

*Roche Finance Europe B.V. -
Financial Statements 2020*

Management Report

1. Review of the year ended 31 December 2020

General

Roche Finance Europe B.V., a company registered in the Netherlands (hereafter 'the Company'), is controlled by the immediate parent company Roche Pharmholding and 100% indirectly owned by the ultimate parent company Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group. The main activity of the Company is the provision of financing to other affiliates of the Roche Group. Refinancing takes place on the bond or loan markets.

Financial position and performance

In the financial year 2020, the company made a net gain of EUR 560 thousand (2019: Net gain was EUR 381 thousand). Interest income on loans was EUR 32,327 thousand (2019: EUR 32,337 thousand), interest expense on debt instruments was EUR 16,543 thousand (2019: EUR 16,629 thousand), amortisation cost of debt discount was EUR 1,445 thousand (2019: EUR 1,434 thousand) and guarantee fees to the parent company were EUR 13,613 thousand (2019: EUR 13,613 thousand).

No investments were made during the financial year 2020 (2019: none).

The credit rating of Roche Holding Ltd is AA (Standard & Poor's), based on the most recent available ratings. These ratings have not changed since the onset of the COVID-19 pandemic. The present value of the future cash flows of the intercompany loans should be suffice in order to meet the future obligations of the Company.

Employees

The Company has no employees. Roche Pharmholding B.V., Woerden, performs all administrative activities on behalf of the Company.

Diversity and Inclusion

Diversity and Inclusion are part of the Roche Group, as well as the Roche Finance Europe B.V. overall corporate goals. The Roche Finance Europe B.V. board consists now of 4 members, of which 2 are male (50%) and 2 are female (50%) and, as such, the Company met the gender representation target in the year ended 2019. The Management Board recognises the benefits of diversity, including gender balance. The Management Board will continue to be selected on the basis of wide-ranging experience, backgrounds, skills, knowledge and insights and the gender diversity objectives will be taken into account as much as possible.

Future outlook

The Company will continue its current activities in 2021. No changes in the activities of the Company are expected. The Company does not have current plans to issue new bonds or repay bonds early. Additionally, no changes to the intercompany loan structure are currently foreseen.

2. Principal risks and uncertainties

Strategy

The financing activities of the Company will develop in line with the strategy of the Roche Group. Depending on the future financing needs of the Roche Group, the Management Board of the Company may decide to issue new debt securities and/or borrow funds to finance other members of the Roche Group. Consequently, the Management Board is responsible for the long-term strategy of the Company. The Company meets all of the requirements with respect to Corporate Governance by complying with requirements as set out in the relevant regulation, including these of the Luxembourg Stock Exchange.

Operational activities

The Company has no employees. Roche Pharmholding B.V., Woerden, performs all administrative activities on behalf of the Company. The Board of Directors is responsible to ensure all activities, including the ones performed outside the IT infrastructure, are performed considering adequate segregation of duties. This is also in order to mitigate the risk of fraudulent activities. Managing the interest, liquidity and credit risks resides as well with the Board of Directors of the Company. Whenever the Company is unable to manage these risks adequately, or is unable to meet compliance with applicable regulation, this would directly have effect on the reputation of the Company and the Roche Group.

Risks

The Company is exposed to various financial risks arising from its financing activities.

Credit Risk

The Company is exposed to potential default of payment of any of its loans receivable from other affiliates of the Roche Group. Therefore the credit risk ultimately depends on the financial position of the Roche Group.

The Company has assessed certain accounting matters that generally require consideration of forecasted 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 Company's financial assets. No impairment issues were noted for financial assets of the Company. At 31 December 2020 the Company has no financial assets which are past due.

Market and Liquidity Risk

The exposure to interest rates and foreign exchange rates is limited, because interest rates, duration and terms of financial assets and liabilities as well as their currency are generally matching. Therefore, the liquidity risk is reduced as well. Moreover, the Company's obligations to third parties on the bond markets are guaranteed by Roche Holding Ltd, the parent company of the Roche Group and covered by loans receivable from other members of the Roche Group that have the same maturity. The Roche Group did not observe a significant increase in liquidity risk in 2020 due to the COVID-19 pandemic.

The Company's financial risk management is described in more detail in Note 16 to the Annual Financial Statements for the year ended 31 December 2020.

Uncertainties

The main activity of the Company is to provide financing to other members of the Roche Group and to refinance this on the bond or loan markets. Depending on decisions of management, the Company may potentially issue new debt securities and/or borrow funds to finance other members of the Roche Group.

