9.05	9.32	-3	+2		
Core results						
Research and development	6,690	5,787	+16	+19	21.8	19.8
Core operating profit	11,652	11,766	-1	+4	37.9	40.2
Core EPS (CHF)	10.56	10.44	+1	+6		
Free cash flow						
Operating free cash flow	8,117	5,036	+61	+71	26.4	17.2
Free cash flow	6,038	3,274	+84	+99	19.7	11.2

	30 June 2021 (CHF m)	31 December 2020 (CHF m)	% change (CHF)	% change (CER)
Net debt	(6,994)	(1,882)	+272	+204
Capitalisation	56,444	53,989	+5	+3
- Debt	15,011	14,216	+6	+2
- Equity	41,433	39,773	+4	+3

CER (Constant Exchange Rates): The percentage changes at Constant Exchange Rates are calculated using simulations by reconsolidating both the 2021 and 2020 results at constant exchange rates (the average rates for the year ended 31 December 2020). For the definition of CER see page 78.

Core results and Core EPS (earnings per share): These exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets. This allows an assessment of both the actual results and the underlying performance of the business. A full income statement for the Group and the operating results of the divisions are shown on both an IFRS and core basis. The core concept is fully described on pages 71–74 and reconciliations between the IFRS and core results are given there.

Free cash flow is used to assess the Group's ability to generate the cash required to conduct and maintain its operations. It also indicates the Group's ability to generate cash to finance dividend payments, repay debt and to undertake merger and acquisition activities. The free cash flow concept is used in the internal management of the business. The free cash flow concept is fully described on pages 74–76 and reconciliations between the IFRS cash flow and free cash flow are given there.

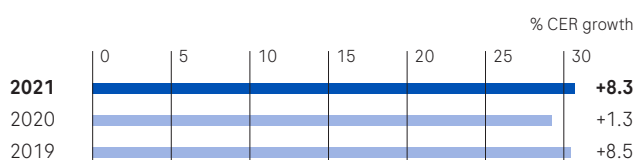
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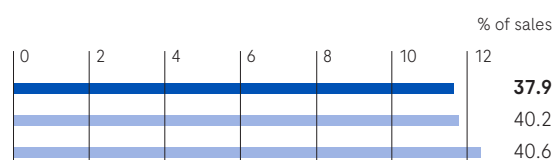
Financial Review

Group results

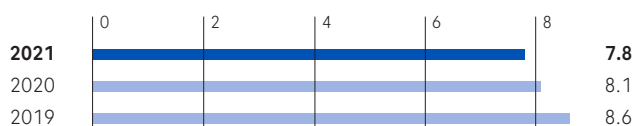
Sales in billions of CHF



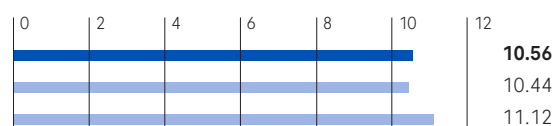
Core operating profit in billions of CHF



Net income attributable to Roche shareholders in billions of CHF



Core EPS in CHF



In the first half of 2021 the Roche Group achieved sales growth of 8% at constant exchange rates (CER) and core operating profit growth of 4%. IFRS net income increased by 2% while Core EPS increased by 6%. The appreciation of the Swiss franc against most currencies had an adverse net impact on the results expressed in Swiss francs compared to constant exchange rates of 3 percentage points on sales and 5 percentage points on core operating profit, IFRS net income and Core EPS.

The 8% sales growth in CER was driven by the Diagnostics Division, where there was continued growth in the sales of COVID-19-related products coupled with a rebound in routine testing across all regions as pandemic measures eased. In the Pharmaceuticals Division sales were lower due to biosimilar competition, notably in the US, although the continuing uptake of new medicines has helped to compensate for this. The core operating profit growth of 4% reflects the sales growth, together with increased cost of sales, due to the increasing proportion of diagnostics sales in the overall sales mix, as well as an increase of 19% in research and development costs in the Pharmaceuticals Division.

Core EPS increased by 6% in CER (1% increase in Swiss franc terms), supported by the results from treasury operations. IFRS net income increased by 2% (3% decline in Swiss franc terms) due to the increase in spending on restructurings and the base effect of income from the release of litigation provisions in the first half of 2020. Operating free cash flow was CHF 8.1 billion, an increase of 71%, due to the base effect of the significant increases in net working capital and spending on in-licensing and alliance arrangements in the first half of 2020. The free cash flow was CHF 6.0 billion, an increase of 99%, as a result of the growth in the operating free cash flow. The acquisition of GenMark was completed for CHF 1.7 billion.

Divisional operating results for the six months ended 30 June 2021

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
Sales	21,671	9,042	-	30,713
Core operating profit	9,562	2,324	(234)	11,652
- margin, % of sales	44.1	25.7	-	37.9
Operating profit	8,313	2,046	(282)	10,077
- margin, % of sales	38.4	22.6	-	32.8
Operating free cash flow	7,282	1,178	(343)	8,117
- margin, % of sales	33.6	13.0	-	26.4

Divisional operating results – Development of results compared to the six months ended 30 June 2020

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales				
– % change at CER	–3	+51	–	+8
Core operating profit				
– % change at CER	–8	+137	+7	+4
– margin: percentage point change	–2.7	+9.3	–	–1.7
Operating profit				
– % change at CER	–13	+147	+10	–1
– margin: percentage point change	–4.5	+8.8	–	–3.0
Operating free cash flow				
– % change at CER	+41	–	–8	+71
– margin: percentage point change	+10.6	+14.2	–	+9.8

In the first six months of 2021 the COVID-19 pandemic continued to affect sales across the whole business as described in the following section on ‘Impact of the COVID-19 pandemic’. Sales in the Pharmaceuticals Division were CHF 21.7 billion (2020: CHF 23.2 billion), a decrease of 3% at CER, which was driven by biosimilar competition, notably in the US. Despite this, there was growing demand for new medicines, including Ronapreve, Ocrevus, Hemlibra, Tecentriq, Evrysdi and Kadcyla, which together contributed an additional CHF 2.3 billion (CER) of new sales. Overall, the COVID-19 pandemic continued to have a negative impact on the division’s sales due to reduced hospitalisations and outpatient visits remaining lower than they would otherwise have been.

The Diagnostics Division reported sales of CHF 9.0 billion, an increase of 51% at CER. The growth is mainly due to sales of COVID-19-related products, notably the cobas SARS-CoV-2 PCR test and the SARS-CoV-2 Rapid Antigen test. Total sales of all the COVID-19-related tests (at CER) were CHF 2.5 billion (2020: CHF 0.7 billion). Routine testing, which was greatly affected by the pandemic during 2020, rebounded across all regions in the first half of 2021. As a direct result, sales grew in all regions, notably in the Europe, Middle East and Africa region, which reported sales growth of 70%, and in the Asia-Pacific region, where the growth was 44%.

The Pharmaceuticals Division’s core operating profit decreased by 8% at CER, below the sales decline of 3%, mainly due to an increase in research and development costs. Royalty and other operating income increased by CHF 0.4 billion due to higher income from the disposal of products than in the comparative period. Cost of sales decreased by 4% primarily due to the reversal of an idle-plant impairment. Marketing and distribution costs decreased by 6% as a result of transformations and reduced spending due to the COVID-19 pandemic. Research and development costs grew by 19%, with the growth mostly driven by late-stage investments in oncology, ophthalmology and personalised healthcare. In addition there were COVID-19-related investments, notably for the co-development of Ronapreve with Regeneron, and there were investments across the research and development activities, including investing in increased capabilities in China.

In the Diagnostics Division, core operating profit increased by 137% at CER to CHF 2.3 billion, ahead of the sales growth of 51%. While cost of sales grew by 51%, in line with the sales growth, marketing and distribution costs increased by 8% due to higher spending on distribution costs for COVID-19-related products. Research and development costs increased by 16% due to increased spending on COVID-19-related projects and the development of new instruments within the Core Lab customer area. Additionally, the acquisition of GenMark was completed in the first half of 2021 for CHF 1.7 billion in cash.

The IFRS operating profit decreased by 13% (CER) in the Pharmaceuticals Division, due to increased spending on global restructuring plans and the base effect of a release of litigation provisions in 2020, and increased by 147% (CER) in the Diagnostics Division. The 2021 interim results include CHF 1.0 billion for the amortisation and impairment of intangible assets and CHF 0.5 billion of expenses from global restructuring plans.

Financing costs decreased by 23% (CER) on an IFRS basis to CHF 0.2 billion mainly due to lower interest expenses attributable to the repayment of debt in March 2021. The Group's effective core tax rate increased to 16.9% compared to 16.5% in the first half of 2020. The increase was mainly due to the impact from the resolution of several tax disputes which reduced the Group's effective core tax rate by 1 percentage point in the first half of 2021 compared to 2 percentage points in the first half of 2020. This increase was partially offset by the higher percentage of core profit contribution coming from tax jurisdictions with lower tax rates than the average Group tax rate.

Net income increased by 2% at CER on an IFRS basis to CHF 8.2 billion and increased by 6% on a core basis to CHF 9.5 billion, driven in both cases by the higher sales. The amount of net income attributable to non-controlling interests increased by 10% on both an IFRS and core basis due to the performance of Chugai.

Operating free cash flow was CHF 8.1 billion, an increase of 71% at CER. This was due to the base effect of the significant increases in net working capital and spending on in-licensing and alliance arrangements in the first half of 2020. The increase in net working capital in the prior period was driven by the temporarily extended payment terms in the US for certain trade receivables in the first half of 2020 and the settlement of payables and accrual positions recorded at the end of 2019. The free cash flow of CHF 6.0 billion, an increase of 99% at CER, was a result of the growth in the operating free cash flow partly offset by the base effect of the deferral of provisional 2020 US federal tax payments in the first half of 2020.

Income statement

	Six months ended 30 June		% change	% change
	2021	2020	(CHF)	(CER)
	(CHF m)	(CHF m)		
IFRS results				
Sales	30,713	29,281	+5	+8
Royalties and other operating income	1,420	1,097	+29	+35
Revenue	32,133	30,378	+6	+9
Cost of sales	(8,992)	(7,785)	+16	+18
Marketing and distribution	(4,489)	(4,572)	-2	+1
Research and development	(7,110)	(6,345)	+12	+15
General and administration	(1,465)	(1,038)	+41	+43
Operating profit	10,077	10,638	-5	-1
Financing costs	(211)	(286)	-26	-23
Other financial income (expense)	21	(171)	-	-
Profit before taxes	9,887	10,181	-3	+2
Income taxes	(1,671)	(1,716)	-3	+2
Net income	8,216	8,465	-3	+2
Attributable to				
- Roche shareholders	7,803	8,079	-3	+2
- Non-controlling interests	413	386	+7	+10
EPS - Basic (CHF)	9.14	9.45	-3	+1
EPS - Diluted (CHF)	9.05	9.32	-3	+2
Core results^{a)}				
Sales	30,713	29,281	+5	+8
Royalties and other operating income	1,420	1,097	+29	+35
Revenue	32,133	30,378	+6	+9
Cost of sales	(8,237)	(7,079)	+16	+19
Marketing and distribution	(4,292)	(4,515)	-5	-2
Research and development	(6,690)	(5,787)	+16	+19
General and administration	(1,262)	(1,231)	+3	+5
Operating profit	11,652	11,766	-1	+4
Financing costs	(207)	(280)	-26	-23
Other financial income (expense)	21	(171)	-	-
Profit before taxes	11,466	11,315	+1	+6
Income taxes	(1,939)	(1,872)	+4	+8
Net income	9,527	9,443	+1	+6
Attributable to				
- Roche shareholders	9,104	9,049	+1	+6
- Non-controlling interests	423	394	+7	+10
Core EPS - Basic (CHF)	10.66	10.58	+1	+5
Core EPS - Diluted (CHF)	10.56	10.44	+1	+6

a) See pages 71-74 for definition of core results and Core EPS.

Impact of the COVID-19 pandemic

Revenues. The COVID-19 pandemic had an impact on the Group's revenues, both on the absolute amounts and in the phasing during 2020. The following factors affected sales across the whole portfolio in the Pharmaceuticals and Diagnostics Divisions, although the impact varied by product and by geography:

- 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 in the first quarter of 2020 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 in certain countries. This recovery continued through the third quarter of 2020, but the reimposition of restrictions in many countries in the fourth quarter then had a negative effect on the recovery.

Quarterly development of 2020 sales compared to 2019 year-on-year growth in % at CER

	Q1	Q2	Half Year	Q3	Q4	Full Year
Pharmaceuticals Division	+7	-6	+1	-4	-7	-2
Diagnostics Division	+5	+2	+3	+18	+28	+14
Roche Group	+7	-4	+1	+1	+1	+1

In 2021 the pandemic continued to have a negative impact overall on the Pharmaceuticals Division's sales, especially for medicines where regular visits to hospitals or health practices are needed, for example for infusions or injections. This was partly compensated by additional sales of Actemra/RoActemra, which has received US FDA Emergency Use Authorization for the treatment of COVID-19 in hospitalised adults and children. First sales were reported of Ronapreve, an investigational neutralising antibody combination developed with Regeneron. The Diagnostics Division's sales growth was due to the comprehensive portfolio of COVID-19-related tests and a global recovery in routine diagnostic testing. The sales of the various COVID-19-related diagnostic tests in the first half of 2021 was CHF 2.5 billion (CER) compared to CHF 0.7 billion in the first half of 2020.

Quarterly development of 2021 sales compared to 2020 year-on-year growth in % at CER

	Q1	Q2	Half Year	Q3	Q4	Full Year
Pharmaceuticals Division	-9	+4	-3	-	-	-
Diagnostics Division	+55	+48	+51	-	-	-
Roche Group	+3	+14	+8	-	-	-

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 Group is continually monitoring the situation.

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 Group is continuously monitoring all ongoing studies, both in terms of missed doses and overall data integrity.

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 the various impacts were partly offsetting. While some additional costs were incurred for areas such as IT infrastructure and distribution costs, there was less spending on marketing activities, including lower travel costs and reduced attendance at congresses.

Core results. The Group has not made any changes to its core results concept as a result of the COVID-19 pandemic. The specific COVID-19-related impacts referred to above are included in both the IFRS and core results. It should be noted that the core results exclude non-core items such as global restructuring plans and amortisation and impairment of goodwill and intangible assets, regardless of the cause.

Competition from biosimilar 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.

MabThera/Rituxan, Herceptin and Avastin. The Group's basic, primary patents for these three products have expired worldwide. The secondary patent rights for subcutaneous formulations of MabThera/Rituxan and Herceptin expire beyond 2025. Interim sales, including regional breakdowns, for MabThera/Rituxan, Herceptin and Avastin are disclosed below in the Pharmaceuticals Division's operating results and these are 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. Biosimilar competition is only one factor in the overall picture. Interim sales for these three products were CHF 2.8 billion lower (CER) than in the prior period, a decline of 39%.

Total interim MabThera/Rituxan, Herceptin and Avastin sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% divisional sales (2021)	% divisional sales (2020)
United States	1,733	3,598	-49	8.0	15.5
Europe	668	1,359	-52	3.1	5.9
Japan	393	473	-12	1.8	2.0
International	1,626	2,045	-19	7.5	8.8
Total sales	4,420	7,475	-39	20.4	32.2

The first biosimilar versions of Herceptin and Avastin were launched in the US from mid-2019 and the first biosimilar versions of MabThera/Rituxan in late 2019. US sales of these three products were also affected by the COVID-19 pandemic which had a certain impact on the overall market, particularly for MabThera/Rituxan.

In Europe the first biosimilar versions of MabThera/Rituxan and Herceptin were launched from mid-2017 and from mid-2018, respectively, and are now marketed in most EU countries. The first biosimilar versions of Avastin came to market in Europe from mid-2020 and were the major factor in the 69% decrease in Avastin sales in Europe in the first half of 2021 relative to the first half of 2020.

The first biosimilar versions of MabThera/Rituxan and Herceptin were launched in Japan in 2018. Biosimilar versions of Avastin were launched in late 2019 in the colorectal cancer indication and in 2020 in the non-small cell lung cancer indication. Sales of these three products were impacted by government price cuts as well as biosimilar competition.

In the International region, biosimilar versions of all three products have been launched in many countries and this, together with the impacts of the COVID-19 pandemic and regular price and volume changes, has led to the decline in sales. Sales of MabThera/Rituxan were 27% lower and Herceptin sales were down 19%. Avastin sales were 12% lower as the biosimilar penetration in the International region for this product has been less advanced.

Lucentis. The Group's basic, primary patents have expired in the US. Based on publicly available information from competitor companies, the Group currently anticipates that the first biosimilar versions of Lucentis could come to the market in the US towards the end of 2021. Interim US sales of Lucentis were CHF 665 million (2020: CHF 728 million) and were also affected by the COVID-19 pandemic.

Mergers and acquisitions

GenMark. On 22 April 2021 the 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 provides multiplex molecular diagnostic solutions that are designed to detect multiple pathogens from a single patient sample. The addition of GenMark's proprietary multiplex technology complements the Group's diagnostic offering, addressing a broad range of infectious disease testing needs, including respiratory and bloodstream infections. GenMark is reported in the Diagnostics Division. The total consideration was USD 1.9 billion (equivalent to CHF 1.7 billion), which was paid in cash.

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

Alliance transactions

In the first half of 2021 in-licensing and alliance transactions resulted in intangible assets of CHF 0.3 billion (2020: CHF 1.3 billion) being recognised, mainly for payments made based upon the achievement of performance-related milestones for transactions completed in previous years.

Global restructuring plans

During the first half of 2021 the Group expanded the implementation of various global restructuring plans initiated in prior years, including an organisational transformation in the Diagnostics Division and various resourcing optimisation initiatives in the Pharmaceuticals Division.

Global restructuring plans: costs incurred for the six months ended 30 June 2021 in millions of CHF

	Diagnostics	Site consolidation	Other plans	Total
Global restructuring costs				
- Employee-related costs	107	23	276	406
- Site closure costs	31	5	19	55
- Divestments of products and businesses	0	0	0	0
- Other reorganisation expenses	25	1	24	50
Total global restructuring costs	163	29	319	511
Additional costs				
- Impairment of goodwill	0	0	0	0
- Impairment of intangible assets	0	0	0	0
- Legal and environmental cases	0	0	0	0
Total costs	163	29	319	511

Diagnostics Division. Strategy plans in the Diagnostics Division incurred costs of CHF 115 million, mainly for employee-related costs.

