



*Roche Finance Europe B.V. -
Financial Statements 2016*

Management Report

1. Review of the year ended 31 December 2016

General

Roche Finance Europe B.V., a company registered in the Netherlands (hereafter 'the Company'), is 100% indirectly owned by 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.

Important events

On 26 February 2016 the Company issued EUR 650 million fixed rate notes with a coupon of 0.5% under the Euro Medium Term Note programme. The notes will mature on 27 February 2023 and are listed on the Luxembourg Stock Exchange. These notes are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. The Company received EUR 644 million aggregate net proceeds from the issuance and sale of these fixed notes. On the same date the Company granted a loan to a related party for EUR 650 million due 27 February 2023.

On 1 June 2016 the Company received early repayment of a loan receivable from a related party for a nominal amount of EUR 100 million of loans due on 25 June 2018. The cash inflow was EUR 100 million, plus accrued interest. The gain on early repayments of loans was EUR 6 million. On the same date the Company issued a loan to a related party for a nominal amount of EUR 100 million due 25 June 2018.

Financial position and performance

Besides the issuance of notes and loans and the early repayments of a loan receivable, including the gain of EUR 6 million on early repayment of a loan, as described in the important events section above, the financial performance and the financial position of the Company did not change materially. Net Income for the previous period included a gain of EUR 18 million on early repayment of loans receivable. Net Income of the financial year 2016 was EUR 539 thousand (2015: Net Income EUR 10,931 thousand). Interest income on loans was EUR 66,454 thousand (2015: EUR 61,203 thousand), interest expense on debt instruments was EUR 43,449 thousand (2015: EUR 42,375 thousand) and guarantee fees to the parent company were EUR 26,592 thousand (2015: EUR 20,807 thousand).

No investments were made during the financial year 2016 (2015: none).

Employees

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

Future outlook

The Company will continue its current activities in 2017. No changes in the activities of the Company are expected.

2. Principal risks and uncertainties

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.

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 and solvency 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 loan receivables from other members of the Roche Group that have the same maturity. In addition, the Company has access (jointly with other borrowers of the Group) to a currently unused committed credit line with various financial institutions of USD 7.5 billion.

The Company's financial risk management is described in the Note 14 to the Annual Financial Statements in more detail.

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.

Various known and unknown risks, uncertainties and other factors could lead to substantial differences between the actual 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 2016:

- the audited financial statements as at 31 December 2016, 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, 31 January 2017

The Board of Directors

Sheri L. Morin

Peter Eisenring

Dieter F. Heinis

Grégoire de Mierry

Roche Finance Europe B.V. Financial Statements

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

	Year ended 31 December	
	2016	2015
Income		
Financial income – related parties ²	73	80
Total Income	73	80
Expenses		
Financing costs ²	(45)	(44)
Guarantee fees – related parties ²	(27)	(21)
Total expenses	(72)	(65)
Profit before taxes	1	15
Income tax ⁴	-	4
Net income	1	11
Other comprehensive income, net of tax	-	-
Total comprehensive income	1	11

Roche Finance Europe B.V., balance sheet *in millions of EUR*

	31 December 2016	31 December 2015	31 December 2014
Non-current assets			
Long-term loans receivable – related parties ⁶	2,879	2,265	1,251
Total non-current assets	2,879	2,265	1,251
Current assets			
Short-term loans receivable – related parties ⁶	-	-	-
Accounts receivable – related parties ⁷	42	47	28
Cash and cash equivalents ⁸	-	-	-
Total current assets	42	47	28
Total assets	2,921	2,312	1,279
Non-current liabilities			
Long-term debt ¹⁰	(2,871)	(2,262)	(1,251)
Deferred income tax liabilities ⁴	-	-	-
Total non-current liabilities	(2,871)	(2,262)	(1,251)
Current liabilities			
Short-term debt ¹⁰	-	-	-
Current income tax liabilities ⁴	-	(4)	-
Accounts payable – related parties	-	-	-
Accrued interest on debt instruments ⁹	(25)	(22)	(15)
Total current liabilities	(25)	(26)	(15)
Total liabilities	(2,896)	(2,288)	(1,266)
Total net assets	25	24	13
Equity			
Share capital ¹¹	2	2	2
Retained earnings	22	11	10
Unappropriated result	1	11	1
Total equity	25	24	13

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

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
Net income	1	11
Add back non-operating (income) expense		
- Financial income – related parties ²	(73)	(80)
- Financing costs ²	45	44
- Guarantee fees – related parties ²	27	21
- Income taxes expense	0	4
Income taxes paid	(4)	-
Total cash flow from operating activities	(4)	-
Cash flows from investing activities		
Issue of long-term loans receivable – related parties ⁶	(750)	(1,225)
Proceeds from repayment of loans receivable – related parties ⁶	100	225
Interest received – related parties	67	67
Total cash flow from investing activities	(583)	(933)
Cash flows from financing activities		
Proceeds from issue of bonds and notes ¹⁰	644	995
Repayment and redemption of bonds and notes ¹⁰	-	-
(Increase) decrease of cash pool balance with related parties	11	(6)
Guarantee fees paid – related parties	(27)	(21)
Interest paid	(41)	(35)
Total cash flow from financing activities	587	933
Net effect of currency translation on cash and cash equivalents	-	-
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December ⁸	-	-