While there was no significant impact from the areas assessed on the Company Financial Statements, the Company will continue to monitor the areas of increased judgements and risk for material changes. Based on our current knowledge and available information, it is not expected that COVID-19 pandemic will have an impact on the ability of the Company to continue as a going concern.

The other various known and unknown risks, uncertainties and other factors could lead to substantial differences between the current and future results, financial position and performance of the Company and the historical results given in the Management Report and the Financial Statements.

3. Responsibility statement

The directors of Roche Finance Europe B.V. confirm that, to the best of their knowledge as of the date of their approval of the audited financial statements as at 31 December 2020:

- the audited financial statements as at 31 December 2020, which have been prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Roche Finance Europe B.V. taken as a whole; and
- the management report gives a true and fair view of the development and performance of the business and the position of Roche Finance Europe B.V. together with a description of the principal risks and uncertainties that it faces.

Woerden, 29 January 2021

The Board of Directors

Sheri L. Morin

Peter Eisenring

Mark Ekelschot

Hafsa Shamsie

Roche Finance Europe B.V. Financial Statements

Roche Finance Europe B.V., statement of comprehensive income *in millions of EUR*

	Year ended 31 December	
	2020	2019
Income		
Financial income – related parties ³	32	32
Total Income	32	32
Expenses		
Financing costs ³	(18)	(18)
Guarantee fees – related parties ³	(13)	(14)
Changes in impairment losses on financial instruments	-	-
Total expenses	(31)	(32)
	-	-
Profit (loss) before taxes	1	-
Income tax ⁵	-	-
Net profit (loss)	-	-
Other comprehensive income, net of tax	-	-
Total comprehensive income	1	-

Roche Finance Europe B.V., balance sheet (before result appropriation) in millions of EUR

	31 December 2020	31 December 2019
Non-current assets		
Long-term loans receivable – related parties ⁷	1,727	1,731
Deferred income tax assets ⁵	-	-
Total non-current assets	1,727	1,731
Current assets		
Accounts receivable – related parties ⁸	33	31
Current income tax assets ⁵	-	-
Cash and cash equivalents ⁹	-	-
Total current assets	33	31
Total assets	1,760	1,762
Non-current liabilities		
Long-term debt ¹¹	(1,731)	(1,734)
Total non-current liabilities	(1,731)	(1,734)
Current liabilities		
Accrued interest on debt instruments ¹⁰	(12)	(12)
Total current liabilities	(12)	(12)
Total liabilities	(1,743)	(1,746)
Total net assets	17	16
Equity		
Share capital ¹²	2	2
Retained earnings	14	14
Unappropriated result	1	-
Total equity	17	16

Roche Finance Europe B.V., statement of cash flows *in millions of EUR*

	Year ended 31 December	
	2020	2019
Cash flows from operating activities		
Net profit (loss after tax)	1	-
Adjustments:		
- Interest income – related parties ³	(32)	(32)
- Changes in expected loss allowance on loans	-	-
- Financing costs ³	18	18
- Guarantee fees expense – related parties ³	13	14
- Income taxes expense	-	-
- Unrealised exchange gains on loan receivables	4	(4)
- Unrealised exchange losses on debt	(4)	4
Total	(1)	-
Proceeds from repayment of loans receivable – related parties ⁷	-	-
Interest received – related parties	32	32
(Increase) decrease of cash pool balance with related parties	(2)	(1)
Total cash flow from operating activities	30	31
Cash flows from investing activities		
Total cash flow from investing activities	-	-
Cash flows from financing activities		
Repayment and redemption of bonds and notes ¹¹	-	-
Guarantee fees paid – related parties	(13)	(14)
Interest paid	(17)	(17)
Total cash flow from financing activities	(30)	(31)
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December ⁹	-	-

Roche Finance Europe B.V., statement of changes in equity in millions of EUR

	Share capital	Retained earnings	Unappropriated result	Total
Year ended 31 December 2019				
At 1 January 2019	2	17	(3)	16
Net income	-	-	-	-
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	-	-
Appropriation of result	-	(3)	3	-
At 31 December 2019	2	14	-	16
Year ended 31 December 2020				
At 1 January 2020	2	14	-	16
Net income	-	-	1	1
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1	1
Appropriation of result	-	-	-	-
At 31 December 2020	2	14	1	17

The retained earnings represents the Company's cumulative net result at the beginning of the period after accounting for dividend payments.

Unappropriated result represents the Company's net result for the period.