Other global restructuring plans. Employee-related costs mainly come from initiatives in the Pharmaceuticals Division and the outsourcing of IT and other functions to shared service centres and external providers.

Impairment of goodwill and intangible assets

There were intangible asset impairment charges of CHF 165 million in the Pharmaceuticals Division. The major item related to a charge of CHF 76 million to fully write down an asset following a clinical data assessment. There were no impairments in the Diagnostics Division. Further details are given in Note 9 to the Interim Financial Statements.

Legal and environmental cases

There were no significant developments in the first half of 2021. Further details are given in Note 10 to the Interim Financial Statements.

Net income and earnings per share

IFRS net income decreased by 3% in CHF terms and increased by 2% at CER while Core EPS increased by 6% at CER and by 1% in CHF. The core basis excludes non-core items such as global restructuring costs, amortisation and impairment of goodwill and intangible assets, and mergers and acquisitions and alliance transactions. The amount of net income attributable to non-controlling interests increased by 10% on both an IFRS and core basis due to the performance of Chugai.

Net income

	Six months ended 30 June 2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
IFRS net income	8,216	8,465	-3	+2
Reconciling items (net of tax)				
- Global restructuring	405	206	+97	+98
- Intangible asset amortisation	716	733	-2	+2
- Goodwill and intangible asset impairment	134	267	-50	-47
- Mergers and acquisitions and alliance transactions	31	27	+15	+21
- Legal and environmental cases	27	(250)	-	-
- Pension plan settlements	0	(2)	-100	-100
- Normalisation of equity compensation plan tax benefit	(2)	(3)	-33	-27
Core net income	9,527	9,443	+1	+6

Supplementary net income and EPS information is given on pages 71 to 74. This includes calculations of Core EPS and reconciles the core results to the Group's published IFRS results.

Financial position

Financial position

	30 June 2021 (CHF m)	31 December 2020 (CHF m)	% change (CHF)	% change (CER)
Pharmaceuticals				
Net working capital	3,592	2,454	+46	+46
Long-term net operating assets	31,987	31,017	+3	+1
Diagnostics				
Net working capital	4,180	2,977	+40	+39
Long-term net operating assets	12,800	10,787	+19	+16
Corporate				
Net working capital	(151)	(229)	-34	-35
Long-term net operating assets	75	43	+74	+66
Net operating assets	52,483	47,049	+12	+9
Net debt	(6,994)	(1,882)	+272	+204
Lease liabilities	(1,225)	(1,195)	+3	0
Pensions	(5,551)	(6,864)	-19	-21
Income taxes	1,947	1,576	+24	+20
Other non-operating assets, net	773	1,089	-29	-29
Total net assets	41,433	39,773	+4	+3

Compared to the start of the year the Swiss franc depreciated against most currencies, with the US dollar having a significant effect on the Group's net operating assets. This positive translation effect was partially compensated by the appreciation of the Swiss franc against the Japanese yen and by the natural hedge from the Group's US dollar-denominated debt. The exchange rates used are given on page 31.

Net working capital increased significantly in both divisions. In the Pharmaceuticals Division the trade receivables increase was due to higher sales in the second quarter of 2021 compared to the last quarter in 2020 and impacted by a shift in the sales portfolio to products with longer payment terms. The increase in inventories was driven by supply of new products, notably Ronapreve, and by ensuring supply resilience. In the Diagnostics Division inventories increased due to the ongoing rollout of COVID-19-related products and trade receivables increased as a result of the sales growth.

The increase in net debt was due to dividend payments of CHF 8.0 billion and acquisition payments of CHF 1.9 billion, partly offset by the free cash flow of CHF 6.0 billion. The net pension liability was 21% lower at CER following increases in discount rates. The net tax assets increased mainly due to the timing of tax payments and the net deferred tax impacts from intangible assets, equity compensation plans and the pension liability. The lease liabilities remained stable at CHF 1.2 billion.

Free cash flow

Free cash flow

	Six months ended 30 June			
	2021	2020	% change	% change
	(CHF m)	(CHF m)	(CHF)	(CER)
Pharmaceuticals	7,282	5,454	+34	+41
Diagnostics	1,178	(44)	-	-
Corporate	(343)	(374)	-8	-8
Operating free cash flow	8,117	5,036	+61	+71
Treasury activities	104	(493)	-121	-120
Taxes paid	(2,183)	(1,269)	+72	+78
Free cash flow	6,038	3,274	+84	+99

See pages 74–76 for definition of free cash flow.

The Group's operating free cash flow for the first six months of 2021 was CHF 8.1 billion, an increase of 71% at CER. This was due to the base effect of the significant increases in net working capital and spending on in-licensing and alliance arrangements in the first half of 2020. The increase in net working capital in the prior period was driven by the temporarily extended payment terms in the US for certain trade receivables in the first half of 2020 and the settlement of payables and accrual positions recorded at the end of 2019. The free cash flow of CHF 6.0 billion, an increase of 99% at CER, was a result of the growth in the operating free cash flow partly offset by the base effect of the deferral of provisional 2020 US federal tax payments in the first half of 2020.

Pharmaceuticals operating results

Pharmaceuticals Division interim operating results

	2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	21,671	23,202	-7	-3
Royalties and other operating income	1,372	1,070	+28	+34
Revenue	23,043	24,272	-5	-1
Cost of sales	(4,515)	(4,800)	-6	-3
Marketing and distribution	(3,086)	(3,305)	-7	-3
Research and development	(6,280)	(5,605)	+12	+16
General and administration	(849)	(535)	+59	+62
Operating profit	8,313	10,027	-17	-13
- margin, % of sales	38.4	43.2	-4.8	-4.5
Core results^{a)}				
Sales	21,671	23,202	-7	-3
Royalties and other operating income	1,372	1,070	+28	+34
Revenue	23,043	24,272	-5	-1
Cost of sales	(3,882)	(4,175)	-7	-4
Marketing and distribution	(2,962)	(3,266)	-9	-6
Research and development	(5,883)	(5,077)	+16	+19
General and administration	(754)	(793)	-5	-2
Core operating profit	9,562	10,961	-13	-8
- margin, % of sales	44.1	47.2	-3.1	-2.7
Financial position				
Net working capital	3,592	2,454	+46	+46
Long-term net operating assets	31,987	31,017	+3	+1
Net operating assets	35,579	33,471	+6	+4
Free cash flow^{b)}				
Operating free cash flow	7,282	5,454	+34	+41
- margin, % of sales	33.6	23.5	+10.1	+10.6

a) See pages 71–74 for definition of core results.

b) See pages 74–76 for definition of free cash flow.

Sales overview

Pharmaceuticals Division – Interim sales by therapeutic area

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
Oncology	10,194	12,469	-15	47.0	53.7
Immunology	4,006	4,272	-2	18.5	18.4
Neuroscience	2,973	2,381	+30	13.7	10.3
Haemophilia A	1,393	1,003	+45	6.4	4.3
Infectious diseases	888	496	+80	4.1	2.1
Ophthalmology	665	728	-3	3.1	3.1
Other therapeutic areas	1,552	1,853	-12	7.2	8.1
Total sales	21,671	23,202	-3	100	100

Sales in the Pharmaceuticals Division in the first half of 2021 were CHF 21.7 billion (2020: CHF 23.2 billion), a decrease of 3% at CER, with the most significant factor being biosimilar competition in the US. There was growing demand for new medicines, including Ronapreve, Ocrevus, Hemlibra, Tecentriq, Evrysdi and Kadcyla, which together contributed an additional CHF 2.3 billion (CER) of new sales. The COVID-19 pandemic continued to have an overall negative impact on the division's sales with a general dampening on sales from the restrictions. Hospitalisations and outpatient visits remained lower than they would otherwise have been and this particularly impacted sales of Ocrevus, Lucentis and MabThera/Rituxan. Actemra/RoActemra sales increased by 17% driven by the adoption in treatment guidelines for patients with severe COVID-19 pneumonia.

The continuing rollout of the new products included the first sales of Ronapreve. Under the terms of the agreement with Regeneron the Roche Group will be responsible for distribution outside the US, where there were orders in Germany, India, Italy and France and other countries, with sales reaching CHF 0.6 billion in total. Ocrevus continued its growth development, with a 23% sales increase to CHF 2.4 billion. The launch and rollout of Hemlibra continued across the US and major EU markets with sales reaching CHF 1.4 billion, an increase of 45%. Tecentriq sales grew by 29% to CHF 1.6 billion, mostly due to higher demand in Japan and the US. Evrysdi showed a high uptake mainly in the US and Russia since its launch. Kadcyla sales grew by 19% driven by higher demand across all regions with patients switched to the new standard of treatment following the positive readout of the KATHERINE study.

Biosimilar competition continued to have a negative impact, with further erosion of sales of MabThera/Rituxan and Herceptin and Avastin, mostly in the US. Global sales of these three products fell by CHF 2.8 billion (CER) to CHF 4.4 billion, a decrease of 39%, in the first half of 2021. The COVID-19 pandemic continued to have a negative impact on sales of these three products, notably for MabThera/Rituxan in the US. Sales for MabThera/Rituxan and Avastin in China were also affected by biosimilar competition, while Herceptin sales in China increased by 13%. The first biosimilar versions of MabThera/Rituxan, Herceptin and Avastin entered the market in the US in the second half of 2019, and had a negative impact of CHF 1.7 billion (CER) in the first half of 2021. Sales of MabThera/Rituxan, Herceptin and Avastin in Europe declined by CHF 0.7 billion (CER). The first biosimilar versions of Avastin were launched in Europe from mid-2020.

Sales in the oncology therapeutic area decreased by 15%, due to the biosimilar competition for MabThera/Rituxan, Herceptin and Avastin described above, partially compensated by growth of the new products Tecentriq, Kadcyla and Alecensa. Tecentriq sales grew in all regions, mostly due to the continued rollout in Japan and higher demand in the US and the International region. Kadcyla showed continuing post-launch growth across all regions. Sales of Alecensa grew across all regions with China being the main driver.

Sales in immunology decreased by 2%, mainly driven by lower sales of MabThera/Rituxan in the US, which were due to biosimilar entry and the impacts of the COVID-19 pandemic. The increase in Actemra/RoActemra sales of 17% was mainly driven by the adoption of this medicine by many countries in their guidelines to treat patients with severe COVID-19 pneumonia. Lucentis sales declined by 3% in the US and were affected by COVID-19 restrictions disrupting ophthalmology practices and limiting patient access. Infectious diseases sales were 80% higher due to the first sales of Ronapreve. In other therapeutic areas, sales of Activase/TNKase were 9% lower in the US.

Product sales

Pharmaceuticals Division – Interim sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
Oncology					
Perjeta	1,968	1,941	+5	9.1	8.4
Avastin	1,645	2,835	-40	7.6	12.2
Tecentriq	1,599	1,297	+29	7.4	5.6
Herceptin	1,396	2,200	-35	6.4	9.5
MabThera/Rituxan ^{a)}	1,071	1,850	-40	4.9	8.0
Kadcyla	959	837	+19	4.4	3.6
Alecensa	631	540	+20	2.9	2.3
Gazyva/Gazyvaro	324	310	+8	1.5	1.3
Erivedge	127	147	-9	0.6	0.6
Xeloda	98	176	-44	0.5	0.8
Phesgo	96	0	-	0.4	0.0
Polivy	94	83	+17	0.4	0.4
Others	186	253	-24	0.9	1.0
Total Oncology	10,194	12,469	-15	47.0	53.7
Immunology					
Actemra/RoActemra	1,642	1,461	+17	7.6	6.3
Xolair	887	958	-1	4.1	4.1
Esbriet	526	566	-3	2.4	2.4
MabThera/Rituxan ^{a)}	308	590	-45	1.4	2.5
CellCept	298	314	-4	1.4	1.4
Pulmozyme	276	352	-18	1.3	1.5
Others	69	31	+146	0.3	0.2
Total Immunology	4,006	4,272	-2	18.5	18.4
Neuroscience					
Ocrevus	2,438	2,076	+23	11.3	8.9
Evrysdi	243	0	-	1.1	0.0
Madopar	195	194	+1	0.9	0.8
Others	97	111	-10	0.4	0.6
Total Neuroscience	2,973	2,381	+30	13.7	10.3
Haemophilia A					
Hemlibra	1,393	1,003	+45	6.4	4.3
Total Haemophilia A	1,393	1,003	+45	6.4	4.3
Infectious diseases					
Ronapreve	595	0	-	2.7	0.0
Rocephin	139	130	+6	0.6	0.6
Tamiflu	32	186	-83	0.1	0.8
Others	122	180	-30	0.7	0.7
Total Infectious diseases	888	496	+80	4.1	2.1
Ophthalmology					
Lucentis	665	728	-3	3.1	3.1
Total Ophthalmology	665	728	-3	3.1	3.1
Other therapeutic areas					
Activase/TNKase	598	691	-8	2.8	3.0
Mircera	214	251	-12	1.0	1.1
Others	740	911	-15	3.4	4.0
Total other therapeutic areas	1,552	1,853	-12	7.2	8.1
Total sales	21,671	23,202	-3	100	100

a) Total MabThera/Rituxan sales of CHF 1,379 million (2020: CHF 2,440 million) split between oncology and immunology franchises.

Ocrevus. For relapsing forms of multiple sclerosis (RMS) and primary progressive multiple sclerosis (PPMS).

Ocrevus interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	1,849	1,671	+18	75.8	80.5
Europe	422	297	+38	17.3	14.3
International	167	108	+60	6.9	5.2
Total sales	2,438	2,076	+23	100	100

There was continuously growing demand in both indications in the US, with growth driven both by new and returning patients, with a higher proportion of sales coming from returning patients. In Europe and the International region, Ocrevus continues to show high uptake where launched, notably in Germany, the UK and France. Sales of Ocrevus were impacted by COVID-19 as the treatment is administered by intravenous infusion and requires hospital visits, which in some cases were cancelled or delayed during the pandemic restrictions.

HER2 franchise (Herceptin, Perjeta, Kadcyla and Phesgo). For HER2-positive breast cancer and HER2-positive metastatic (advanced) gastric cancer (Herceptin only).

Herceptin interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	348	848	-56	24.9	38.5
Europe	277	361	-25	19.8	16.4
Japan	43	77	-40	3.1	3.5
International	728	914	-19	52.2	41.6
Total sales	1,396	2,200	-35	100	100

Perjeta interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	703	770	-3	35.7	39.7
Europe	578	567	-1	29.4	29.2
Japan	132	149	-6	6.7	7.7
International	555	455	+28	28.2	23.4
Total sales	1,968	1,941	+5	100	100

Kadcyla interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	401	404	+6	41.8	48.3
Europe	336	257	+27	35.0	30.7
Japan	60	41	+56	6.3	4.9
International	162	135	+31	16.9	16.1
Total sales	959	837	+19	100	100

Phesgo interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	52	0	-	54.2	0
Europe	39	0	-	40.6	0
International	5	0	-	5.2	0
Total sales	96	0	-	100	0

Sales in the HER2 franchise decreased by 8% to CHF 4.4 billion. Herceptin sales were 35% lower, due to biosimilar launches which started in the second half of 2019 in the US, in mid-2018 in Europe and increasingly in many countries in the International region. Sales of Perjeta grew by 5% with increases mostly driven by China in both early breast cancer and metastatic breast cancer settings. In the US, sales of Perjeta declined by 3% due to lower sales volume driven by patients with residual disease being switched to Kadcyla and due to the launch of Phesgo in 2020. Kadcyla sales increased by 19% globally, and by 6% in the US, 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.

Tecentriq. For advanced bladder cancer, advanced lung cancer, initial therapy of non-squamous non-small cell lung cancer (NSCLC), extensive-stage small cell lung cancer (SCLC), PD-L1-positive triple-negative breast cancer and unresectable or metastatic hepatocellular carcinoma (HCC).

Tecentriq interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	811	744	+16	50.7	57.4
Europe	339	282	+17	21.2	21.7
Japan	257	148	+84	16.1	11.4
International	192	123	+68	12.0	9.5
Total sales	1,599	1,297	+29	100	100

Sales increased by 29% with growth in all regions, notably Japan, primarily due to the growth in the treatment of HCC. In the US, sales were higher driven by the new indications for first-line NSCLC and HCC. In the International region, the growth is mainly driven by China in the SCLC and HCC indications. In Europe, the sales growth was mainly driven by the SCLC and PD-L1-positive triple-negative breast cancer indications.

Hemlibra. For haemophilia A.

Hemlibra interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	837	664	+34	60.1	66.2
Europe	292	146	+95	21.0	14.6
Japan	166	151	+16	11.9	15.1
International	98	42	+138	7.0	4.1
Total sales	1,393	1,003	+45	100	100

The global rollout of Hemlibra continued during the first half of 2021. Sales continued to increase, especially in the US and Europe in the non-inhibitor segment.

Avastin. For advanced colorectal, breast, lung, kidney, cervical and ovarian cancer, relapsed glioblastoma and liver cancer in combination with Tecentriq.

Avastin interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	530	1,057	-47	32.2	37.3
Europe	257	796	-69	15.6	28.1
Japan	330	363	-4	20.1	12.8
International	528	619	-12	32.1	21.8
Total sales	1,645	2,835	-40	100	100

US sales decreased by 47% due to the continuing impact of biosimilars which first came to market in the US from mid-2019. In Europe, the sales decrease was due to the launch of biosimilars in the second half of 2020. In the International region, the main driver in the sales decline was biosimilar competition in China.

MabThera/Rituxan. For non-Hodgkin lymphoma (NHL), chronic lymphocytic leukaemia (CLL), follicular lymphoma (FL) and pemphigus vulgaris (PV), rheumatoid arthritis (RA) as well as certain types of antineutrophil cytoplasmic antibody (ANCA)-associated vasculitis.

MabThera/Rituxan interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	855	1,693	-46	62.0	69.4
Europe	134	202	-35	9.7	8.3
Japan	20	33	-35	1.5	1.4
International	370	512	-27	26.8	20.9
Total sales	1,379	2,440	-41	100	100

Sales were 41% lower due to biosimilar erosion as well as market contraction from the COVID-19 pandemic restrictions. US sales decreased by 46%, with a decline in both the oncology and immunology segments, and in part driven by COVID-19 restrictions. Sales in the International region were lower with a 62% decline in Canada and 15% decline in China due to biosimilar erosion.

Actemra/RoActemra. For rheumatoid arthritis (RA), systemic juvenile idiopathic arthritis, polyarticular juvenile idiopathic arthritis and giant cell arteritis.

Actemra/RoActemra interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	689	692	+6	42.0	47.4
Europe	456	382	+16	27.8	26.1
Japan	182	181	+6	11.1	12.4
International	315	206	+63	19.1	14.1
Total sales	1,642	1,461	+17	100	100

Sales increased by 17%, with growth driven by the adoption of Actemra/RoActemra by many countries in their treatment guidelines to treat patients with severe COVID-19 pneumonia. The International region was the major contributor to the sales increase, along with Europe. Various clinical studies have been initiated to evaluate the safety and efficacy of Actemra/RoActemra in patients with severe COVID-19 pneumonia and the results have been made available to healthcare authorities. Actemra/RoActemra has received US FDA Emergency Use Authorization for the treatment of COVID-19 in hospitalised adults and children.

Xolair. For moderate to severe persistent allergic asthma (AA) and chronic idiopathic urticaria (CIU).

Xolair interim regional sales

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	887	958	-1	100	100
Total sales	887	958	-1	100	100

Sales declined by 1% as growth in the chronic idiopathic urticaria indication was offset by competition in the allergic asthma indication. Xolair remains the market leader in the larger allergic asthma indication.

Lucentis. For wet age-related macular degeneration (wAMD), macular oedema following retinal vein occlusion (RVO), diabetic macular oedema (DME) and diabetic retinopathy (DR). US sales decreased by 3%, based on continued impact from the COVID-19 pandemic. This has caused some disruption in hospitals and ophthalmology practices and has led to some patients delaying treatment during the restrictions.

Alecensa. For ALK-positive non-small cell lung cancer (NSCLC). The global uptake continued with a 20% increase in sales with the International region and Europe as the main drivers.

Activase/TNKase. For acute ischaemic stroke (AIS) and acute myocardial infarction (AMI). Sales were 8% lower as US sales continued to be affected by the COVID-19 pandemic restrictions.

Ronapreve. For the treatment of recently diagnosed high-risk patients with mild to moderate COVID-19. The Group is collaborating with Regeneron Pharmaceuticals, Inc. ('Regeneron') to develop, manufacture and distribute Ronapreve, an investigational neutralising antibody combination. Under the terms of the agreement, Regeneron is responsible for distribution in the US and the Roche Group is responsible for distribution outside the US. There were orders from multiple countries in the first half of 2021, notably from Germany, India, Italy and France.

Esbriet. For idiopathic pulmonary fibrosis (IPF). Sales declined by 3% driven by reduced share of new patient prescriptions.

Pharmaceuticals Division – Interim sales by region

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
United States	10,802	12,464	-8	49.8	53.7
Europe	4,485	4,190	+4	20.7	18.1
Japan	1,808	1,908	0	8.3	8.2
International	4,576	4,640	+2	21.2	20.0
– of which China	1,669	1,587	+3	7.7	6.9
Total sales	21,671	23,202	-3	100	100

United States. Sales decreased by 8% driven by the combined 49% fall in total MabThera/Rituxan, Herceptin and Avastin sales due to the launches of biosimilars as well as market contractions due to COVID-19 particularly for MabThera/Rituxan. Ocrevus sales increased by 18% and were driven by both new and returning patient demand, partly dampened by COVID-19 effects. Hemlibra continued to show uptake since being launched in November 2017. Evrysdi, for treatment of spinal muscular atrophy, showed a high uptake since its launch in the third quarter of 2020. Tecentriq sales increased by 16% due to growth in the new indications. Actemra/RoActemra sales increased by 6% mostly due to the use for hospitalised patients with severe COVID-19 pneumonia. Sales in the HER2 franchise decreased by 21%, mostly driven by lower Herceptin sales, partially offset by sales of Phesgo and a 6% sales increase for Kadcyla, notably in the early breast cancer setting. Lucentis sales decreased due to continuing COVID-19-related impacts.

Europe. Sales grew by 4% with new product sales more than compensating for biosimilar competition and the impacts of the COVID-19 pandemic. A key driver of the new products growth was Ronapreve, with initial orders in Germany, Italy and France. Hemlibra (+95%) and Ocrevus (+38%) also reported growth, in particular in France and Germany. Kadcyla sales increased by 27% mainly driven by continued growth in France. Actemra/RoActemra sales increased by 16% mostly due to the use for hospitalised patients with severe COVID-19 pneumonia. Tecentriq sales continued to grow and increased by 17% following successful launches, notably in Germany, and continued uptake across Europe. Biosimilar competition led to combined sales of MabThera/Rituxan, Herceptin and Avastin falling by 52%.

Japan. Sales remained stable with sales growth for recently launched products including Tecentriq, Enspryng, Hemlibra and Kadcyla compensating for a combined 12% fall in sales of MabThera/Rituxan, Herceptin and Avastin arising from biosimilar competition and government price cuts.

International. Sales increased by 2%. Sales in China increased by 3% due to the uptake of Perjeta, Alecensa, Tecentriq and volume growth of Herceptin, partially offset by the biosimilar erosion for Avastin and MabThera/Rituxan. Excluding China, sales in the International region increased by 1% mainly driven by orders of Ronapreve in India and sales growth of Actemra/RoActemra, Ocrevus and Hemlibra. This was partially offset by biosimilar erosion, notably in Canada and Brazil.

Operating results

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Royalty income	515	573	-5
Income from out-licensing agreements	57	98	-40
Income from disposal of products and other	800	399	+108
Total – IFRS and Core basis	1,372	1,070	+34

Royalties and other operating income increased by 34% at CER. Royalty income was 5% lower, due to the base effect of a settlement gain of CHF 128 million in 2020, partially compensated by higher royalty income from Lucentis and Venclexta/Venclyxto sales outside the US. Income from out-licensing agreements was lower due to the base effect of upfront and milestone income mostly in Japan in 2020. Income from product disposals and other increased from sale of global rights for Rivotril for CHF 282 million and sale of global rights for Pegasys excluding China and Japan for CHF 191 million as well as profit-share income due to increased sales of Venclexta/Venclyxto in the US.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(2,503)	(2,492)	+2
Royalty expenses	(628)	(675)	-2
Collaboration and profit-sharing agreements	(927)	(1,000)	-3
Impairment of property, plant and equipment and right-of-use assets	176	(8)	-
Cost of sales – Core basis	(3,882)	(4,175)	-4
Global restructuring plans	(29)	(12)	+249
Amortisation of intangible assets	(604)	(613)	+4
Total – IFRS basis	(4,515)	(4,800)	-3

Core costs decreased by 4% at CER, primarily due to the reversal of an idle-plant impairment. As a percentage of sales, cost of sales decreased by 0.1 percentage points to 17.9%. Manufacturing cost of sales increased by 2% despite the sales decline of 3%. This was due to volume growth partially offset by product mix factors. Royalty expenses were 2% lower mainly driven by a decrease in royalty expenses related to the expired Cabilly patent partially offset by increased sales for certain royalty-bearing products, notably Ocrevus. Collaboration and profit-sharing expenses decreased by 3% driven by lower US sales of MabThera/Rituxan partly offset by the first sales of Ronapreve in 2021. An idle-plant impairment was reversed in the first half of 2021, resulting in an income of CHF 184 million.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Marketing and distribution – Core basis	(2,962)	(3,266)	-6
Global restructuring plans	(115)	(27)	+333
Amortisation of intangible assets	(9)	(12)	-16
Total – IFRS basis	(3,086)	(3,305)	-3

Core costs decreased by 6% at CER. As a percentage of sales, they decreased to 13.7% from 14.1% in the comparative period. There was a continuing general slowdown in marketing activities, including lower expenses for travel and congresses due to the COVID-19 restrictions. The cost decrease was also associated with a reduction in the field force from restructuring initiatives. Major marketing and distribution activities included supporting the ongoing launches and rollouts of Ocrevus and Tecentriq and also pre-launch activities. Restructuring costs were related to transformation initiatives in sales affiliates.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Research and development – Core basis	(5,883)	(5,077)	+19
Global restructuring plans	(82)	(36)	+131
Amortisation of intangible assets	(150)	(150)	+4
Impairment of intangible assets	(165)	(342)	-49
Total – IFRS basis	(6,280)	(5,605)	+16

Core costs increased by 19% at CER and, as a percentage of sales, increased by 5.2 percentage points to 27.1%. 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. The growth in spending was mostly driven by late-stage investments in oncology, neuroscience and personalised healthcare. The higher spend in oncology includes the first pivotal study for giredestrant, a next-generation selective oestrogen receptor degrader for people with hormone receptor-positive, HER2-negative breast cancer, and investments in tiragolumab in lung cancer. In neuroscience, the higher spend included pivotal studies for Ocrevus (ocrelizumab) in relapsing multiple sclerosis (RMS) and primary progressive multiple sclerosis (PPMS), as well as on pivotal studies for fenebrutinib in RMS and PPMS. There was spending on COVID-19-related projects, notably for the co-development with Regeneron, and investments were made in advanced computation, data analytics and increased research and development capabilities in China.

Additionally in the first half of 2021, in-licensing transactions and asset acquisitions resulted in intangible assets of CHF 0.3 billion being recognised, mainly for payments made based upon the achievement of performance-related milestones for transactions completed in previous years. See the above sections on 'Mergers and acquisitions' and 'Alliance transactions' for further details. There were intangible asset impairment charges of CHF 165 million in the Pharmaceuticals Division. The major item related to a charge of CHF 76 million to fully write down an asset following a clinical data assessment.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Administration	(698)	(739)	-2
Gains (losses) on disposal of property, plant and equipment and right-of-use assets	2	(1)	-
Business taxes and capital taxes	(82)	(102)	-16
Other general items	24	49	-44
General and administration – Core basis	(754)	(793)	-2
Global restructuring plans	(75)	(53)	+36
Impairment of goodwill and intangible assets	0	0	-
Mergers and acquisitions and alliance transactions	(16)	(28)	-42
Legal and environmental cases	(4)	337	-
Pension plan settlements	0	2	-100
Total – IFRS basis	(849)	(535)	+62

Core costs decreased by 2% at CER and, as a percentage of sales, increased to 3.5% from 3.4%. Administration costs were lower mainly due to decreases in general management expenses and lower legal expenses. Business taxes and capital taxes decreased primarily due to lower excise tax expense in 2021 in the US. On an IFRS basis, the decline in legal and environmental income was driven by the 2020 release of the Accutane US litigation provision.

Roche Pharmaceuticals and Chugai subdivisioal operating results

Pharmaceuticals subdivisioal interim operating results in millions of CHF

	Roche Pharmaceuticals			Chugai	Pharmaceuticals Division	
	2021	2020	2021	2020	2021	2020
Sales						
– External customers	19,863	21,294	1,808	1,908	21,671	23,202
– Within division	799	819	757	819	1,556	1,638
Core operating profit	8,304	9,802	1,384	1,279	9,562	10,961
– margin, % of sales to external customers	41.8	46.0	76.5	67.0	44.1	47.2
Operating profit	7,090	8,897	1,349	1,250	8,313	10,027
– margin, % of sales to external customers	35.7	41.8	74.6	65.5	38.4	43.2
Operating free cash flow	6,223	5,014	1,060	440	7,282	5,454
– margin, % of sales to external customers	31.3	23.5	58.6	23.1	33.6	23.5

Pharmaceuticals Division total core operating profit and operating profit both include the elimination of minus CHF 126 million of unrealised intercompany gains between Roche Pharmaceuticals and Chugai (2020: minus CHF 120 million).

The increase in the exchange rate of the Japanese yen has an adverse impact of approximately 4 percentage points on the Chugai results when expressed in Swiss francs for the Group's consolidated results. At CER (as reported in Japanese yen), sales by Chugai to external customers remained stable while sales within the division decreased by 2%. Chugai core operating profit increased by 12% due to higher royalty income from Roche Pharmaceuticals and higher gross profit from sales to external customers. This was partially offset by higher research and development costs. Operating free cash flow at Chugai increased mainly as a result of net working capital movements and the underlying operating performance.

Financial position

Pharmaceuticals Division – Net operating assets

	30 June 2021 (CHF m)	31 Dec. 2020 (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA and other (CHF m)
Trade receivables	8,051	6,992	+15	+12	879	180
Inventories	4,849	4,208	+15	+14	578	63
Trade payables	(2,100)	(1,958)	+7	+5	(101)	(41)
Net trade working capital	10,800	9,242	+17	+15	1,356	202
Other receivables (payables)	(7,208)	(6,788)	+6	+3	(227)	(193)
Net working capital	3,592	2,454	+46	+46	1,129	9
Property, plant and equipment	16,042	15,270	+5	+4	552	220
Right-of-use assets	777	801	-3	-6	(46)	22
Goodwill and intangible assets	16,503	16,539	0	-4	(619)	583
Provisions	(2,162)	(2,108)	+3	0	(4)	(50)
Other long-term assets, net	827	515	+61	+57	304	8
Long-term net operating assets	31,987	31,017	+3	+1	187	783
Net operating assets	35,579	33,471	+6	+4	1,316	792

The absolute amount of the movement between the 30 June 2021 and 31 December 2020 consolidated balances reported in Swiss francs is split between actual 2021 transactions (translated at average rates for 2020) and the currency translation adjustment (CTA) that arises on consolidation. The 2021 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 43 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 77.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc depreciated against most currencies, with the US dollar and, additionally, the Chinese renminbi having a significant effect on the net operating assets of the Pharmaceuticals Division, which was partially compensated by the appreciation of the Swiss franc against the Japanese yen. This resulted in a net positive translation impact. The exchange rates used are given on page 31.

Net working capital. Net working capital increased by 46%, with trade receivables being the main driver. The trade receivables increase of 12% was due to higher sales in the second quarter of 2021 compared to the last quarter in 2020 and was impacted by a shift in the sales portfolio of products with longer payment terms. The increase in inventories was driven by new products supply, including Ronapreve, and by ensuring supply resilience. The net liability position for other receivables/payables increased due to higher accruals for rebates and chargebacks.

Long-term net operating assets. Overall long-term net operating assets increased by 1%, due to increased property, plant and equipment, partly offset by lower intangible assets. Intangible assets decreased as the amortisation and impairment charges more than offset the additions. Capital expenditure includes manufacturing investments in the US, Switzerland, Japan and Germany, site developments in Switzerland and South San Francisco and Chugai's research facilities at Yokohama in Japan. Other long-term assets increased and included accrued income for future milestone payments.

Free cash flow

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

	2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
Operating profit	8,313	10,027	-17	-13
- Depreciation, amortisation and impairment	1,505	1,865	-19	-16
- Provisions	60	(418)	-	-
- Equity compensation plans	237	253	-6	-2
- Other	43	33	+30	+40
Operating profit cash adjustments	1,845	1,733	+6	+11
Operating profit, net of operating cash adjustments	10,158	11,760	-14	-9
(Increase) decrease in net working capital	(1,376)	(3,628)	-62	-60
Investments in property, plant and equipment	(1,046)	(1,054)	-1	+3
Principal portion of lease liabilities paid	(125)	(124)	+1	+4
Investments in intangible assets	(329)	(1,500)	-78	-78
Operating free cash flow	7,282	5,454	+34	+41
- as % of sales	33.6	23.5	+10.1	+10.6

See pages 74–76 for definition of free cash flow and a detailed breakdown.

The Pharmaceuticals Division's operating free cash flow increased by 41% at CER to CHF 7.3 billion. The cash generation of the business, measured by the operating profit, net of operating cash adjustments, was down by 9% broadly in line with the decrease in core operating profit. Net working capital absorbed an additional CHF 1.4 billion of cash, largely driven by higher trade receivables and inventories, for the reasons described above in the 'Financial position' section. The increase in net working capital was significantly lower than in the prior period, due to the temporarily extended payment terms in the US for certain trade receivables in the first half of 2020 and the settlement of payables and accrual positions recorded at the end of 2019. Capital expenditure, with the major items also as described above in the 'Financial Position' section, is broadly in line with the first half of 2020. Investments in intangible assets were significantly lower compared to 2020 mainly due to the payments to Sarepta Therapeutics of CHF 0.8 billion in 2020.

Diagnostics operating results

Diagnostics Division interim operating results

	2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Sales	9,042	6,079	+49	+51
Royalties and other operating income	48	27	+78	+79
Revenue	9,090	6,106	+49	+51
Cost of sales	(4,477)	(2,985)	+50	+51
Marketing and distribution	(1,403)	(1,267)	+11	+13
Research and development	(830)	(740)	+12	+14
General and administration	(334)	(249)	+34	+36
Operating profit	2,046	865	+137	+147
– margin, % of sales	22.6	14.2	+8.4	+8.8
Core results^{a)}				
Sales	9,042	6,079	+49	+51
Royalties and other operating income	48	27	+78	+79
Revenue	9,090	6,106	+49	+51
Cost of sales	(4,355)	(2,904)	+50	+51
Marketing and distribution	(1,330)	(1,249)	+6	+8
Research and development	(807)	(710)	+14	+16
General and administration	(274)	(221)	+24	+25
Core operating profit	2,324	1,022	+127	+137
– margin, % of sales	25.7	16.8	+8.9	+9.3
Financial position				
Net working capital	4,180	2,977	+40	+39
Long-term net operating assets	12,800	10,787	+19	+16
Net operating assets	16,980	13,764	+23	+21
Free cash flow^{b)}				
Operating free cash flow	1,178	(44)	–	–
– margin, % of sales	13.0	–0.7	+13.7	+14.2

a) See pages 71–74 for definition of core results.

b) See pages 74–76 for definition of free cash flow.

Sales

The Diagnostics Division reported overall sales growth of 51% at CER to CHF 9.0 billion. The sales of the various COVID-19-related tests in the first half of 2021 (at CER) were CHF 2.5 billion (2020: CHF 0.7 billion), with the SARS-CoV-2 Rapid Antigen test launched in September 2020 accounting for approximately half of the COVID-19-related sales.