Notes to the Roche Finance Europe B.V. Financial Statements

1. Summary of significant accounting policies

Basis of preparation

These financial statements are the audited annual financial statements (hereafter 'the Annual Financial Statements') of Roche Finance Europe B.V., Chamber of Commerce Number 30186306, a company incorporated in the Netherlands ('the Company'). The Company is controlled by the immediate parent company Roche Pharmholding and 100% indirectly owned by the ultimate parent company Roche Holding Ltd, a public company registered in Switzerland and parent company of the Roche Group, and therefore the Company is part of the Roche Group. The main activity of the Company is the provision of financing to other affiliates of the Roche Group. Refinancing takes place on the bond or loan markets.

Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value (currently none). They were approved for issue by the Board of Directors on 29 January 2021.

Key accounting judgements, estimates and assumptions

The preparation of the Annual Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and related disclosures. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and various other factors. Revisions to estimates are recognised in the period in which the estimate is revised.

There are currently no key assumptions about the future and no key source of estimation uncertainty that the Company's management believe have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next twelve months.

Impairment of financial assets.

At 31 December 2020 the Company had EUR 2 million in allowance for doubtful accounts for loans receivables (2019: EUR 2 million) (see Note 7). The allowance for doubtful accounts is based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the calculation of the allowance for doubtful accounts, based on the company's past experience, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Impact of the COVID-19 pandemic

The Company has assessed certain accounting matters that generally require consideration of forecasted 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 Company's financial assets. No impairment issues were noted for financial assets of the Company. At 31 December 2020 the Company has no financial assets which are past due.

While there was no significant impact from the areas assessed on the Company Financial Statements, the Company will continue to monitor the areas of increased judgements and risk for material changes. Based on our current knowledge and available information, it is not expected that COVID-19 pandemic will have an impact on the ability of the Company to continue as a going concern.

Changes in accounting policies adopted by the Roche Group and, consequently, by the Company

In 2020 Roche Group has implemented various minor amendments to existing standards and interpretations. None of these new and revised standards and interpretations has a material impact on the Company's overall results and financial position.

Foreign currency translation

The functional currency of the Company is Euro (EUR). Transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. The exchange differences arising from the translation of the unsettled monetary assets and liabilities or upon their settlement are recognised in profit or loss.

Accounting policies for assets and liabilities

Accounts receivable

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts. The Company applies the simplified approach prescribed by IFRS 9, which requires the use of the lifetime expected loss provision from initial recognition of the receivables. The Company measures an allowance for doubtful accounts equal to the credit losses expected over the lifetime of accounts receivable.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and time, call and current balances with banks and similar institutions. Such balances are only reported as cash equivalents if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value and have a maturity of three months or less from the date of acquisition.

Fair values

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as the discounted cash flow method if quoted prices in an active market are not available ('Fair value hierarchy'). Valuation techniques will incorporate observable market data about market conditions and other factors that are likely to affect the fair value of a financial instrument. The fair values of financial assets and liabilities at the reporting date are not materially different from their reported carrying values unless specifically mentioned in the Notes to the Financial Statements.

Financial assets at amortised cost

Financial assets are measured at amortised costs.

Loans and receivables are non-derivative financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Loans and receivables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest rate method, less any impairment losses.

For loans to related parties carried at amortised cost, the Company applies the general expected credit loss model.

Allowances for expected credit losses for loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the allowance is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. The Company uses the 30 days past due criteria as a backstop rather than a primary driver to considering exposures to have significantly increased credit risk since the initial recognition.

For those where the credit risk has not increased significantly since initial recognition of the financial asset, twelve month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The following indicators are incorporated: internal credit rating, significant increases in credit risk on other financial instruments of the same borrower, actual or expected significant adverse changes in business, financial and economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

Debt instruments

Debt instruments are initially recognised at fair value, net of transaction costs incurred, which is equal to the net proceeds received. Subsequently they are reported at amortised cost. Any discount between the net proceeds received and the principal value due on redemption is amortised over the duration of the debt instrument and is recognised as part of financing costs using the effective interest rate method. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Accounting policies for profit or loss

Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise guarantee fee expenses, interest expense on borrowings and impairment losses recognised on financial assets. Guarantee fee to Roche Holding Ltd. are recognised as it accrues and calculated as a fixed percentage of nominal value of outstanding Euro notes. Interest expenses are recognised using the effective interest method. Allowance for credit losses on financial assets to related parties are recognised based on a forward looking expected credit loss model.

Taxation

Income taxes include all taxes based upon the taxable profits of the Company, including withholding taxes payable on the distribution of retained earnings within the Roche Group. Other taxes not based on income, such as property and capital taxes, are included within other expenses.