As part of an ongoing transformation initiative, the Diagnostics Division has replaced the previous business area structure with new customer areas. Sales are presented by customer area with the comparative information for 2020 being restated. Sales in the Point of Care and Molecular Lab customer areas grew due to COVID-19-related sales, while the rebound in routine testing is the main contributor to growth in the Core Lab and Pathology Lab customer areas. Diabetes Care sales growth was driven by an increase in blood glucose monitoring and the resolution of a dispute over the rebates applied by a distributor in the US.

Diagnostics Division – Interim sales by customer area

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
Core Lab	3,726	2,821	+34	41.2	46.4
Molecular Lab	2,216	1,558	+45	24.5	25.6
Point of Care	1,616	360	+349	17.9	5.9
Diabetes Care	894	832	+10	9.9	13.7
Pathology Lab	590	508	+20	6.5	8.4
Total sales	9,042	6,079	+51	100	100

Core Lab. This customer area focuses on central labs and provides diagnostics solutions in the areas of immunoassays, clinical chemistry and custom biotech. Sales increased by 34% due to the recovery of routine testing across the portfolio. In addition, COVID-19-related testing contributed to the sales growth in the custom biotech business, which grew by 24%. Routine testing recovered in all regions, with the largest contribution coming from Asia-Pacific, which grew by 40%, notably in China, where there was a 49% sales growth.

Molecular Lab. This customer area focuses on molecular labs and provides diagnostics solutions for the detection and monitoring of pathogens, donor screening, sexual health and genomics. Sales grew by 45% led by COVID-19-related sales from SARS-CoV-2 assays on the cobas 6800/8800 range and from the Liat business. Sales in the sequencing sample preparation and cervical cancer businesses grew by 45% and 32%, respectively, due to the recovery of routine testing. Sales were higher in all regions, led by the EMEA region and North America.

Point of Care. This customer area provides diagnostics solutions immediately at the point of care such as in emergency rooms, general practitioners' practices and directly with patients and includes the SARS-CoV-2 rapid tests and blood gas and electrolyte (BGE) tests. Sales of the SARS-CoV-2 Rapid Antigen test are reported in this customer area and were the main driver in the high growth. Sales of these tests were concentrated in the EMEA region.

Diabetes Care. This customer area provides diagnostics solutions for people with diabetes and healthcare professionals enabling integrated personalised diabetes management. Sales increased by 10%, driven by an increase in blood glucose monitoring and the resolution of a dispute over a rebate in the North America region. The sales growth was driven by increased sales in emerging markets temporary offsetting the continued overall decline of the blood glucose monitoring market.

Pathology Lab. This customer area focuses on pathology labs and provides diagnostics solutions for tissue biopsies and companion diagnostics. These are targeted diagnostics to aid in the choice of specific therapies for each patient. Sales increased by 20%. This was mainly due to growth in the advanced staining business due to testing recovery, and growth in sales in the companion diagnostics business.

Diagnostics Division – Interim sales by region

	2021 (CHF m)	2020 (CHF m)	% change (CER)	% of sales (2021)	% of sales (2020)
Europe, Middle East and Africa (EMEA)	4,144	2,408	+70	45.8	39.5
North America	2,055	1,740	+25	22.7	28.8
– of which US	1,849	1,583	+24	20.4	26.0
Asia-Pacific	2,293	1,588	+44	25.4	26.1
– of which China	1,222	830	+45	13.5	13.7
Latin America	550	343	+77	6.1	5.6
Total sales	9,042	6,079	+51	100	100

Sales in the EMEA region grew by 70% mainly due to sales of the SARS-CoV-2 Rapid Antigen test and the recovery in routine testing. Asia-Pacific sales were 44% higher due to the baseline effect of the pandemic restrictions in the first half of 2020, specifically in China, where sales grew by 45%. In North America sales growth was driven by the 37% growth in the Molecular Lab customer area, mainly from the cobas SARS-CoV-2 tests, and by 23% growth in the Core Lab customer area due to the recovery in routine testing.

Operating results

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Royalty income	20	20	-1
Income from out-licensing agreements	18	0	-
Income from disposal of products and other	10	7	+47
Total – IFRS and Core basis	48	27	+79

Royalties and other operating income increased by 79% at CER due to an income from an out-licensing agreement of CHF 18 million in Diabetes Care.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Manufacturing cost of goods sold and period costs	(4,286)	(2,852)	+51
Royalty expenses	(61)	(52)	+19
Impairment of property, plant and equipment and right-of-use assets	(8)	0	-
Cost of sales – Core basis	(4,355)	(2,904)	+51
Global restructuring plans	(59)	(33)	+70
Amortisation of intangible assets	(52)	(48)	+14
Mergers and acquisitions and alliance transactions	(11)	-	-
Total – IFRS basis	(4,477)	(2,985)	+51

Core costs increased by 51% at CER, in line with the sales growth, due to higher COVID-19-related sales volumes of instruments and reagents. The core cost of sales ratio increased by 0.4 percentage points to 48.2%. Global restructuring costs increased compared to the first six months in 2020 due to more activities in strategy plans in Diabetes Care.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Marketing and distribution – Core basis	(1,330)	(1,249)	+8
Global restructuring plans	(65)	(15)	+353
Amortisation of intangible assets	(8)	(3)	+111
Total – IFRS basis	(1,403)	(1,267)	+13

Core costs increased by 8% at CER, due to higher spending on distribution costs following increased sales volumes for COVID-19 products as well as higher personnel expenses. On a core basis, marketing and distribution costs as a percentage of sales decreased to 14.7% compared to 20.5% in 2020, due to the sales growth in 2021.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Research and development – Core basis	(807)	(710)	+16
Global restructuring plans	(16)	(26)	-39
Amortisation of intangible assets	(7)	(4)	+75
Total – IFRS basis	(830)	(740)	+14

Core costs increased by 16% at CER, due to increased spending on COVID-19-related projects and the development of new instruments within the Core Lab customer area, as well as projects in advanced staining, cardiac disease and blood screening. As a percentage of sales, research and development core costs decreased to 8.9% from 11.7% in 2020. Global restructuring costs decreased due to less activity in strategy plans.

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

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Administration	(286)	(242)	+20
Gains (losses) on disposal of property, plant and equipment and right-of-use assets	1	4	-81
Business taxes and capital taxes	(9)	(8)	+10
Other general items	20	25	-12
General and administration – Core basis	(274)	(221)	+25
Global restructuring plans	(22)	(8)	+188
Mergers and acquisitions and alliance transactions	(10)	(2)	Over +500
Legal and environmental cases	(28)	(18)	+56
Total – IFRS basis	(334)	(249)	+36

Core costs increased by 25% at CER, and, as a percentage of sales, core costs decreased to 3.0% from 3.6% in 2020. Administration costs were 20% higher due to higher personnel expenses and to the shift of the reporting lines of certain support functions.

Financial position

Diagnostics Division – Net operating assets

	30 June 2021 (CHF m)	31 Dec. 2020 (CHF m)	% change (CHF)	% change (CER)	Movement: Transactions (CHF m)	Movement: CTA and other (CHF m)
Trade receivables	3,733	3,279	+14	+11	367	87
Inventories	3,470	2,986	+16	+15	441	43
Trade payables	(1,233)	(1,233)	0	-2	21	(21)
Net trade working capital	5,970	5,032	+19	+16	829	109
Other receivables (payables)	(1,790)	(2,055)	-13	-15	320	(55)
Net working capital	4,180	2,977	+40	+39	1,149	54
Property, plant and equipment	6,889	6,640	+4	+1	99	150
Right-of-use assets	290	276	+5	+2	7	7
Goodwill and intangible assets	6,630	4,727	+40	+36	1,733	170
Provisions	(1,012)	(932)	+9	+5	(52)	(28)
Other long-term assets, net	3	76	-96	-92	(76)	3
Long-term net operating assets	12,800	10,787	+19	+16	1,711	302
Net operating assets	16,980	13,764	+23	+21	2,860	356

The absolute amount of the movement between the 30 June 2021 and 31 December 2020 consolidated balances reported in Swiss francs is split between actual 2021 transactions (translated at average rates for 2020) and the currency translation adjustment (CTA) that arises on consolidation. The 2021 transactions include non-cash movements and therefore the movements in this table are not the same as the amounts shown in the operating free cash flow (which only includes the cash movements). A full consolidated balance sheet is given on page 43 of the Interim Financial Statements, and a reconciliation between that balance sheet and the information given above is on page 77.

Currency translation effects on balance sheet amounts. Compared to the start of the year the Swiss franc depreciated against most currencies, with the US dollar and, additionally, the euro and the Chinese renminbi having a significant effect on the net operating assets of the Diagnostics Division. This resulted in a positive translation impact. The exchange rates used are given on page 31.

Net working capital. Net working capital increased by 39% due to higher inventories and accounts receivable. Inventories increased by 15% due to the ongoing rollout of COVID-19-related products, notably the SARS-CoV-2 Rapid Antigen test. The 11% increase in trade receivables is due to higher sales in the second quarter of 2021 as compared to the fourth quarter of 2020. The decrease in net liability for other receivables/payables came from the settlement of year-end accounts payable and accruals.

Long-term net operating assets. Overall long-term net operating assets increased by 16% at CER, mainly attributable to the increase in goodwill and intangible assets resulting from the acquisition of a 100% controlling interest in GenMark. Property, plant and equipment increased due to site investments in Germany, the US and Switzerland. This included COVID-19-related manufacturing investments of CHF 82 million in the first half of 2021.

Free cash flow

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

	2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
Operating profit	2,046	865	+137	+147
– Depreciation, amortisation and impairment	738	655	+13	+14
– Provisions	50	(19)	–	–
– Equity compensation plans	39	42	–7	–1
– Other	226	91	+148	+145
Operating profit cash adjustments	1,053	769	+37	+38
Operating profit, net of operating cash adjustments	3,099	1,634	+90	+95
(Increase) decrease in net working capital	(1,162)	(1,062)	+9	+11
Investments in property, plant and equipment	(696)	(538)	+29	+31
Principal portion of lease liabilities paid	(57)	(54)	+6	+7
Investments in intangible assets	(6)	(24)	–75	–76
Operating free cash flow	1,178	(44)	–	–
– as % of sales	13.0	–0.7	+13.7	+14.2

See pages 74–76 for definition of free cash flow and a detailed breakdown.

The operating free cash flow of the Diagnostics Division was a net cash inflow of CHF 1,178 million compared to a net cash outflow of CHF 44 million in the first half of 2020. The cash generation of the business, measured by the operating profit, net of operating cash adjustments, increased by CHF 1.5 billion with the sales growth having a positive impact on the operating free cash flow. Net working capital increased and absorbed CHF 1.2 billion of cash in the first half of 2021 which was attributable to increases in inventories and trade receivables for the reasons described above in the 'Financial position' section. Capital expenditure increased due to the COVID-19-related manufacturing expansion.

Corporate operating results

Corporate interim operating results summary

	2021 (CHF m)	2020 (CHF m)	% change (CER)
Administration	(239)	(240)	-
Business taxes and capital taxes	(11)	(11)	+2
Other general items	16	34	-47
General and administration costs – Core basis^{a)}	(234)	(217)	+7
Global restructuring plans	(48)	(43)	+11
Legal and environmental cases	0	6	-100
Total costs – IFRS basis	(282)	(254)	+10
Financial position			
Net working capital	(151)	(229)	-35
Long-term net operating assets	75	43	+66
Net operating assets	(76)	(186)	-60
Free cash flow^{b)}			
Operating free cash flow	(343)	(374)	-8

a) See pages 71–74 for definition of core results.

b) See pages 74–76 for definition of free cash flow and a detailed breakdown.

General and administration costs increased by 7% at CER on a core basis with stable administration costs. Other general items decreased due to higher IT project costs within the overall net amount. Total costs on an IFRS basis have increased by 10%. The change in net working capital was due to lower payables and higher prepayments. Corporate operating free cash flow showed a lower outflow due to lower payments for trade and other accounts payables.

Foreign exchange impact on operating results

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

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

	2021	% change (CER) 2020	2021	% change (CHF) 2020
Pharmaceuticals Division				
Sales	-3	+1	-7	-4
Core operating profit	-8	+2	-13	-5
Diagnostics Division				
Sales	+51	+3	+49	-3
Core operating profit	+137	+9	+127	-4
Group				
Sales	+8	+1	+5	-4
Core operating profit	+4	+2	-1	-5

Exchange rates against the Swiss franc

	30 June 2021	Average to 30 June 2021	31 December 2020	Average to 30 June 2020
1 USD	0.92	0.91	0.88	0.97
1 EUR	1.10	1.09	1.08	1.06
100 JPY	0.83	0.84	0.85	0.89

The results expressed in Swiss francs were negatively impacted by the appreciation of the Swiss franc against many currencies. The net impact expressed in Swiss francs compared to constant exchange rates was 3 percentage points on sales and 5 percentage points on core operating profit and Core EPS. The sensitivity of Group sales and core operating profit to a 1% change in average foreign currency exchange rates against the Swiss franc during the first half of 2021 is shown in the table below.

Currency sensitivities for the six months ended 30 June 2021

Impact of 1% increase in average exchange rate versus the Swiss franc	Sales (CHF m)	Core operating profit (CHF m)
US dollar	131	59
Euro	60	24
Japanese yen	21	16
All other currencies	88	47

Treasury and taxation results

Treasury and taxation interim results

	2021 (CHF m)	2020 (CHF m)	% change (CHF)	% change (CER)
IFRS results				
Operating profit	10,077	10,638	-5	-1
Financing costs	(211)	(286)	-26	-23
Other financial income (expense)	21	(171)	-	-
Profit before taxes	9,887	10,181	-3	+2
Income taxes	(1,671)	(1,716)	-3	+2
Net income	8,216	8,465	-3	+2
Attributable to				
- Roche shareholders	7,803	8,079	-3	+2
- Non-controlling interests	413	386	+7	+10
Core results^{a)}				
Operating profit	11,652	11,766	-1	+4
Financing costs	(207)	(280)	-26	-23
Other financial income (expense)	21	(171)	-	-
Profit before taxes	11,466	11,315	+1	+6
Income taxes	(1,939)	(1,872)	+4	+8
Net income	9,527	9,443	+1	+6
Attributable to				
- Roche shareholders	9,104	9,049	+1	+6
- Non-controlling interests	423	394	+7	+10
Financial position				
Net debt	(6,994)	(1,882)	+272	+204
Lease liabilities	(1,225)	(1,195)	+3	0
Pensions	(5,551)	(6,864)	-19	-21
Income taxes	1,947	1,576	+24	+20
Equity investments	895	1,274	-30	-30
Derivatives, net	(213)	112	-	-
Collateral, net	141	(161)	-	-
Interest payable	(102)	(160)	-36	-39
Other non-operating assets, net	52	24	+117	+126
Total net assets (liabilities)	(11,050)	(7,276)	+52	+42
Free cash flow^{b)}				
Treasury activities	104	(493)	-121	-120
Taxes paid	(2,183)	(1,269)	+72	+78
Total	(2,079)	(1,762)	+18	+23

a) See pages 71–74 for definition of core results.

b) See pages 74–76 for definition of free cash flow.

Financing costs

Core financing costs were CHF 207 million, a decrease of 23% at CER compared to the first half of 2020. Interest expenses on debt decreased by 22% at CER to CHF 159 million due to the repayment of debt in March 2021. The net interest cost of defined benefit pension plans decreased by 30% at CER due to lower discount rates in Germany and the US at the end of 2020. A full analysis of financing costs is given in Note 4 to the Interim Financial Statements.

Other financial income (expense)

Core other financial income (expense) was a net income of CHF 21 million compared to a net expense of CHF 171 million in the first half of 2020. Income from equity securities, which reflects the fair value changes in the Roche Venture Fund investments, reported a net gain of CHF 103 million (2020: net loss of CHF 61 million). The net foreign exchange results, which reflect hedging costs and losses on unhedged positions, were losses of CHF 80 million (2020: net losses of CHF 111 million). A full analysis of other financial income (expense) is given in Note 4 to the Interim Financial Statements.

Income taxes

The Group's effective core tax rate increased by 0.4 percentage points to 16.9% in the first half of 2021. The increase was mainly due to the impact from the resolution of several tax disputes which reduced the Group's effective core tax rate by 1 percentage point in the first half of 2021 compared to 2 percentage points in the first half of 2020. This increase was partially offset by the higher percentage of core profit contribution coming from tax jurisdictions with lower tax rates than the average Group tax rate.

The IFRS effective tax rate in the first half of 2021 was stable at 16.9% (first half of 2020: 16.9%).

Further details are given in Note 5 to the Interim Financial Statements.

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

	2021			2020		
	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)	Profit before tax (CHF m)	Income taxes (CHF m)	Tax rate (%)
Group's effective tax rate – Core basis	11,466	(1,939)	16.9	11,315	(1,872)	16.5
Global restructuring plans	(511)	106	20.7	(253)	47	18.6
Goodwill and intangible assets	(995)	145	14.6	(1,172)	172	14.7
Mergers and acquisitions and alliance transactions	(39)	8	20.5	(33)	6	18.2
Legal and environmental cases	(34)	7	20.6	322	(72)	22.4
Pension plan settlements	0	0	-	2	0	0.0
Normalisation of equity compensation plan tax benefit	-	2	-	-	3	-
Group's effective tax rate – IFRS basis	9,887	(1,671)	16.9	10,181	(1,716)	16.9

Financial position

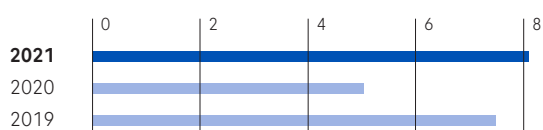
The increase in net debt was due to dividend payments of CHF 8.0 billion and payments for mergers and acquisitions, notably the acquisition of GenMark for CHF 1.7 billion. This was offset by the free cash flow of CHF 6.0 billion. The net pension liability was lower following increases in discount rates. The net tax assets increased mainly due to the timing of tax payments and the net deferred tax impacts from intangible assets, equity compensation plans and the pension liability. At 30 June 2021 the Group held equity investments with a market value of CHF 0.9 billion, which consist mostly of holdings in biotechnology and other pharmaceuticals companies which were acquired as part of licensing transactions and scientific collaborations or as investments of the Roche Venture Fund.

Free cash flow

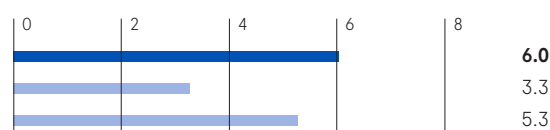
The net cash inflow from treasury activities was CHF 0.1 billion compared to an outflow of CHF 0.5 billion in the first half of 2020. This was mainly due to the higher investments in financial long-term assets in 2020, notably CHF 0.3 billion of equity in Sarepta Therapeutics. Total taxes paid in the first half of 2021 were up by 78% to CHF 2.2 billion mainly due to the US Internal Revenue Service providing a tax payment extension in the first half of 2020 in response to the COVID-19 pandemic, which deferred the provisional 2020 US federal tax payments into the second half of 2020.

Cash flows and net debt

Operating free cash flow in billions of CHF



Free cash flow in billions of CHF



Free cash flow for the six months ended 30 June

	Pharmaceuticals (CHF m)	Diagnostics (CHF m)	Corporate (CHF m)	Group (CHF m)
2021				
Operating profit – IFRS basis	8,313	2,046	(282)	10,077
Operating profit cash adjustments	1,845	1,053	39	2,937
Operating profit, net of operating cash adjustments	10,158	3,099	(243)	13,014
(Increase) decrease in net working capital	(1,376)	(1,162)	(78)	(2,616)
Investments in property, plant and equipment	(1,046)	(696)	(17)	(1,759)
Principal portion of lease liabilities paid	(125)	(57)	(5)	(187)
Investments in intangible assets	(329)	(6)	0	(335)
Operating free cash flow	7,282	1,178	(343)	8,117
Treasury activities				104
Taxes paid				(2,183)
Free cash flow				6,038
2020				
Operating profit – IFRS basis	10,027	865	(254)	10,638
Operating profit cash adjustments	1,733	769	34	2,536
Operating profit, net of operating cash adjustments	11,760	1,634	(220)	13,174
(Increase) decrease in net working capital	(3,628)	(1,062)	(127)	(4,817)
Investments in property, plant and equipment	(1,054)	(538)	(22)	(1,614)
Principal portion of lease liabilities paid	(124)	(54)	(5)	(183)
Investments in intangible assets	(1,500)	(24)	0	(1,524)
Operating free cash flow	5,454	(44)	(374)	5,036
Treasury activities				(493)
Taxes paid				(1,269)
Free cash flow				3,274

See pages 74–76 for definition of free cash flow and a detailed breakdown.

Operating free cash flow increased by 71% at CER to CHF 8.1 billion. This was due to the base effect of the significant increases in net working capital and spending on in-licensing and alliance arrangements in the first half of 2020. The increase in net working capital in the prior period was driven by the temporarily extended payment terms in the US for certain trade receivables in the first half of 2020 and the settlement of payables and accrual positions recorded at the end of 2019. The free cash flow was CHF 6.0 billion, an increase of 99% at CER. This was due to the growth in the operating free cash flow partly offset by the base effect of the deferral of provisional 2020 US federal tax payments in the first half of 2020.

Net debt – Movement in carrying value in millions of CHF

At 1 January 2021	
Cash and cash equivalents	5,727
Marketable securities	6,607
Long-term debt	(10,220)
Short-term debt	(3,996)
Net debt at beginning of period	(1,882)
Change in net debt during interim period 2021	
Free cash flow	6,038
Dividend payments	(7,955)
Transactions in own equity instruments	(644)
Mergers and acquisitions, net of divestments of subsidiaries	(1,868)
Hedging and collateral arrangements	(324)
Changes in ownership interests in subsidiaries	0
Currency translation, fair value and other movements	(359)
Change in net debt	(5,112)
At 30 June 2021	
Cash and cash equivalents	5,000
Marketable securities	3,017
Long-term debt	(11,285)
Short-term debt	(3,726)
Net debt at end of period	(6,994)

Net debt – Currency profile in millions of CHF

	Cash and marketable securities			Debt
	30 June 2021	31 Dec. 2020	30 June 2021	31 Dec. 2020
US dollar	921	1,848	(9,916)	(9,221)
Euro	1,356	2,642	(1,806)	(1,787)
Swiss franc	1,961	4,046	(2,503)	(2,503)
Japanese yen	3,196	3,165	0	0
Pound sterling	39	48	(98)	(92)
Other	544	585	(688)	(613)
Total	8,017	12,334	(15,011)	(14,216)

The net debt position of the Group at 30 June 2021 was CHF 7.0 billion, an increase of CHF 5.1 billion from 31 December 2020. The increase during the first half of 2021 was due to CHF 8.0 billion for the annual dividend payments and CHF 1.9 billion cash payments for mergers and acquisitions, which exceeded the free cash flow of CHF 6.0 billion. Mergers and acquisitions, net of divestments of subsidiaries, includes the acquisition of GenMark for a total cash consideration of CHF 1.7 billion, as described in the above section on 'Mergers and acquisitions'. Transactions in own equity instruments relates to purchases in connection with the Group's equity compensation plans.

Pensions and other post-employment benefits

Funding status and balance sheet position in millions of CHF

	30 June 2021	31 December 2020
Funded plans		
- Fair value of plan assets	18,912	17,967
- Defined benefit obligation	(18,784)	(19,047)
Over (under) funding	128	(1,080)
Unfunded plans		
- Defined benefit obligation	(5,804)	(5,902)
Total funding status	(5,676)	(6,982)
Limit on asset recognition	0	0
Reimbursement rights	125	118
Net recognised asset (liability)	(5,551)	(6,864)

Overall the funding status on an IFRS basis of the Group's funded defined benefit plans increased to 101% compared to 94% at the start of the year. This came from an increase in the fair value of plan assets in Switzerland and an increase in discount rates in all regions compared to the end of 2020. The funding status of the pension funds is monitored by the local pension fund governance bodies as well as being closely reviewed at a Group level.

The unfunded plans are mainly those in the Group's German affiliates, where the fully reserved pension obligations are invested in the local affiliate's operations. The unfunded liabilities for these plans decreased during the first half of 2021 due to an increase in the eurozone discount rate.

Further information on the Group's pensions and other post-employment benefits is given in Note 26 to the 2020 Annual Financial Statements.

Debt

On 5 March 2021 the Group completed an offering of USD 500 million and USD 650 million of fixed rate notes with a coupon of 0.45% and 0.991%, respectively. The notes will mature on 5 March 2024 and 5 March 2026, respectively. The Group received CHF 1,066 million aggregate net proceeds from the issuance and sale of these fixed rate notes.

On 5 March 2021 the Group completed an offering of USD 350 million floating rate notes at a rate equal to Secured Overnight Financing Rate (SOFR) plus a margin of 0.24%. The notes will mature on 5 March 2024. The Group received CHF 325 million aggregate net proceeds from the issuance and sale of these floating rate notes.

On the due date of 4 March 2021 the Group redeemed notes with an outstanding amount of EUR 1,140 million. The effective interest rate of these notes was 6.66%. The cash outflow was CHF 1,266 million and there was no gain or loss recorded on the redemption.

Bonds and notes: nominal amounts at 30 June 2021 by contractual maturity

	US dollar (USD m)	Euro (EUR m)	Pound sterling (GBP m)	Swiss franc (CHF m)	Total ^{a)} (USD m)	Total ^{a)} (CHF m)
2021	644	0	0	0	644	593
2022	650	0	0	500	1,193	1,099
2023	390	650	77	0	1,270	1,169
2024	1,439	0	0	750	2,254	2,075
2025	506	1,000	0	500	2,239	2,061
2026-2030	3,150	0	0	750	3,965	3,651
2031 and beyond	2,054	0	0	0	2,054	1,892
Total	8,833	1,650	77	2,500	13,619	12,540

a) Total translated at 30 June 2021 exchange rates.

The Group plans to meet its debt obligations using existing liquid funds as well as cash generated from business operations. In the full year 2020 the free cash flow was CHF 10.9 billion, which included the cash generated from operations, as well as payment of interest and tax. In the first half of 2021 free cash flow was CHF 6.0 billion.

For short-term financing requirements, the Group has a commercial paper program in the US under which it can issue up to USD 7.5 billion of unsecured commercial paper notes and has committed credit lines of USD 7.5 billion available as back-stop lines. Commercial paper notes totalling USD 2.0 billion were outstanding as of 30 June 2021 (31 December 2020: USD 1.8 billion). For longer-term financing the Group maintains high long-term investment-grade credit ratings of AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch which should facilitate efficient access to international capital markets.

Further information on the Group's debt is given in Note 11 to the Interim Financial Statements and Note 21 to the 2020 Annual Financial Statements.

Financial risks

As at 30 June 2021 the Group has a net debt position of CHF 7.0 billion (31 December 2020: CHF 1.9 billion). The financial assets of the Group are managed in a conservative way with the objective to meet the Group's financial obligations at all times.

Asset allocation. Liquid funds are either held as cash or are invested in high-quality, investment-grade fixed income securities with an investment horizon to meet those liquidity requirements.

Cash and marketable securities

	(CHF m)	30 June 2021 (% of total)	(CHF m)	31 December 2020 (% of total)
Cash and cash equivalents	5,000	62	5,727	46
Money market instruments	2,421	31	6,006	49
Debt securities	593	7	590	5
Equity securities	3	0	11	0
Total cash and marketable securities	8,017	100	12,334	100

Credit risk. Credit risk arises from the possibility that counterparties to transactions may default on their obligations causing financial losses for the Group. The rating profile of the Group's CHF 8.0 billion of cash and fixed income marketable securities remained high with 90% being invested in the A-AAA range. The Group has signed netting and collateral agreements with the counterparties in order to mitigate counterparty risk on derivative positions. The Group did not observe a significant increase in credit risk due to the COVID-19 pandemic. Bad debt expenses and overdue receivables remained at a relatively low level.

The Group has trade receivables of CHF 12.6 billion. Since the beginning of 2010 there have been financial difficulties in Southern European countries, notably Spain, Italy, Greece and Portugal. The Group is a leading supplier to the healthcare sectors in these countries and at 30 June 2021 has trade receivables of EUR 0.5 billion (CHF 0.6 billion) with public customers in these countries. This is an increase of 20% compared to 31 December 2020 in euro terms. The Group uses different measures to improve collections in these countries, including intense communication with customers, factoring, negotiations of payment plans, charging of interest for late payments, and legal actions. Since 2011 the Group's trade receivables balance in Southern Europe has decreased by 62% in euro terms.

Liquidity risk. Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. In addition to the current liquidity position, the Group has cash generation ability. Those future cash flows will be used to repay debt instruments in the coming years. The Group did not observe a significant increase in liquidity risk due to the COVID-19 pandemic. Free cash flow was CHF 6.0 billion as compared to CHF 3.3 billion in the first half of 2020.

The Roche Group continues to enjoy high long-term investment-grade credit ratings of AA by Standard & Poor's, Aa3 by Moody's and AA by Fitch. At the same time Roche is rated at the highest available short-term ratings by those agencies. These ratings have not changed since the onset of the COVID-19 pandemic. In the event of financing requirements, the credit ratings of the Roche Group should permit efficient access to international capital markets, including the commercial paper market. The 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 30 June 2021 no debt has been drawn under these credit lines.

Market risk. Market risk arises from changing market prices of the Group's financial assets or financial liabilities.

The exposures are predominantly related to changes in interest rates, foreign exchange rates and equity prices. The Group uses the Value-at-Risk (VaR) method to assess the impact of market risk on its financial instruments. VaR data indicates the value range within which a given financial instrument will fluctuate with a pre-set probability as a result of movements in market prices. The Group's VaR has decreased since 31 December 2020 reflecting higher diversification and the decrease in the carrying value of equity securities during the first six months of 2021.

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

Further information on financial risk management and financial risks and the VaR methodology is included in Note 31 to the 2020 Annual Financial Statements.

International Financial Reporting Standards

The Roche Group has been using International Financial Reporting Standards (IFRS) to report its consolidated results since 1990. In 2021 the Group implemented various minor amendments to existing standards and interpretations which have no material impact on the Group's overall results and financial position.

See Note 1 to the Interim Financial Statements for further details.

Roche Group Interim Consolidated Financial Statements

The Interim Consolidated Financial Statements have been reviewed by the Group's auditor and their review report is presented on page 70.

Roche Group consolidated income statement for the six months ended 30 June 2021 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales ^{2,3}	21,671	9,042	–	30,713
Royalties and other operating income ^{2,3}	1,372	48	–	1,420
Revenue ^{2,3}	23,043	9,090	–	32,133
Cost of sales	(4,515)	(4,477)	–	(8,992)
Marketing and distribution	(3,086)	(1,403)	–	(4,489)
Research and development ²	(6,280)	(830)	–	(7,110)
General and administration	(849)	(334)	(282)	(1,465)
Operating profit ²	8,313	2,046	(282)	10,077
Financing costs ⁴				(211)
Other financial income (expense) ⁴				21
Profit before taxes				9,887
Income taxes ⁵				(1,671)
Net income				8,216
Attributable to				
– Roche shareholders				7,803
– Non-controlling interests				413
Earnings per share and non-voting equity security ¹⁴				
Basic (CHF)				9.14
Diluted (CHF)				9.05

Roche Group consolidated income statement for the six months ended 30 June 2020 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Group
Sales ^{2,3}	23,202	6,079	–	29,281
Royalties and other operating income ^{2,3}	1,070	27	–	1,097
Revenue ^{2,3}	24,272	6,106	–	30,378
Cost of sales	(4,800)	(2,985)	–	(7,785)
Marketing and distribution	(3,305)	(1,267)	–	(4,572)
Research and development ²	(5,605)	(740)	–	(6,345)
General and administration	(535)	(249)	(254)	(1,038)
Operating profit ²	10,027	865	(254)	10,638
Financing costs ⁴				(286)
Other financial income (expense) ⁴				(171)
Profit before taxes				10,181
Income taxes ⁵				(1,716)
Net income				8,465
Attributable to				
– Roche shareholders				8,079
– Non-controlling interests				386
Earnings per share and non-voting equity security ¹⁴				
Basic (CHF)				9.45
Diluted (CHF)				9.32

Roche Group consolidated statement of comprehensive income in millions of CHF

	Six months ended 30 June	
	2021	2020
Net income recognised in income statement	8,216	8,465
Other comprehensive income (OCI)		
Remeasurements of defined benefit plans	1,288	(141)
Fair value changes on equity investments at fair value through OCI	(190)	82
Items that will never be reclassified to the income statement	1,098	(59)
Fair value changes on debt investments at fair value through OCI	(7)	7
Cash flow hedges	(5)	(15)
Currency translation of foreign operations	494	(622)
Items that are or may be reclassified to the income statement	482	(630)
Other comprehensive income, net of tax	1,580	(689)
Total comprehensive income	9,796	7,776
Attributable to		
– Roche shareholders	9,449	7,421
– Non-controlling interests	347	355
Total	9,796	7,776

Roche Group consolidated balance sheet in millions of CHF

	30 June 2021	31 December 2020
Non-current assets		
Property, plant and equipment	23,172	22,158
Right-of-use assets	1,128	1,112
Goodwill ⁸	10,623	9,249
Intangible assets ⁹	12,510	12,017
Deferred tax assets	5,766	5,459
Defined benefit plan assets	1,229	967
Other non-current assets	2,199	2,234
Total non-current assets	56,627	53,196
Current assets		
Inventories	8,319	7,194
Accounts receivable	11,656	10,154
Current income tax assets	153	149
Other current assets	3,115	3,111
Marketable securities	3,017	6,607
Cash and cash equivalents	5,000	5,727
Total current assets	31,260	32,942
Total assets	87,887	86,138
Non-current liabilities		
Long-term debt ¹¹	(11,285)	(10,220)
Deferred tax liabilities	(499)	(353)
Defined benefit plan liabilities	(6,780)	(7,831)
Provisions ¹⁰	(1,467)	(1,453)
Other non-current liabilities	(1,230)	(1,107)
Total non-current liabilities	(21,261)	(20,964)
Current liabilities		
Short-term debt ¹¹	(3,726)	(3,996)
Current income tax liabilities	(3,473)	(3,679)
Provisions ¹⁰	(1,940)	(1,836)
Accounts payable	(4,241)	(4,121)
Other current liabilities	(11,813)	(11,769)
Total current liabilities	(25,193)	(25,401)
Total liabilities	(46,454)	(46,365)
Total net assets	41,433	39,773
Equity		
Capital and reserves attributable to Roche shareholders	37,814	36,341
Equity attributable to non-controlling interests	3,619	3,432
Total equity	41,433	39,773

Roche Group consolidated statement of cash flows in millions of CHF

	Six months ended 30 June	
	2021	2020
Cash flows from operating activities		
Cash generated from operations ¹⁵	13,324	13,807
(Increase) decrease in net working capital	(2,616)	(4,817)
Payments made for defined benefit plans	(288)	(284)
Utilisation of provisions	(511)	(505)
Disposal of products	484	130
Other operating cash flows	2	0
Income taxes paid	(2,183)	(1,269)
Total cash flows from operating activities	8,212	7,062
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,759)	(1,614)
Purchase of intangible assets	(335)	(1,524)
Disposal of property, plant and equipment	38	34
Business combinations ⁶	(1,719)	0
Asset acquisitions ⁶	(103)	(674)
Divestment of subsidiaries	0	0
Interest and dividends received	1	11
Sales of equity securities and debt securities	129	206
Purchases of equity securities and debt securities	(99)	(111)
Sales (purchases) of money market instruments and time accounts over three months, net	3,633	3,170
Other investing cash flows	258	(294)
Total cash flows from investing activities	44	(796)
Cash flows from financing activities		
Proceeds from issue of bonds and notes ¹¹	1,391	0
Redemption and repurchase of bonds and notes ¹¹	(1,266)	0
Increase (decrease) in commercial paper ¹¹	191	521
Increase (decrease) in other debt	(19)	393
Hedging and collateral arrangements	(324)	196
Changes in ownership interest in subsidiaries	0	0
Equity contribution by non-controlling interests	0	0
Interest paid	(243)	(264)
Principal portion of lease liabilities paid	(187)	(183)
Dividends paid ¹⁵	(7,955)	(7,806)
Equity-settled equity compensation plans, net of transactions in own equity	(644)	(1,380)
Other financing cash flows	0	3
Total cash flows from financing activities	(9,056)	(8,520)
Net effect of currency translation on cash and cash equivalents	73	(51)
Increase (decrease) in cash and cash equivalents	(727)	(2,305)
Cash and cash equivalents at beginning of period	5,727	6,075
Cash and cash equivalents at end of period	5,000	3,770