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases of assets and liabilities and their carrying values. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Company operates.

Classification of cash flows

The Company has elected to present cash flow from operating activities using the indirect method, by adjusting the Company's net profit or loss after tax for any non-cash income and expense items in order to derive the cash generated from operations. The Company classifies the cash flows from the issuance of, or proceeds from, loans receivables and the interest received to 'operating activities'. The cash pool balances with related parties are also presented within cash flows from operating activities. The Company believes that, for a finance entity, presenting the aforementioned items within operating activities provides more relevant information. The cash flows from interest paid and repayment or redemption of bonds and notes and guaranteed fee paid are classified as financing activities.

2. Operating segment information

The Company has only one operating segment and undertakes its operations in the Netherlands. The vast majority of income relates to interest on loans received from related parties 7.

Financial income by locations of debtors in millions of EUR		
	2020	2019
Germany	28	28
UK	4	4
Total	32	32

3. Financial income and financing costs

Financial income – related parties in millions of EUR		
	2020	2019
Interest income – related parties ¹⁵	32	32
Changes in impairment losses on financial instruments	-	-
Total financial income – related parties	32	32

Financing costs in millions of EUR		
	2020	2019
Interest expense on debt instruments	(17)	(17)
Amortisation of debt discount ¹¹	(1)	(1)
Guarantee fees – related parties	(13)	(14)
Total financing costs	(31)	(32)

4. Auditors remuneration

For the financial year 2020, BDO Audit & Assurance B.V. charged net EUR 55,000 to the Company for the audit of Statutory Financial Statements and review of the Interim Financial Statements (2019: BDO Audit & Assurance B.V. charged net EUR 55,000).

No other services have been provided by the auditor.

5. Income taxes

Income tax expenses <i>in millions of EUR</i>		
	2020	2019
Current income taxes	-	-
Deferred income taxes	-	-
Total income (expense)	-	-
Income tax assets (liabilities) <i>in millions of EUR</i>		
	31 December 2020	31 December 2019
Current income taxes		
- Assets	-	-
- Liabilities	-	-
Net current income tax assets (liabilities)	-	-
Deferred income taxes		
- Assets	-	-
- Liabilities	-	-
Net deferred income tax assets (liabilities)	-	-

The Company is a member of the fiscal unity for corporate income tax (see Note 13). The Company's local statutory tax rate is 25.0% (2019: 25.0%) and this is also the effective tax rate in these Annual Financial Statements. The Company's effective tax rate can be reconciled to the Company's applicable tax rate as follows:

Reconciliation of the Company's effective tax rate		
	2020	2019
Applicable tax rate	25.00%	25.00%
Company's effective tax rate	25.00%	25.00%

6. Employee benefits

The Company has no employees. Roche Pharmholding B.V., Woerden, performs all administrative activities on behalf of the Company.

7. Loans receivable – related parties

Loans receivables: movements in carrying value <i>in millions of EUR</i>		
	2020	2019
At 1 January	1,731	1,726
Proceeds from repayments of loans receivables – related parties	-	-
Issuance of long-term loans receivables – related parties	-	-
Changes in impairment losses on financial instruments	-	-
Currency translation effects	(4)	5
At 31 December	1,727	1,731
Reported as		
- Long-term loans receivables	1,727	1,731
- Short-term loans receivables	-	-
Total loans receivables	1,727	1,731

GBP denominated loans

Loans receivable – related parties in millions of EUR

	31 December 2020	31 December 2019
Long-term loans		
Roche Diagnostics Limited, United Kingdom, due 29 August 2023, outstanding principal GBP 71 million (2019: GBP 71 million), interest rate 5.67%	79	83
Total loans receivable – related parties	79	83

EUR denominated loans

Loans receivable – related parties in millions of EUR

	31 December 2020	31 December 2019
Long-term loans		
Roche Deutschland Holding GmbH, Germany, due 27 February 2023, outstanding principal EUR 650 million, interest rate 1.515%	650	650
Roche Deutschland Holding GmbH, Germany, due 25 February 2025, outstanding principal EUR 1.0 billion, interest rate 1.80%	1,000	1,000
Total loans receivable – related parties	1,650	1,650
Reported as		
- Long-term loans receivable – related parties ¹⁵	1,729	1,733
- Short-term loans receivable – related parties ¹⁵	-	-
Total loans receivable – related parties	1,729	1,733
Expected credit loss – IFRS 9	(2)	(2)
Total loans receivable – related parties (Net)	1,727	1,731