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

	Share capital	Retained earnings	Fair value reserves	Hedging reserves	Translation reserves	Total	Non-controlling interests	Total equity
Six months ended 30 June 2020								
At 1 January 2020	160	40,524	15	13	(7,965)	32,747	3,120	35,867
Net income recognised in income statement	-	8,079	-	-	-	8,079	386	8,465
Net change in fair value – financial assets at fair value through OCI	-	13	74	-	-	87	2	89
Cash flow hedges	-	-	-	(15)	-	(15)	0	(15)
Currency translation of foreign operations	-	-	0	-	(589)	(589)	(33)	(622)
Remeasurements of defined benefit plans	-	(141)	-	-	-	(141)	0	(141)
Total comprehensive income	-	7,951	74	(15)	(589)	7,421	355	7,776
Dividends	-	(7,700)	-	-	-	(7,700)	(174)	(7,874)
Equity compensation plans, net of transactions in own equity	-	(957)	-	-	-	(957)	3	(954)
Changes in non-controlling interests	-	(2)	-	-	-	(2)	2	-
At 30 June 2020	160	39,816	89	(2)	(8,554)	31,509	3,306	34,815
Six months ended 30 June 2021								
At 1 January 2021	160	45,571	106	(16)	(9,480)	36,341	3,432	39,773
Net income recognised in income statement	-	7,803	-	-	-	7,803	413	8,216
Net change in fair value – financial assets at fair value through OCI	-	0	(197)	-	-	(197)	0	(197)
Cash flow hedges	-	-	-	(6)	-	(6)	1	(5)
Currency translation of foreign operations	-	-	1	1	559	561	(67)	494
Remeasurements of defined benefit plans	-	1,288	-	-	-	1,288	0	1,288
Total comprehensive income	-	9,091	(196)	(5)	559	9,449	347	9,796
Dividends	-	(7,773)	-	-	-	(7,773)	(162)	(7,935)
Equity compensation plans, net of transactions in own equity	-	(201)	-	-	-	(201)	0	(201)
Changes in non-controlling interests	-	(2)	-	-	-	(2)	2	-
At 30 June 2021	160	46,686	(90)	(21)	(8,921)	37,814	3,619	41,433

Notes to the Roche Group Interim Consolidated Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited condensed interim consolidated financial statements (hereafter 'the Interim Financial Statements') of Roche Holding Ltd, a company registered in Switzerland, and its subsidiaries (hereafter 'the Group') for the six months ended 30 June 2021 (hereafter 'the interim period'). These Interim Financial Statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2020 (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 20 July 2021.

Statement of compliance

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

Management judgements and estimates

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

Impact of the COVID-19 pandemic

The 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 impacts from the pandemic in the second half of 2021 may affect these, or other, matters.

During the six months ended 30 June 2021 no impairment issues related to the COVID-19 pandemic were noted for goodwill and intangible assets. During the six months ended 30 June 2020, intangible asset impairment charges of CHF 342 million were incurred as a result of a delay in clinical trials, partly impacted by the COVID-19 pandemic (see Note 9). The Group will carry out further reviews for impairment in the second half of 2021, and any continued negative impacts from the pandemic will be considered.

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

Seasonality

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

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. Changes in accounting policies will also be reflected in the Group's Consolidated Financial Statements for the year ending 31 December 2021.

Changes in accounting policies

In 2021 the Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Group's overall results and financial position.

Future new and revised standards

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2022 which the Group has not yet applied. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position. The Group is also assessing other new and revised standards which are not mandatory until after 2022.

2. Operating segment information

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

Divisional information in millions of CHF

Six months ended 30 June	Pharmaceuticals		Diagnostics		Corporate		Group
	2021	2020	2021	2020	2021	2020	2020
Revenue from external customers							
Sales	21,671	23,202	9,042	6,079	-	-	30,713
Royalties and other operating income	1,372	1,070	48	27	-	-	1,420
Total	23,043	24,272	9,090	6,106	-	-	32,133
Revenue from other operating segments							
Sales	-	-	11	8	-	-	11
Royalties and other operating income	-	-	-	-	-	-	-
Elimination of interdivisional revenue							(11)
Total	-	-	11	8	-	-	-
Segment results							
Operating profit	8,313	10,027	2,046	865	(282)	(254)	10,077
Capital expenditure							
Business combinations	0	0	1,858	0	-	-	1,858
Asset acquisitions	36	408	0	256	-	-	36
Additions to property, plant and equipment	1,105	1,007	694	541	17	22	1,816
Additions to right-of-use assets	92	232	67	45	29	0	188
Additions to intangible assets	272	1,313	1	24	-	-	273
Total	1,505	2,960	2,620	866	46	22	4,171
Research and development							
Research and development costs	6,280	5,605	830	740	-	-	7,110
Other segment information							
Depreciation of property, plant and equipment	634	621	598	536	29	28	1,261
Depreciation of right-of-use assets	116	119	57	56	5	5	178
Amortisation of intangible assets	763	775	67	55	-	-	830
Impairment (reversal) of property, plant and equipment	(173)	8	16	0	0	0	(157)
Impairment of right-of-use assets	0	0	0	8	0	0	0
Impairment of goodwill	0	0	0	0	-	-	0
Impairment of intangible assets	165	342	0	0	-	-	165
Inventory fair value adjustments	0	0	11	0	-	-	11
Equity compensation plan expenses	245	261	45	46	25	25	315

Pharmaceuticals subdivisioal information in millions of CHF

Six months ended 30 June	Roche Pharmaceuticals			Chugai	Pharmaceuticals Division	
	2021	2020	2021	2020	2021	2020
Revenue from external customers						
Sales	19,863	21,294	1,808	1,908	21,671	23,202
Royalties and other operating income	1,359	996	13	74	1,372	1,070
Total	21,222	22,290	1,821	1,982	23,043	24,272
Revenue from other operating segments						
Sales	799	819	757	819	1,556	1,638
Royalties and other operating income	48	15	731	487	779	502
Elimination of income within division					(2,335)	(2,140)
Total	847	834	1,488	1,306	-	-
Segment results						
Operating profit	7,090	8,897	1,349	1,250	8,439	10,147
Elimination of results within division					(126)	(120)
Operating profit	7,090	8,897	1,349	1,250	8,313	10,027
Capital expenditure						
Business combinations	0	0	0	0	0	0
Asset acquisitions	36	408	0	0	36	408
Additions to property, plant and equipment	794	662	311	345	1,105	1,007
Additions to right-of-use assets	73	210	19	22	92	232
Additions to intangible assets	263	1,304	9	9	272	1,313
Total	1,166	2,584	339	376	1,505	2,960
Research and development						
Research and development costs	5,774	5,130	554	495	6,328	5,625
Elimination of costs within division					(48)	(20)
Total	5,774	5,130	554	495	6,280	5,605
Other segment information						
Depreciation of property, plant and equipment	545	527	89	94	634	621
Depreciations of right-of-use assets	92	94	24	25	116	119
Amortisation of intangible assets	746	766	17	9	763	775
Impairment (reversal) of property, plant and equipment	(173)	8	0	0	(173)	8
Impairment of right-of-use assets	0	0	0	0	0	0
Impairment of goodwill	0	0	0	0	0	0
Impairment of intangible assets	165	342	0	0	165	342
Inventory fair value adjustment	0	0	0	0	0	0
Equity compensation plan expenses	244	259	1	2	245	261

Net assets in millions of CHF

	30 June 2021	Assets 31 December 2020	30 June 2021	Liabilities 31 December 2020	30 June 2021	Net assets 31 December 2020
Net operating assets						
Pharmaceuticals	49,190	46,357	(13,611)	(12,886)	35,579	33,471
Diagnostics	21,940	18,751	(4,960)	(4,987)	16,980	13,764
Corporate	417	381	(493)	(567)	(76)	(186)
Total	71,547	65,489	(19,064)	(18,440)	52,483	47,049
Current income tax net assets (liabilities)					(3,320)	(3,530)
Deferred tax net assets (liabilities)					5,267	5,106
Defined benefit plan net assets (liabilities)					(5,551)	(6,864)
Lease liabilities					(1,225)	(1,195)
Marketable securities					3,017	6,607
Cash and cash equivalents					5,000	5,727
Debt					(15,011)	(14,216)
Other net assets (liabilities)					773	1,089
Total net assets					41,433	39,773

Net operating assets – Pharmaceuticals subdivisonal information in millions of CHF

	30 June 2021	Assets 31 December 2020	30 June 2021	Liabilities 31 December 2020	30 June 2021	Net assets 31 December 2020
Roche Pharmaceuticals	45,220	42,387	(13,979)	(13,224)	31,241	29,163
Chugai	7,005	6,923	(1,269)	(1,325)	5,736	5,598
Elimination within division	(3,035)	(2,953)	1,637	1,663	(1,398)	(1,290)
Pharmaceuticals Division	49,190	46,357	(13,611)	(12,886)	35,579	33,471

3. Revenue

Disaggregated revenue information

Disaggregation of revenue in millions of CHF

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	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	10,194	–	10,194	12,469	–	12,469
Immunology	4,006	–	4,006	4,272	–	4,272
Neuroscience	2,973	–	2,973	2,381	–	2,381
Haemophilia A	1,393	–	1,393	1,003	–	1,003
Infectious diseases	888	–	888	496	–	496
Ophthalmology	665	–	665	728	–	728
Other therapeutic areas	1,552	–	1,552	1,853	–	1,853
Sales	21,671	–	21,671	23,202	–	23,202
Royalty income	515	–	515	573	–	573
Income from out-licensing agreements	57	–	57	98	–	98
Income from disposal of products and other	494	306	800	133	266	399
Royalties and other operating income	1,066	306	1,372	804	266	1,070
Diagnostics Division						
Sales by customer area^{a)}						
Core Lab	3,402	324	3,726	2,511	310	2,821
Molecular Lab	2,155	61	2,216	1,499	59	1,558
Point of Care	1,607	9	1,616	351	9	360
Diabetes Care	893	1	894	831	1	832
Pathology Lab	554	36	590	477	31	508
Sales	8,611	431	9,042	5,669	410	6,079
Royalty income	20	–	20	20	–	20
Income from out-licensing agreements	18	–	18	0	–	0
Income from disposal of products and other	0	10	10	0	7	7
Royalties and other operating income	38	10	48	20	7	27
Total	31,386	747	32,133	29,695	683	30,378

a) Comparative information for 2020 restated to align with new customer areas.

As part of an ongoing transformation initiative, the Diagnostics Division has replaced the previous business area structure with the following customer areas:

Core Lab. This customer area focuses on central labs and provides diagnostics solutions in the areas of immunoassays, clinical chemistry and custom biotech.

Molecular Lab. This customer area focuses on molecular labs and provides diagnostics solutions for the detection and monitoring of pathogens, donor screening, sexual health and genomics.

Point of Care. This customer area provides diagnostics solutions immediately at the point of care such as emergency rooms, general practitioners' practices and directly with patients and includes the SARS-CoV-2 rapid tests and blood gas and electrolyte (BGE) tests.

Diabetes Care. This customer area provides diagnostics solutions for people with diabetes and healthcare professionals enabling integrated personalised diabetes management.

Pathology Lab. This customer area focuses on pathology labs and provides diagnostics solutions for tissue biopsies and companion diagnostics. These are targeted diagnostics to aid in the choice of specific therapies for each patient.

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 CHF

	Six months ended 30 June	
	2021	2020
Gross sales	27,109	28,598
Government and regulatory mandatory price reductions	(3,020)	(3,131)
Contractual price reductions	(1,894)	(1,778)
Cash discounts	(158)	(178)
Customer returns reserves	(143)	(107)
Others	(223)	(202)
Net sales	21,671	23,202

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 2.7 billion equivalent to CHF 2.5 billion (six months ended 30 June 2020: USD 2.8 billion equivalent to CHF 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 CHF

	Six months ended 30 June	
	2021	2020
Interest expense	(159)	(216)
Amortisation of debt discount ¹¹	(4)	(4)
Net gains (losses) on redemption and repurchase of bonds and notes ¹¹	0	0
Discount unwind	(4)	(6)
Net interest cost of defined benefit plans	(36)	(51)
Interest expenses on lease liabilities	(8)	(9)
Total financing costs	(211)	(286)

Other financial income (expense) in millions of CHF

	Six months ended 30 June	
	2021	2020
Net gains (losses) on equity investments / securities at fair value through profit or loss	103	(61)
Dividend income from equity investments / securities at fair value through profit or loss	0	0
Dividend income from equity investments / securities at fair value through OCI	0	0
Net income from equity investments / securities	103	(61)
Interest income from debt securities at fair value through OCI and at amortised cost	3	14
Net gains (losses) on sale of debt securities at fair value through OCI	0	1
Net interest income and income from debt securities	3	15
Net foreign exchange gains (losses)	261	(227)
Net gains (losses) on foreign currency derivatives	(341)	116
Foreign exchange gains (losses)	(80)	(111)
Gains (losses) on net monetary position in hyperinflationary economies	(10)	(5)
Net other financial income (expense)	5	(9)
Associates	0	0
Total other financial income (expense)	21	(171)

Net financial expense in millions of CHF

	Six months ended 30 June	
	2021	2020
Financing costs	(211)	(286)
Other financial income (expense)	21	(171)
Net financial expense	(190)	(457)
Financial result from Treasury management	(154)	(406)
Financial result from Pension management	(36)	(51)
Associates	0	0
Net financial expense	(190)	(457)

5. Income taxes

Income tax expense is recognised based upon management's best estimate of the weighted average annual income tax rate expected for the full financial year multiplied by the pre-tax income for the six months ended 30 June 2021.

Income tax expenses in millions of CHF

	Six months ended 30 June	
	2021	2020
Current income taxes	(1,971)	(1,869)
Deferred taxes	300	153
Total income tax (expense)	(1,671)	(1,716)

The Group's effective tax rate for the six months ended 30 June 2021 was stable at 16.9% (six months ended 30 June 2020: 16.9%). The impact from the resolution of several tax disputes which reduced the tax rate by 1 percentage point in the first half of 2021 compared to 2 percentage points in the first half of 2020, was offset by the higher percentage of profit contribution coming from tax jurisdictions with lower tax rates than the average Group tax rate.

6. Mergers and acquisitions

Business combinations – 2021

GenMark Diagnostics, Inc. On 22 April 2021 the 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 provides multiplex molecular diagnostic solutions that are designed to detect multiple pathogens from a single patient sample. The addition of GenMark's proprietary multiplex technology complements the Group's diagnostic offering, addressing a broad range of infectious disease testing needs, including respiratory and bloodstream infections. GenMark is reported in the Diagnostics Division. The total consideration was USD 1,865 million, which was paid in cash.

The identifiable assets acquired and liabilities assumed are set out in the table below. The amounts are provisional based on preliminary information and valuations of the assets and liabilities and are subject to adjustment during the second half of 2021.

Business combinations – 2021: net assets acquired in millions of CHF

	GenMark Diagnostics
Property, plant and equipment	41
Right-of-use assets	17
Intangible assets	
– Product intangibles: in use ⁹	757
– Other intangibles ⁹	37
Deferred tax assets	50
Inventories	38
Cash and cash equivalents	14
Marketable securities	43
Long-term debt	(55)
Deferred tax liabilities	(193)
Other non-current liabilities	
– Lease liabilities	(18)
– Other long-term liabilities	(1)
Other net assets (liabilities)	(25)
Net identifiable assets	705
Goodwill ⁸	1,006
Total consideration	1,711
Cash	1,711
Total consideration	1,711

Intangible assets are mainly related to GenMark's ePlex systems that are designed to support a broad range of molecular diagnostics sample-to-answer tests with compact, easy-to-use workstations and self-contained, disposable test cartridges.

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

Goodwill represents GenMark's technological capabilities in multiplex molecular diagnostic solutions. Furthermore, goodwill represents a control premium, the acquired workforce and the expected synergies, notably in the areas of manufacturing as well as in commercialisation. Goodwill from the transaction is allocated to the Diagnostics customer areas as cash-generating unit. None of the goodwill is expected to be deductible for income tax purposes.

The GenMark accounts receivable is comprised of gross contractual amounts due of CHF 18 million which were all expected to be collectable at the date of the acquisition.

Directly attributable transaction costs of CHF 7 million were reported in the Diagnostics operating segment within general and administration expenses.

In the two months to 30 June 2021 GenMark contributed revenue of CHF 21 million and a net loss (after tax) of CHF 30 million to the results reported for the Diagnostics Division, where it is reported in the Molecular Lab customer area, and the Group. If the acquisition had occurred on 1 January 2021 management estimates that GenMark would have contributed revenue of approximately CHF 71 million and a net loss (after tax) of approximately CHF 89 million in the six months ended 30 June 2021. This information is provided for illustrative purposes only and is not necessarily indicative of the results of the combined Group that would have occurred had GenMark actually been acquired at the beginning of the year, or indicative of the future results of the combined Group.