Asset available for the repayment of liabilities

Movements in carrying value of recognised asset in millions of EUR

	At 1 January	Cash flows (Inflow)/ Outflow	Financing Income	Foreign Exchange Adjustments	At 31 December
2019					
Loan	1,726	(32)	32	5	1,731
Interest Receivable ⁸	25	-	-	-	25
Total assets available for the repayment of liabilities	1,751	(32)	32	5	1,756
2020					
Loan	1,731	(32)	32	(4)	1,727
Interest Receivable ⁸	25	-	-	-	25
Total asset available for the repayment of liabilities	1,756	(32)	32	(4)	1,752

8. Accounts receivable - related parties

The Company deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited are immediately available and bear variable interest referenced to one month LIBOR of the respective currency. LIBOR will be replaced with other reference rates during 2021.

At 31 December the Company also had interest receivables from Roche affiliates in respect of the loans given (see Note 7).

Accounts receivable – related parties in millions of EUR

	31 December 2020	31 December 2019
Accounts receivable with cash pool leader	8	6
Interest receivables – related parties	25	25
Total accounts receivable – related parties	33	31

9. Cash and cash equivalents

At 31 December 2020 the Company had no cash in its bank account (2019: none).

10. Accrued interest

Accrued interest in millions of EUR

	31 December 2020	31 December 2019
Interest payable	12	12
Total accrued interest	12	12

11. Debt

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

	2020	2019
At 1 January	1,734	1,728
Proceeds from issue of notes	-	-
Repayment and redemption of notes	-	-
Amortisation of debt discount ³	1	1
Currency translation effects	(4)	5
At 31 December	1,731	1,734
Consisting of		
- Notes	1,731	1,734
Total debt	1,731	1,734
Reported as		
- Long-term debt	1,731	1,734
- Short-term debt	-	-
Total debt	1,731	1,734

Recognised liabilities and effective interest rates of bonds and notes in millions of EUR

	Effective interest rate	31 December 2020	31 December 2019
Long-term debts			
0.5% notes due 27 February 2023, principal EUR 650 million (ISIN: XS1371715118)	0.63%	648	647
5.375% notes due 29 August 2023, principal GBP 250 million, outstanding GBP 76 million (ISIN: XS0175478873)	5.46%	85	90
0.875% notes due 25 February 2025, principal EUR 1.0 billion (ISIN: XS1195056079)	0.93%	998	997
Total		1,731	1,734

The fair value of the notes is EUR 1,801 million (2019: EUR 1,807 million). These are calculated based on observable market prices of the notes (Level 1 fair value hierarchy). There are no pledges on the Company's assets in connection with the debt. All issued notes are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Issuance of notes

The Company did not issue any new fixed rate bonds or notes during 2020 and 2019.

Redemption and repurchase of notes

The Company did not redeem or repurchase any bonds or notes during 2020 and 2019.

Liabilities arising from financing activities

Movements in carrying value of recognised liabilities in millions of EUR

	At 1 January	Cash flows Inflow (Outflow)	Financing Costs	Foreign Exchange Adjustments	At 31 December
2019					
Debt	1,728	(17)	18	5	1,734
Interest payable ¹⁰	12	-	-	-	12
Total liabilities arising from financing activities	1,740	(17)	18	5	1,746
2020					
Debt	1,734	(17)	18	(4)	1,731
Interest payable ¹⁰	12	-	-	-	12
Total liabilities arising from financing activities	1,746	(17)	18	(4)	1,743

12. Equity**Share Capital**

The authorised share capital of the Company amounts to EUR 10 million, consists of 100,000 shares with a nominal value of EUR 100 each of which 20,000 ordinary, voting shares have been issued and fully paid in. Roche Pharmholding B.V., a company registered in the Netherlands is the sole shareholder.

Dividends

There were no dividend payments in 2020 (2019: none).

Retained earnings and unappropriated result

The retained earnings represents the Company's cumulative net result at the beginning of the period after accounting for dividend payments. Unappropriated result represents the Company's net result for the period.

Own equity instruments

As of 31 December 2020, the Company holds none of its own shares (31 December 2019: none).

13. Contingent liabilities

The Company is a member of the fiscal unity for corporate income tax led by the parent, Roche Pharmholding B.V. Based on the Tax Collection Act, the Company and the parent are jointly and severally liable for the taxes payable of the fiscal unity.

The income corporate tax as recognized in the financial statement of the Company is based on the statutory result of the company. The Company settles the corporate income tax through its current account with the parent.

As of 31 December 2020, the Company does not have any material contingent liabilities (2019: none).

14. Subsequent events

No subsequent events.

15. Related parties

Parent and other related parties

As a member of the Roche Group, all of the Company's related party transactions are with Roche Group affiliates. The transactions include interest on and issues/repayments of loans given by the Company. The Company pays guarantee fee to the ultimate parent company Roche Holding Ltd. In addition the Company has a current account with Roche Pharmholding B.V., the corporate cash pool leader, as described in Note 7.

Subsidiaries and associates

The Company has no subsidiaries or associates.

Related party transactions in millions of EUR

	2020	2019
Interest income – related parties ³	32	32
Guarantee fees – related parties ³	(13)	(14)
(Increase) decrease of cash pool balance with related parties ⁸	(2)	(3)

Related party balances in millions of EUR

	31 December 2020	31 December 2019
Long-term loans receivable – related parties ⁷	1,729	1,733
Accounts receivable – related parties ⁸	33	31

Key management personnel

The purpose of the Company is to act as a financing company for the operations of the Roche Group. The members of the Company's Board of Directors act as the chief operating decision-maker.

Board of Directors of Roche Finance Europe

Peter Eisenring	Member of the Board	Appointed 31 January 2003
Sheri L. Morin	Member of the Board	Appointed 15 August 2016
Mark Ekelschot	Member of the Board	Appointed 15 June 2018
Hafsa Shamsie	Member of the Board	Appointed 1 May 2019

The directors did not receive remuneration or payment from the Company for their time and expenses related to their services during 2020 and 2019.

16. Risk management

Roche Group risk management

Risk management is a fundamental element on all levels of the Roche Group and encompasses different types of risks. The Company is also part of this business practice. At a group level, risk management is an integral part of the business planning and controlling processes. Material risks are monitored and regularly discussed with the Corporate Executive Committee and the Audit Committee of the Board of Directors.

Financial risk management

The Company is exposed to financial risks arising from its corporate finance activities of providing financing to other affiliates of the Roche Group and obtaining refinancing on the bond markets. There are two Roche Group affiliates representing approximately 100% of the Company's interest revenues in 2020 (2019: 100%). The Company's financial risk exposures are related to changes in interest rates and the creditworthiness and solvency of the Company's counterparties.

Financial risk management within the Roche Group is governed by policies reviewed by the Board of Directors. These policies cover credit risk, liquidity risk and market risk and are also applicable to the Company. These policies provide guidance on risk limits, type of authorised financial instruments and monitoring procedures. As a general principle, the policies prohibit the use of derivative financial instruments for speculative trading purposes. Policy implementation and day-to-day risk management are carried out by the relevant treasury functions and regular reporting on these risks is performed by the relevant accounting and controlling functions within Roche.

Credit risk

Credit rating of Roche Holding Ltd bond is AA (Standard & Poor's). The credit rating of loans receivables from related parties are internally rated within the range of BBB to BB, which the Company assessed internally that corresponds to investment grade.

As loans receivables at amortised cost are assessed to be low risk, the impairment allowance is determined at 12-month expected credit losses ('ECL') with a reference to internal credit ratings of the counterparties. The ECL is the sum of the value of all possible losses, each multiplied by the probability of that loss occurring and calculated as follows: $ECL = EAD \times LGD \times PD$. Exposure at Default (EAD) is the gross carrying value of loans receivable; Loss Given Default (LGD) is the portion of loans receivable that the Company shall lose if a borrower defaults; Probability of Default (PD) is the likelihood of a default of a counterparty over an observed period. There were no loans receivables for which the Company observed a significant increase in the credit risk which would require the application of the lifetime expected credit losses impairment model. There was no material impact resulting from the revised impairment approach under IFRS 9. In addition, there were no material movements in the loss allowance in 2020. The Company assesses a significant increase in credit risk using the delta in the lifetime default probability, internal ratings and arrears. The Company evaluates qualitative information on the borrower's other cash flow obligations (including to other debt providers), its liquidity position and business performance and on the regulatory, economic, and technological environment of the borrower. The Company uses the 30 days past due criteria as a backstop rather than a primary driver to considering exposures to have significantly increased credit risk since the initial recognition.

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Company. The objective of managing counterparty credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking account of any collateral held or other credit enhancements, is equal to the carrying value of the Company's financial assets.