Business combinations – 2020

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

Cash flows from business combinations

Business combinations: net cash outflow in millions of CHF

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	0	(1,711)	(1,711)	0	0	0
Deferred consideration paid	0	0	0	0	0	0
Contingent consideration paid ¹⁶	(22)	0	(22)	0	0	0
Cash in acquired company	0	14	14	0	0	0
Total net cash outflow	(22)	(1,697)	(1,719)	0	0	0

Asset acquisitions – 2021

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

Asset acquisitions – 2020

Promedior, Inc. On 13 February 2020 the Group acquired a 100% controlling interest in Promedior, Inc. ('Promedior'), a privately owned US company based in Lexington, Massachusetts. 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 20 May 2020 the Group acquired a 100% controlling interest in Stratos Genomics, Inc. ('Stratos Genomics'), a privately owned US company based in Seattle, Washington. 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 12 June 2020 the 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. 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 CHF

	Promedior	Stratos Genomics	Lexent Bio	Total
Intangible assets				
– Product intangibles: not available for use	360	255	25	640
Deferred tax assets	25	12	3	40
Cash and cash equivalents	18	6	0	24
Other net assets (liabilities)	2	0	0	2
Net identifiable assets	405	273	28	706
Fair value of previously held equity interest	–	(25)	–	(25)
Total consideration	405	248	28	681
Cash	405	243	28	676
Deferred consideration	–	5	–	5
Total consideration	405	248	28	681

Cash flows from asset acquisitions

Asset acquisitions: net cash outflow in millions of CHF

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Pharmaceuticals	Diagnostics	Total	Pharmaceuticals	Diagnostics	Total
Cash consideration paid	0	0	0	(433)	(243)	(676)
Cash in acquired company	0	0	0	18	6	24
Contingent payments related to previous acquisitions	(36)	(67)	(103)	(22)	0	(22)
Total net cash outflow	(36)	(67)	(103)	(437)	(237)	(674)

For asset acquisitions previously closed the Group recorded additions to product intangible assets related to contingent payments for the achievement of performance-related milestones of CHF 36 million (six months ended 30 June 2020: CHF 22 million). Furthermore, the Group made contingent payments of CHF 67 million related to product intangible assets recognised already at 31 December 2020.

7. Global restructuring plans

During the six months ended 30 June 2021 the Group expanded the implementation of various global restructuring plans initiated in prior years, including an organisational transformation in the Diagnostics Division and various resourcing optimisation initiatives in the Pharmaceuticals Division.

Global restructuring plans: costs incurred in millions of CHF

	Diagnostics	Site consolidation	Other plans	Total
Six months ended 30 June 2021				
Global restructuring costs				
- Employee-related costs	107	23	276	406
- Site closure costs	31	5	19	55
- Divestment of products and businesses	0	0	0	0
- Other reorganisation expenses	25	1	24	50
Total global restructuring costs	163	29	319	511
Additional costs				
- Impairment of goodwill	0	0	0	0
- Impairment of intangible assets	0	0	0	0
- Legal and environmental cases	0	0	0	0
Total costs	163	29	319	511
Six months ended 30 June 2020				
Global restructuring costs				
- Employee-related costs	36	3	103	142
- Site closure costs	17	3	20	40
- Divestment of products and businesses	0	0	0	0
- Other reorganisation expenses	30	4	37	71
Total global restructuring costs	83	10	160	253
Additional costs				
- Impairment of goodwill	0	0	0	0
- Impairment of intangible assets	0	0	0	0
- Legal and environmental cases	0	0	0	0
Total costs	83	10	160	253

Diagnostics Division. During the six months ended 30 June 2021 strategy plans in the Diagnostics Division incurred costs of CHF 115 million, which were mainly employee-related.

Other global restructuring plans. During the six months ended 30 June 2021 employee-related costs mainly come from initiatives in the Pharmaceuticals Division and the outsourcing of IT and other functions to shared service centres and external providers.

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

	Six months ended 30 June	
	2021	2020
Termination costs	308	72
Defined benefit plans	0	0
Other employee-related costs	98	70
Total employee-related costs	406	142
Impairment of property, plant and equipment and right-of-use assets	11	8
Accelerated depreciation of property, plant and equipment and right-of-use assets	40	30
(Gains) losses on disposal of property, plant and equipment and right-of-use assets	2	0
Other site closure costs	2	2
Total site closure costs	55	40
Divestment of products and businesses		
- (Gains) losses on divestment of subsidiaries	0	0
- Other (gains) losses on divestment of products and businesses	0	0
Total costs on divestment of products and businesses	0	0
Other reorganisation expenses	50	71
Total global restructuring costs	511	253

Global restructuring plans: classification of costs in millions of CHF

	Six months ended 30 June 2021			Six months ended 30 June 2020		
	Depreciation, amortisation and impairment	Other	Total	Depreciation, amortisation and impairment	Other	Total
Cost of sales						
- Pharmaceuticals	10	19	29	2	10	12
- Diagnostics	24	35	59	9	24	33
Marketing and distribution						
- Pharmaceuticals	0	115	115	4	23	27
- Diagnostics	0	65	65	1	14	15
Research and development						
- Pharmaceuticals	15	67	82	16	20	36
- Diagnostics	0	16	16	5	21	26
General and administration						
- Pharmaceuticals	2	73	75	0	53	53
- Diagnostics	0	22	22	1	7	8
- Corporate	0	48	48	0	43	43
Total	51	460	511	38	215	253
Total by operating segment						
- Roche Pharmaceuticals	10	274	284	2	106	108
- Chugai	17	0	17	20	0	20
- Diagnostics	24	138	162	16	66	82
- Corporate	0	48	48	0	43	43
Total	51	460	511	38	215	253

8. Goodwill

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

Six months ended 30 June 2021	
At 1 January 2021	9,249
Business combinations ⁶	1,006
Currency translation effects	368
At 30 June 2021	10,623
Allocated by operating segment	
Roche Pharmaceuticals	5,716
Chugai	92
Diagnostics	4,815
Total Group	10,623

Impairment charges – 2021

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

Impairment charges – 2020

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

9. Intangible assets

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

	Product intangibles: in use	Product intangibles: not available for use	Other intangibles	Total
Six months ended 30 June 2021				
At 1 January 2021	5,669	5,898	450	12,017
Business combinations ⁶	757	0	37	794
Asset acquisitions	0	36	0	36
Additions	46	212	15	273
Transfers	75	(75)	0	–
Amortisation charge	(780)	–	(50)	(830)
Impairment charge	(19)	(145)	(1)	(165)
Currency translation effects	200	171	14	385
At 30 June 2021	5,948	6,097	465	12,510
Allocated by operating segment				
Roche Pharmaceuticals	4,550	5,753	306	10,609
Chugai	5	28	53	86
Diagnostics	1,393	316	106	1,815
Total Group	5,948	6,097	465	12,510

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

Six months ended 30 June	2021	Amortisation 2020	2021	Impairment 2020
Cost of sales				
– Pharmaceuticals	(604)	(613)	0	0
– Diagnostics	(52)	(48)	0	0
Marketing and distribution				
– Pharmaceuticals	(9)	(12)	0	0
– Diagnostics	(8)	(3)	0	0
Research and development				
– Pharmaceuticals	(150)	(150)	(165)	(342)
– Diagnostics	(7)	(4)	0	0
Total	(830)	(830)	(165)	(342)

Impairment charges – 2021

Pharmaceuticals Division. Impairment charges totalling CHF 165 million were recorded. The major items related to:

- A charge of CHF 76 million following a clinical data assessment. The asset concerned, which was not yet being amortised, was fully written down.
- A charge of CHF 37 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 CHF 29 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.
- A charge of CHF 19 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.

Impairment charges – 2020

Pharmaceuticals Division. Impairment charges totalling CHF 342 million were recorded which related to:

- A charge of CHF 342 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 was 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 CHF 1,063 million.

10. Provisions and contingent liabilities

Provisions in millions of CHF

	30 June 2021	31 December 2020
Legal provisions	422	395
Environmental provisions	434	443
Restructuring provisions	1,238	1,172
Contingent consideration provisions ¹⁶	134	150
Other provisions	1,179	1,129
Total provisions	3,407	3,289
Current	1,940	1,836
Non-current	1,467	1,453
Total provisions	3,407	3,289

During the six months ended 30 June 2021 CHF 533 million of provisions were utilised (six months ended 30 June 2020: CHF 505 million), of which CHF 511 million (six months ended 30 June 2020: CHF 505 million) are included in the cash flow from operating activities and mainly related to the utilisation of restructuring and other provisions. The remaining CHF 22 million (six months ended 30 June 2020: nil) are included in the cash flow 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, there was a net increase in legal provisions of CHF 47 million.

No significant changes in the Group's contingent liabilities for legal cases have occurred since the approval of the Annual Financial Statements by the Board of Directors. There have been certain procedural developments in the significant litigation matters described in Note 20 to the Annual Financial Statements. These do not significantly affect the assessment of the Group's management concerning the adequacy of the total provisions recorded for legal matters.

11. Debt

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

Six months ended 30 June 2021	
At 1 January 2021	14,216
Proceeds from issue of bonds and notes	1,391
Redemption and repurchase of bonds and notes	(1,266)
Increase (decrease) in commercial paper	191
Increase (decrease) in other debt	(19)
Changes from financing cash flows	297
Net (gains) losses on redemption and repurchase of bonds and notes ⁴	0
Amortisation of debt discount ⁴	4
Financing costs	4
Business combinations	69
Net foreign currency transaction (gains) losses	(20)
Currency translation effects	451
Changes in foreign exchange rates	431
Changes in fair values of hedging instruments	(8)
Other changes	2
At 30 June 2021	15,011
Bonds and notes	12,478
Commercial paper	1,841
Amounts due to banks and other financial institutions	689
Other borrowings	3
Total debt	15,011
Long-term debt	11,285
Short-term debt	3,726
Total debt	15,011

Unamortised discount included in the carrying value of bonds and notes at 30 June 2021 was CHF 61 million (30 June 2020: CHF 69 million).

Issuance of bonds and notes – 2021

On 5 March 2021 the 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 5 March 2024 and 5 March 2026, respectively. The Group received CHF 1,066 million aggregate net proceeds from the issuance and sale of these fixed rate notes.

On 5 March 2021 the 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 5 March 2024. The Group received CHF 325 million aggregate net proceeds from the issuance and sale of these floating rate notes.

Issuance of bonds and notes – 2020

During the six months ended 30 June 2020 the Group did not issue any bonds or notes.

Redemption and repurchase of bonds and notes – 2021

On the due date of 4 March 2021 the 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 CHF 1,266 million and there was no gain or loss recorded on the redemption.

Redemption and repurchase of bonds and notes – 2020

During the six months ended 30 June 2020 the Group did not redeem or repurchase any bonds or notes.

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 committed credit line that is available as a back-stop supporting the commercial paper program is USD 7.5 billion at 30 June 2021. The maturity of the notes under the program cannot exceed 365 days from the date of issuance. At 30 June 2021 unsecured commercial paper notes with a principal amount of USD 2.0 billion and an average interest rate of 0.06% were outstanding.

Movements in commercial paper obligations in millions of CHF

Six months ended 30 June 2021	
At 1 January 2021	1,576
Net cash proceeds (payments)	191
Currency translation effects	74
At 30 June 2021	1,841

12. Equity attributable to Roche shareholders

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

The authorised and issued share capital of the Group and the number of issued non-voting equity securities have not changed during the six months ended 30 June 2021. The weighted average number of shares and non-voting equity securities in issue during the six months ended 30 June 2021 was 854 million (six months ended 30 June 2020: 855 million).

Dividends

On 16 March 2021 the shareholders approved the distribution of a dividend of CHF 9.10 per share and non-voting equity security (2020: CHF 9.00) in respect of the 2020 business year. The distribution to holders of outstanding shares and non-voting equity securities totalled CHF 7,773 million (2020: CHF 7,700 million) and has been recorded against retained earnings in the six months ended 30 June 2021.

Own equity instruments

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

	30 June 2021 (millions)	31 December 2020 (millions)
Shares	0	0
Non-voting equity securities	8.3	9.4
Total	8.3	9.4

Own equity instruments are held for the Group's potential conversion obligations that may arise from the Group's equity compensation plans (described in Note 27 to the Annual Financial Statements).

Retained earnings

In addition to net income attributable to Roche shareholders of CHF 7,803 million (six months ended 30 June 2020: CHF 8,079 million) and the dividend payments described above, retained earnings also include gains on remeasurements of defined benefit plans of CHF 1,288 million, after tax (six months ended 30 June 2020: losses of CHF 141 million, after tax). These were based on updated actuarial calculations for major plans and the gains were due to changes in discount rates and an increase in the fair value of plan assets since the end of 2020.

13. Subsidiaries and associates

Chugai

Chugai is a fully consolidated subsidiary of the Group and at 30 June 2021 the Group's interest in Chugai was 61.2% (31 December 2020: 61.2%). The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code 'TSE:4519'. Chugai prepares financial statements in accordance with International Financial Reporting Standards (IFRS) that are filed on a quarterly basis with the Tokyo Stock Exchange.

The dividends distributed to third parties holding Chugai shares during the six months ended 30 June 2021 totalled CHF 161 million (six months ended 30 June 2020: CHF 174 million) and have been recorded against non-controlling interests. Dividends paid by Chugai to Roche are eliminated on consolidation as intercompany items.

14. Earnings per share and non-voting equity security

Basic earnings per share and non-voting equity security

	Six months ended 30 June	
	2021	2020
Net income attributable to Roche shareholders (CHF millions)	7,803	8,079
Number of shares (millions)	160	160
Number of non-voting equity securities (millions)	703	703
Weighted average number of own shares and non-voting equity securities held (millions)	(9)	(8)
Weighted average number of shares and non-voting equity securities in issue used to calculate basic earnings per share (millions)	854	855
Basic earnings per share and non-voting equity security (CHF)	9.14	9.45

Diluted earnings per share and non-voting equity security

	Six months ended 30 June	
	2021	2020
Net income attributable to Roche shareholders (CHF millions)	7,803	8,079
Increase in non-controlling interests' share of Group net income, assuming all outstanding Chugai stock options exercised (CHF millions)	0	(1)
Net income used to calculate diluted earnings per share (CHF millions)	7,803	8,078
Weighted average number of shares and non-voting equity securities in issue (millions)	854	855
Adjustment for assumed exercise of equity compensation plans, where dilutive (millions)	8	11
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)	862	866
Diluted earnings per share and non-voting equity security (CHF)	9.05	9.32

15. Statement of cash flows

Cash generated from operations in millions of CHF

	Six months ended 30 June	
	2021	2020
Net income	8,216	8,465
Add back non-operating (income) expense		
– Financing costs ⁴	211	286
– Other financial (income) expense ⁴	(21)	171
– Income taxes ⁵	1,671	1,716
Operating profit	10,077	10,638
Depreciation of property, plant and equipment ²	1,261	1,185
Depreciation of right-of-use assets ²	178	180
Amortisation of intangible assets ²	830	830
Impairment of goodwill ²	0	0
Impairment of intangible assets ²	165	342
Impairment (reversal) of property, plant and equipment ²	(157)	8
Impairment of right-of-use assets ²	0	8
Operating (income) expense for defined benefit plans	367	337
Operating expense for equity-settled equity compensation plans	299	318
Net (income) expense for provisions	563	2
Bad debt (reversal) expense	(2)	4
Inventory write-downs	251	100
Inventory fair value adjustments	11	0
Net (gain) loss on disposal of products	(484)	(130)
Other adjustments	(35)	(15)
Cash generated from operations	13,324	13,807

Dividends paid in millions of CHF

	Six months ended 30 June	
	2021	2020
Dividends to Roche Group shareholders	(7,773)	(7,700)
Dividends to non-controlling shareholders		
– Chugai	(161)	(174)
– Other non-controlling interests	(1)	0
Increase (decrease) in dividends payable	1	2
Dividend withholding tax	(21)	66
Total	(7,955)	(7,806)

16. Financial risk management

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

Fair value hierarchy

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

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

Fair value hierarchy of financial instruments in millions of CHF

	Level 1	Level 2	Level 3	Total
At 30 June 2021				
Marketable securities:				
– Equity securities at fair value through profit or loss	3	–	–	3
– Debt securities at fair value through OCI	593	0	–	593
– Money market instruments at fair value through OCI	–	1,946	–	1,946
Derivative financial instruments	–	81	–	81
Equity investments at fair value through OCI	264	24	–	288
Equity investments at fair value through profit or loss	391	216	–	607
Financial assets recognised at fair value	1,251	2,267	–	3,518
Derivative financial instruments	–	(294)	–	(294)
Contingent consideration	–	–	(134)	(134)
Financial liabilities recognised at fair value	–	(294)	(134)	(428)

At 30 June 2021 Level 1 financial assets consist of bonds and quoted shares. Level 2 financial assets consist primarily of commercial paper, certificates of deposit and derivative financial instruments.

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

- Marketable securities and derivative financial instruments are based on valuation models that use observable market data for interest rates, yield curves, foreign exchange rates and implied volatilities for similar instruments at the measurement date.
- Equity investments at fair value through OCI and at fair value through profit or loss are based on a valuation model that uses the most recently published observable market data.

The 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 30 June 2021.

Level 3 fair values

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

Contingent consideration arrangements in millions of CHF

Six months ended 30 June 2021	
At 1 January 2021	(150)
Utilised for settlements ⁶	22
Total gains and losses included in the income statement	
- Unused amounts reversed – recorded within general and administration	1
- Additional amounts created – recorded within general and administration	(3)
- Discount unwind included in financing costs	(2)
Total gains and losses included in other comprehensive income	
- Currency translation effects	(2)
At 30 June 2021	(134)

Contingent consideration arrangements

The 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 average discount rate of 2.4% at 30 June 2021 (31 December 2020: 2.1%). The expected payments are determined by considering the possible scenarios of forecast sales and other performance criteria, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales, other performance criteria and the risk-adjusted discount rate. The estimated fair value would increase if the forecast sales or other performance criteria rates were higher or the risk-adjusted discount rate was lower. At 30 June 2021 the total potential payments under contingent consideration arrangements arising from business combinations could be up to CHF 0.4 billion (31 December 2020: CHF 0.4 billion).

Carrying value and fair value

At 30 June 2021 the carrying value of bonds and notes is CHF 12.5 billion compared to a fair value of CHF 13.8 billion and the carrying value of total debt is CHF 15.0 billion compared to a fair value of CHF 16.3 billion. The carrying values of financial assets are a reasonable approximation of the fair values at 30 June 2021.



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

to the Board of Directors of Roche Holding Ltd, Basel

Introduction

We have been engaged to review the accompanying consolidated balance sheet of Roche Holding Ltd as at 30 June 2021 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 40 to 69. The Board of Directors is responsible for the preparation and presentation of these interim consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with 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 2021 are not prepared, in all material respects, in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

KPMG AG

A handwritten signature in black ink, appearing to read 'Baillache'.

Mark Baillache
Licensed Audit Expert

Basel, 20 July 2021

A handwritten signature in black ink, appearing to read 'M. Ziegler'.