The Company considers a financial asset to be in default when the counterparty is unlikely to pay its obligations to the Company in full. In assessing whether a counterparty is in default, the Company considers both qualitative and quantitative indicators (e.g. overdue status) that are based on data developed internally and for certain financial assets also obtained from external sources. The following indicators are incorporated: internal credit rating, significant increases in credit risk on other financial instruments of the same borrower, actual or expected significant adverse changes in business, financial and economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

Carrying value and fair value of financial assets in millions of EUR

By line items in notes	Asset class	31 December 2020		31 December 2019	
		Carrying amount	Fair value	Carrying amount	Fair value
Long-term loan receivable – related parties ⁷	Amortised cost	1,729	1,796	1,733	1,793
Short-term loan receivable – related parties ⁷	Amortised cost	-	-	-	-
Accounts receivable – related parties ⁸	Amortised cost	33	33	31	31
Total		1,762	1,829	1,764	1,824

The fair value for loan receivable – related parties disclosed in the above table was calculated based on the present value of the future cash flows of the loans, discounted at an adjusted market rate for instruments with similar credit status, maturity periods and currency. The counterparties to the Company's financial assets are members of the Roche Group and therefore the credit risk ultimately depends on the financial position of the Roche Group. The fair value of the long-term loan receivables is classified as Level 2 in the fair value hierarchy.

At 31 December 2020 the Company has no financial assets which are past due but not impaired (2019: none) and no financial assets whose terms have been renegotiated (2019: none). The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 7. The gross carrying amount of a financial asset is written off and derecognised only when the Company has no reasonable expectation of recovering the financial asset, after all reasonable efforts and enforcement procedures for recovery have been exhausted. The Company individually makes an assessment with respect to the timing and amount of write-off based on the individual facts and circumstances. The Company expects no significant recovery from the amount written off and derecognised.

Credit loss allowance in millions of EUR

	2020	2019
At 1 January	2	2
Changes in impairment losses on financial instruments	-	-
At 31 December	2	2

For financial assets at amortised cost, the Company applies the general expected credit loss model. The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

Evidence that a financial asset is credit-impaired also includes the following observable data:

- significant financial difficulty of the borrower;

- a breach of contract;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Company's obligations to third parties on the bond markets are guaranteed by Roche Holding Ltd, the parent company of the Roche Group and covered by loan receivables from other members of the Roche Group that have the same maturities.

The remaining undiscounted cash flow contractual maturities of financial liabilities, including estimated interest payments, are shown in the table below.

Contractual maturities of financial liabilities *in millions of EUR*

	Within one year	Between two and five years	More than 5 years
31 December 2019			
Debt ¹¹	-	739	1,000
Future interest cash flow	17	59	9
31 December 2020			
Debt ¹¹	-	1,735	-
Future interest cash flow	17	51	-

There are no other contractual cash flows from financial liabilities.

Market risk

Market risk arises from changing market prices, mainly foreign exchange rates and interest rates, of the Company's financial assets or financial liabilities which affect the Company's financial result and equity.

At 31 December 2020 and 31 December 2019, the Company's exposure to cash flow interest rate risk was insignificant, as the outstanding principal amount on the Company's debt (see Note 11) and the loans receivable from related parties (see Note 7) are both at fixed interest rates. The Company's only variable interest-bearing financial asset/liability referenced to one month LIBOR was the receivable balance of EUR 8 million (2019: EUR 6 million) with the corporate cash pool leader (see Note 8). The Company accounts the loans at amortized cost. Therefore, movements in the market-rate only impact the fair value disclosure of the loans.

The foreign exchange risk was also insignificant as the terms of financial assets and liabilities as well as the currency are matching.

Capital

The capital management of the Company is managed within the Roche Group. The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide financing activities on behalf of the Roche Group.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

Capital is monitored on the basis of the capitalisation, which is calculated as being debt plus equity. Information on the Company's debt and equity is reported to senior management as part of the Roche Group's regular internal management reporting. The Company's capitalisation is shown in the table below.

Capital in millions of EUR

	31 December 2020	31 December 2019
Debt ¹¹	1,731	1,734
Equity	17	16
Capitalisation	1,748	1,750

The Company is not subject to regulatory capital adequacy requirements as known in the financial services industry. The Company's liability contracts do not contain covenants.

17. Result appropriation

The directors recommend that the entire gain for the financial year of EUR 560 thousand is to be taken to Retained Earnings. The proposal has not been included in the Company's 2020 Annual Financial Statements.

Woerden, 29 January 2021

The Board of Directors

Sheri L. Morin

Peter Eisenring

Mark Ekelschot

Hafsa Shamsie

Other information

Independent auditor's report

The independent auditor's report is added to the next pages.