Marc Ziegler
Licensed Audit Expert

KPMG AG, Viaduktstrasse 42, PO Box 3456, CH-4002 Basel

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Supplementary Information

Alternative Performance Measures

The financial information included in the Financial Review includes certain Alternative Performance Measures (APMs) which are not accounting measures as defined by IFRS, in particular the core results, net working capital, net operating assets, free cash flow and constant exchange rates. These APMs should not be used instead of, or considered as alternatives to, the Group's consolidated interim financial results based on IFRS. These APMs may not be comparable to similarly titled measures disclosed by other companies. All APMs presented in the Financial Review relate to the performance of the current reported period and comparative periods.

Core results

Core results allow for an assessment of both the Group's actual results as defined by IFRS and the underlying performance of the business. The core results concept, which is used in the internal management of the business, is based on the IFRS results, with the following adjustments:

- Global restructuring plans (see Note 7) are excluded.
- Amortisation and impairment of intangible assets (see Note 9), with the exception of commercial software intangible assets, and impairment of goodwill (see Note 8) are excluded.
- Acquisition accounting and other impacts from the accounting for merger and acquisitions and alliance transactions (see Financial Review) are excluded.
- Discontinued operations (currently none) are excluded.
- Legal and environmental cases (see Financial Review) are excluded.
- Global issues outside the healthcare sector beyond the Group's control are excluded.
- Material treasury items such as major debt restructurings (currently none) are excluded.
- Pension plan settlements are excluded.
- The tax benefit recorded under IFRS in respect of Equity Compensation Plans (ECPs), which varies according to the price of the underlying equity, is replaced by a normalised tax benefit, being the IFRS 2 expense multiplied by the applicable tax rate (see Note 5).

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

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

Core results reconciliation – Six months ended 30 June 2021 in millions of CHF

	IFRS	Global restruc- turing	Intan- gibles amorti- sation	Intan- gibles impair- ment	M&A and alliance trans- actions	Legal & environ- mental	Pension plan settle- ments	Global issues	Normali- sation of ECP tax benefit	Core
Sales	30,713	-	-	-	-	-	-	-	-	30,713
Royalties and other operating income	1,420	0	-	-	-	-	-	-	-	1,420
Cost of sales	(8,992)	88	656	0	11	-	-	-	-	(8,237)
Marketing and distribution	(4,489)	180	17	0	-	-	-	-	-	(4,292)
Research and development	(7,110)	98	157	165	-	-	-	-	-	(6,690)
General and administration	(1,465)	145	-	0	26	32	0	-	-	(1,262)
Operating profit	10,077	511	830	165	37	32	0	-	-	11,652
Financing costs	(211)	0	-	-	2	2	-	-	-	(207)
Other financial income (expense)	21	-	-	-	-	-	-	-	-	21
Profit before taxes	9,887	511	830	165	39	34	0	-	-	11,466
Income taxes	(1,671)	(106)	(114)	(31)	(8)	(7)	0	0	(2)	(1,939)
Net income	8,216	405	716	134	31	27	0	0	(2)	9,527
Attributable to										
- Roche shareholders	7,803	400	711	134	31	27	0	0	(2)	9,104
- Non-controlling interests	413	5	5	0	-	0	-	-	-	423

Core results reconciliation – Six months ended 30 June 2020 in millions of CHF

	IFRS	Global restruc- turing	Intan- gibles amorti- sation	Intan- gibles impair- ment	M&A and alliance trans- actions	Legal & environ- mental	Pension plan settle- ments	Global issues	Normali- sation of ECP tax benefit	Core
Sales	29,281	-	-	-	-	-	-	-	-	29,281
Royalties and other operating income	1,097	0	-	-	-	-	-	-	-	1,097
Cost of sales	(7,785)	45	661	0	-	-	-	-	-	(7,079)
Marketing and distribution	(4,572)	42	15	0	-	-	-	-	-	(4,515)
Research and development	(6,345)	62	154	342	-	-	-	-	-	(5,787)
General and administration	(1,038)	104	-	0	30	(325)	(2)	-	-	(1,231)
Operating profit	10,638	253	830	342	30	(325)	(2)	-	-	11,766
Financing costs	(286)	0	-	-	3	3	-	-	-	(280)
Other financial income (expense)	(171)	-	-	-	-	-	-	-	-	(171)
Profit before taxes	10,181	253	830	342	33	(322)	(2)	-	-	11,315
Income taxes	(1,716)	(47)	(97)	(75)	(6)	72	0	0	(3)	(1,872)
Net income	8,465	206	733	267	27	(250)	(2)	0	(3)	9,443
Attributable to										
- Roche shareholders	8,079	200	731	267	27	(250)	(2)	0	(3)	9,049
- Non-controlling interests	386	6	2	0	-	0	-	-	-	394

Divisional core results reconciliation – Six months ended 30 June 2021 in millions of CHF

	IFRS	Global restruc- turing	Intangibles amorti- sation	Intangibles impairment	M&A and alliance trans- actions	Legal & environ- mental	Pension plan settlements	Core
Pharmaceuticals								
Sales	21,671	-	-	-	-	-	-	21,671
Royalties and other operating income	1,372	0	-	-	-	-	-	1,372
Cost of sales	(4,515)	29	604	0	-	-	-	(3,882)
Marketing and distribution	(3,086)	115	9	0	-	-	-	(2,962)
Research and development	(6,280)	82	150	165	-	-	-	(5,883)
General and administration	(849)	75	-	0	16	4	0	(754)
Operating profit	8,313	301	763	165	16	4	0	9,562
Diagnostics								
Sales	9,042	-	-	-	-	-	-	9,042
Royalties and other operating income	48	0	-	-	-	-	-	48
Cost of sales	(4,477)	59	52	0	11	-	-	(4,355)
Marketing and distribution	(1,403)	65	8	0	-	-	-	(1,330)
Research and development	(830)	16	7	0	-	-	-	(807)
General and administration	(334)	22	-	0	10	28	0	(274)
Operating profit	2,046	162	67	0	21	28	0	2,324
Corporate								
General and administration	(282)	48	-	-	0	0	0	(234)
Operating profit	(282)	48	-	-	0	0	0	(234)

Divisional core results reconciliation – Six months ended 30 June 2020 in millions of CHF

	IFRS	Global restruc- turing	Intangibles amorti- sation	Intangibles impairment	M&A and alliance trans- actions	Legal & environ- mental	Pension plan settlements	Core
Pharmaceuticals								
Sales	23,202	-	-	-	-	-	-	23,202
Royalties and other operating income	1,070	0	-	-	-	-	-	1,070
Cost of sales	(4,800)	12	613	0	-	-	-	(4,175)
Marketing and distribution	(3,305)	27	12	0	-	-	-	(3,266)
Research and development	(5,605)	36	150	342	-	-	-	(5,077)
General and administration	(535)	53	-	0	28	(337)	(2)	(793)
Operating profit	10,027	128	775	342	28	(337)	(2)	10,961
Diagnostics								
Sales	6,079	-	-	-	-	-	-	6,079
Royalties and other operating income	27	-	-	-	-	-	-	27
Cost of sales	(2,985)	33	48	0	-	-	-	(2,904)
Marketing and distribution	(1,267)	15	3	0	-	-	-	(1,249)
Research and development	(740)	26	4	0	-	-	-	(710)
General and administration	(249)	8	-	0	2	18	0	(221)
Operating profit	865	82	55	0	2	18	0	1,022
Corporate								
General and administration	(254)	43	-	-	0	(6)	0	(217)
Operating profit	(254)	43	-	-	0	(6)	0	(217)

Core EPS (basic)

	Six months ended 30 June	
	2021	2020
Core net income attributable to Roche shareholders (CHF millions)	9,104	9,049
Weighted average number of shares and non-voting equity securities in issue used to calculate basic earnings per share (millions) ¹⁴	854	855
Core earnings per share (basic) (CHF)	10.66	10.58

Core EPS (diluted)

	Six months ended 30 June	
	2021	2020
Core net income attributable to Roche shareholders (CHF millions)	9,104	9,049
Increase in non-controlling interests' share of core net income, assuming all outstanding Chugai stock options exercised (CHF millions)	0	(1)
Net income used to calculate diluted earnings per share (CHF millions)	9,104	9,048
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share (millions)¹⁴	862	866
Core earnings per share (diluted) (CHF)	10.56	10.44

Free cash flow

Free cash flow is used to assess the Group's ability to generate the cash required to conduct and maintain its operations. It also indicates the Group's ability to generate cash to finance dividend payments, repay debt and to undertake merger and acquisition activities. The free cash flow concept is used in the internal management of the business.

Operating free cash flow is calculated based on the IFRS operating profit and adjusted for certain non-cash items, movements in net working capital and capital expenditures (investments in property, plant and equipment and intangible assets as well as the principal portion of lease liabilities paid for leased assets). Operating free cash flow is different from cash flows from operating activities as defined by IAS 7 in that it includes capital expenditures (which are within the responsibility of divisional management) and excludes income taxes paid (which are not within the responsibility of divisional management). Cash outflows from defined benefit plans are allocated to the operating free cash flow based on the current service cost with the residual allocated to treasury activities.

Free cash flow is calculated as the operating free cash flow adjusted for treasury activities and taxes paid. Free cash flow is different from total cash flows as defined by IAS 7 in that it excludes dividend payments, cash inflows/outflows from financing activities such as issuance/repayment of debt, purchase/sale of marketable securities and cash inflows/outflows from mergers, acquisitions and divestments.

Operating free cash flow and free cash flow are calculated as shown in the tables below. Additional commentary to the adjustment items is given in the Financial Review.

Operating free cash flow reconciliation in millions of CHF

	Six months ended 30 June	
	2021	2020
Cash flows from operating activities (IFRS basis in accordance with IAS 7)	8,212	7,062
Add back		
- Income taxes paid	2,183	1,269
Deduct		
- Investments in property, plant and equipment	(1,759)	(1,614)
- Principal portion of lease liabilities paid	(187)	(183)
- Investments in intangible assets	(335)	(1,524)
- Disposal of property, plant and equipment	38	34
- Disposal of intangible assets	0	0
Pensions and other post-employment benefits		
- Add back total payments for defined benefit plans	288	284
- Deduct allocation of payments to operating free cash flow	(367)	(339)
Acquisition-related items, including transaction costs	46	47
Other operating items	(2)	0
Operating free cash flow	8,117	5,036

Free cash flow reconciliation in millions of CHF

	Six months ended 30 June	
	2021	2020
Cash flows from operating activities (IFRS basis in accordance with IAS 7)	8,212	7,062
Deduct		
- Investments in property, plant and equipment	(1,759)	(1,614)
- Principal portion of lease liabilities paid	(187)	(183)
- Investments in intangible assets	(335)	(1,524)
- Disposal of property, plant and equipment	38	34
- Disposal of intangible assets	0	0
- Interest paid	(243)	(264)
Other operating items, including acquisition-related items	44	47
Other treasury items	268	(284)
Free cash flow	6,038	3,274

Supplementary information used to calculate the divisional operating free cash flow is shown in the table below.

Divisional operating free cash flow information in millions of CHF

Six months ended 30 June	Pharmaceuticals		Diagnostics		Corporate		Group	
	2021	2020	2021	2020	2021	2020	2021	2020
Depreciation, amortisation and impairments								
Depreciation of property, plant and equipment	634	621	598	536	29	28	1,261	1,185
Depreciation of right-of-use assets	116	119	57	56	5	5	178	180
Amortisation of intangible assets	763	775	67	55	-	-	830	830
Impairment (reversal) of property, plant and equipment	(173)	8	16	0	0	0	(157)	8
Impairment of right-of-use assets	0	0	0	8	0	0	0	8
Impairment of goodwill	0	0	0	0	-	-	0	0
Impairment of intangible assets	165	342	0	0	-	-	165	342
Total	1,505	1,865	738	655	34	33	2,277	2,553
Other adjustments								
Add back								
- Expenses for equity-settled equity compensation plans	237	253	39	42	23	23	299	318
- Net (income) expense for provisions	366	(100)	189	97	8	5	563	2
- Net (gain) loss from disposals	(485)	(124)	8	(3)	0	0	(477)	(127)
- Non-cash working capital and other items	25	24	199	63	1	1	225	88
Deduct								
- Utilisation of provisions	(306)	(318)	(139)	(116)	(27)	(28)	(472)	(462)
- Proceeds from disposals	503	133	19	31	0	0	522	164
Total	340	(132)	315	114	5	1	660	(17)
Operating profit cash adjustments	1,845	1,733	1,053	769	39	34	2,937	2,536

EBITDA

The Group does not use Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) in either its internal management reporting or its external communications. In the opinion of the Group's management, operating free cash flow gives a more useful and consistent measurement of 'cash earnings' than EBITDA, which includes many non-cash items such as provisions, allowances for trade receivables and inventories, and certain non-cash entries arising from acquisition accounting and pension accounting. Operating free cash flow also includes the cash used for investments in property, plant and equipment, leased assets and intangible assets, whereas EBITDA excludes all costs and cash outflows for these items.

For the convenience of those readers who do use EBITDA, this is provided in the table below. As the starting point this uses the core results, which already exclude the amortisation and impairment of goodwill and intangible assets.

EBITDA (using core results) in millions of CHF

Six months ended 30 June	Pharmaceuticals		Diagnostics		Corporate		Group	
	2021	2020	2021	2020	2021	2020	2021	2020
EBITDA								
Core operating profit	9,562	10,961	2,324	1,022	(234)	(217)	11,652	11,766
Depreciation and impairment of property, plant and equipment – Core basis	436	609	590	527	29	28	1,055	1,164
Depreciation and impairment of right-of-use assets – Core basis	114	118	57	56	5	5	176	179
EBITDA	10,112	11,688	2,971	1,605	(200)	(184)	12,883	13,109
– margin, % of sales	46.7	50.4	32.9	26.4	–	–	41.9	44.8

Net operating assets

Net operating assets allow for an assessment of the Group's operating performance of the business independently from financing and tax activities. Net operating assets are calculated as property, plant and equipment, leased assets ('right-of-use assets'), goodwill, intangible assets, net working capital and long-term net operating assets minus provisions.

The calculation of the net operating assets disclosed in Note 2 is shown in the table below.

Net operating assets reconciliation – 30 June 2021 in millions of CHF

	Pharmaceuticals	Diagnostics	Corporate	Treasury and taxation	Group
Property, plant and equipment	16,042	6,889	241	–	23,172
Right-of-use assets	777	290	61	–	1,128
Goodwill	5,808	4,815	–	–	10,623
Intangible assets	10,695	1,815	–	–	12,510
Inventories	4,849	3,470	–	–	8,319
Provisions	(2,162)	(1,012)	(233)	–	(3,407)
Current income tax net liabilities	–	–	–	(3,320)	(3,320)
Deferred tax net assets	–	–	–	5,267	5,267
Defined benefit plan net liabilities	–	–	–	(5,551)	(5,551)
Lease liabilities	–	–	–	(1,225)	(1,225)
Marketable securities	–	–	–	3,017	3,017
Cash and cash equivalents	–	–	–	5,000	5,000
Debt	–	–	–	(15,011)	(15,011)
Other net assets (liabilities)					
– Net working capital	(1,257)	710	(151)	–	(698)
– Other long-term net operating assets	827	3	6	–	836
– Other	–	–	–	773	773
Total net assets	35,579	16,980	(76)	(11,050)	41,433

Net debt

Net debt is used to monitor the Group's overall short- and long-term liquidity. Net debt is calculated as the sum of total debt (long-term and short-term) less marketable securities, cash and cash equivalents.

Net debt calculations, including details of movements during the current reported period, are shown in the table on page 35 in the Financial Review.

Net working capital

Net working capital is used to assess the Group's efficiency in utilising assets and short-term liquidity. Net trade working capital is calculated as trade receivables and inventories minus trade payables. Net working capital is calculated as net trade working capital adjusted for other receivables and other payables.

Net working capital and net trade working capital calculations are shown in the tables on page 23 (Pharmaceuticals Division), page 28 (Diagnostics Division) and page 30 (Corporate) in the Financial Review.

Constant exchange rates

Certain percentage changes in the Financial Review have been calculated using constant exchange rates (CER) which allow for an assessment of the Group's financial performance with the effects of exchange rate fluctuations eliminated. The percentage changes at constant exchange rates are calculated using simulations by reconsolidating both the current reported period and the prior period numbers at constant currency exchange rates, equalling the average exchange rates for the prior year. For example, a CER change between a 2021 line item and its 2020 equivalent is calculated using the average exchange rate for the year ended 31 December 2020 for both the 2021 line item and the 2020 line item and subsequently calculating the change in percent with respect to the two recalculated numbers.

Foreign exchange gains and losses are excluded from the calculation of CER growth rates in the earning per share disclosures. In countries where there is a significant devaluation in the local currency in the current reported period, the simulations use the average exchange rate of the current reported period instead of the prior period to avoid that CER growth rates are artificially inflated.

Roche Securities

Number of shares and non-voting equity securities^{a)}

	30 June 2021	31 December 2020
Number of shares (nominal value: CHF 1.00)	160,000,000	160,000,000
Number of non-voting equity securities (<i>Genussscheine</i>) (no nominal value)	702,562,700	702,562,700
Total	862,562,700	862,562,700
Number of own shares and non-voting equity securities (<i>Genussscheine</i>) held	(8,301,797)	(9,436,750)
Total in issue	854,260,903	853,125,950

Data per share and non-voting equity security in CHF

		Six months ended 30 June	
		2021	2020
Earnings (basic)		9.14	9.45
Earnings (diluted)		9.05	9.32
Core earnings (basic)		10.66	10.58
Core earnings (diluted)		10.56	10.44
Stock price of share ^{b)}	Opening	310.00	307.60
	High	377.60	352.20
	Low	303.80	267.40
	Period end	375.80	325.00
Stock price of non-voting equity security (<i>Genussschein</i>) ^{b)}	Opening	309.00	314.00
	High	349.15	354.05
	Low	297.05	274.45
	Period end	348.55	328.35

Market capitalisation in millions of CHF

	30 June 2021	31 December 2020	30 June 2020
Period end	302,113	263,776	280,086

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

b) All stock price data reflect daily closing prices.

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