Appropriation of results

In accordance with Article 21 of the Articles of Association the result for the year is at the disposal of the shareholder. Article 21 excerpt:

- The allocation of profits earned in a financial year shall be determined by the General Meeting.
- Distribution can only take place up to the amount of the distributable part of the net assets.
- Distribution of profits shall take place after the completion of the Annual Accounts from which it is approved.
- The General Meeting may, subject to due observance of the provision of the law, resolve to pay an interim dividend.
- The General Meeting may, subject to due observance of the paragraph 2, resolve to make payments to the charge of any reserve which need not to be maintained by virtue of the law.
- A claim of a shareholder of payment of a dividend shall be barred after five years have elapsed.

Independent auditor's report

To: the shareholders of Roche Finance Europe B.V.

A. Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements 2020 of Roche Finance Europe B.V. ('the company') based in Woerden.

WE HAVE AUDITED	OUR OPINION
<p>The financial statements comprise:</p> <ol style="list-style-type: none">1. the statement of financial position as at 31 December 2020;2. the following statements for 2020: the income statement, the statements of comprehensive income, changes in equity and cash flows; and3. the notes comprising a summary of the significant accounting policies and other explanatory information.	<p>In our opinion, the accompanying financial statements give a true and fair view of the financial position of Roche Finance Europe B.V. as at 31 December 2020 and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.</p>

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Roche Finance Europe B.V. in accordance with the EU Regulation on specific requirements regarding statutory audit of public-interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at € 17.500.000. The materiality is based on a benchmark of total assets (representing 1% of total assets) which we consider to be one of the principal considerations for users of the financial statement in assessing the financial performance of the company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Board of Directors that misstatements in excess of € 875.000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the Board of Directors. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VALUATION OF LOANS ISSUED	OUR AUDIT APPROACH
<p>We consider the valuation of the loans, issued to Roche Group Companies as disclosed in note 7 of the financial statements and the account receivable from Roche Group Companies as disclosed in note 8 of the financial statements, combined representing 99,7% of the balance sheet total, a key audit matter. We identified this as a key audit matter due to the size of the loans issued and due to the material impact a possible impairment may have on the income statement. Initially, loans issued and the current account receivables are recognized at its fair value and subsequently carried at amortized cost using the effective interest method. The Board of Directors recognized the expected credit loss provision with regard to the loans issued to and a current account receivable with, Roche Deutschland Holding GmbH and Roche Diagnostics Ltd. in accordance with IFRS 9.</p>	<p>We have performed detailed audit procedures addressing the valuation of the loans issued to and a current account receivable with Roche Deutschland Holding GmbH and Roche Diagnostics Ltd.</p> <p>We have performed the following audit procedures:</p> <ul style="list-style-type: none">▶ Inspected the financial statements as per 31 December 2019 of counterparties Roche Deutschland Holding GmbH and Roche Diagnostics Ltd.▶ Inspected the loan agreements entered into between the company and Roche Deutschland Holding GmbH and Roche Diagnostics Ltd. and the guarantor Roche Holding Ltd.▶ Inspected the 2020 interim financial statements of the guarantor Roche Holding Ltd and financial statements as per 31 December 2019 of Roche Holding Ltd.▶ Evaluated the information derived from credit rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

	<ul style="list-style-type: none"> ▶ Evaluated the probability of default rate and the loss given default rate derived from Moody's. ▶ Reviewed the market values of the outstanding notes. ▶ Reviewed news reports. ▶ Searched and evaluated the information for investors on the website of Roche Holding Ltd. ▶ Discussed the recent developments in the financial position and the cash flows with the Board of Directors. ▶ Assessed the adequacy of the disclosures in the financial statements relating to both the loans issued and current account receivables.
--	--

B. Report on other information included in the annual report

In addition to the financial statements and our auditor’s report thereon, the annual report contains other information that consists of:

- ▶ the management report;
- ▶ other information as required by Part 9 of Book 2 of the Dutch Civil Code.

Based on the following procedures performed, we conclude that the other information:

- ▶ is consistent with the financial statements and does not contain material misstatements;
- ▶ contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the management report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information as required by Part 9 of Book 2 of the Dutch Civil Code.

C. Report on other legal and regulatory requirements

Engagement

We were engaged by the Board of Directors as auditor of Roche Finance Europe B.V. as of the audit for financial year 2017 and have operated as statutory auditor ever since that financial year.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audit of public-interest entities.

D. Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting, unless the Board of Directors either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Board of Directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- ▶ Concluding on the appropriateness of the Board of Directors's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures.
- ▶ Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amstelveen, 29 January 2021

For and on behalf of BDO Audit & Assurance B.V.,

sgd.
drs. M.F. Meijer - RA