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 2015				
At 1 January 2015	2	10	1	13
Net income	-	-	11	11
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	11	11
Appropriation of result	-	1	(1)	-
At 31 December 2015	2	11	11	24
Years ended 31 December 2016				
At 1 January 2016	2	11	11	24
Net income	-	-	1	1
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	1	1
Appropriation of result	-	11	(11)	-
At 31 December 2016	2	22	1	25

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., a company incorporated in the Netherlands ('the Company'). The Company is 100% indirectly owned by 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. They were approved for issue by the Board of Directors on 31 January 2017.

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.

Segment reporting

The Company has only one operating segment and undertakes its operations in the Netherlands. Therefore no segment reporting is included in these Annual Financial Statements.

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. Assets and liabilities in currencies other than euros have been translated into euros at year-end market rate. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies than euros are included in income.

Accounts receivable

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts. An allowance for doubtful accounts is recorded where there is objective evidence that the Company will not be able to collect all amounts due.

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 to sell 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 Annual Financial Statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

Loans and receivables are assessed individually for possible impairment at each reporting date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. An impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate.

A financial asset is derecognised when the contractual cash flows from the asset expire or when the Company transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Debt instruments

Debt instruments are initially recorded at cost, which is the proceeds received, net of transaction costs. 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.

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 interest expense on borrowings and impairment losses recognised on financial assets.

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.

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

In 2016 the Roche Group has implemented various minor amendments to existing standards and interpretations, which have no material impact on the Company's results and financial position.

The Roche Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be mandatory from 1 January 2017 which the Roche Group has not yet applied. Based on the analysis to date, the Company does not anticipate that these will have a material impact on the Company's overall results and financial position. The Roche Group is also assessing other new and revised standards which are not mandatory until after 2017.

2. Financial income and financing costs

Financial income – related parties *in millions of EUR*

	Year ended 31 December	
	2016	2015
Interest income – related parties ¹³	67	62
Income from early repayment of loans – related parties ¹³	6	18
Total financial income – related parties	73	80

Financing costs *in millions of EUR*

	Year ended 31 December	
	2016	2015
Interest expense on debt instruments	(43)	(43)
Amortisation of debt discount ¹⁰	(2)	(1)
Guarantee fees – related parties	(27)	(21)
Total financing costs	(72)	(65)

3. Auditors remuneration

For the financial year KPMG Accountants N.V. charged net EUR 22,500 to the Company for the audit of Statutory Financial Statements and review of the Interim Financial Statements.

4. Income taxes

Income tax expenses *in millions of EUR*

	Year ended 31 December	
	2016	2015
Current income taxes	-	(4)
Deferred income taxes	-	-
Total income (expense)	-	(4)

The Company's local statutory tax rate is 25.0% (2015: 25.0%) and this is also the effective tax rate in these Annual Financial Statements.

Income tax assets (liabilities) *in millions of EUR*

	31 December 2016	31 December 2015	31 December 2014
Current income taxes			
- Assets	-	-	-
- Liabilities	-	(4)	-
Net current income tax assets (liabilities)	-	(4)	-
Deferred income taxes			
- Assets	-	-	-
- Liabilities	-	-	-
Net deferred income tax assets (liabilities)	-	-	-

5. Employee benefits

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

6. Loans receivable – related parties

GBP denominated loans

Loans receivable – related parties in millions of EUR

	31 December 2016	31 December 2015	31 December 2014
Roche Deutschland Holding GmbH, Germany, due 29 August 2023, outstanding principal GBP 125 million (2015: GBP 125 million ; 2014: GBP 125 million), interest rate 5.67%	146	170	160
Roche Diagnostics Limited, United Kingdom, due 29 August 2023, outstanding principal GBP 71 million (2015: GBP 71 million; 2014: GBP 71 million), interest rate 5.67%	83	95	91
Total loans receivable – related parties	229	265	251

EUR denominated loans

Loans receivable – related parties in millions of EUR

	31 December 2016	31 December 2015	31 December 2014
Roche Deutschland Holding GmbH, Germany, due 25 June 2018, outstanding principal EUR 275 million, interest rate 3.50%	275	275	275
Roche Deutschland Holding GmbH, Germany, due 25 June 2018, outstanding principal EUR 225 million, interest rate 1.01%	225	225	-
Roche Deutschland Holding GmbH, Germany, due 25 June 2018, outstanding principal EUR 100 million, interest rate 0.364%	100	-	-
Roche Diagnostics S.p.A., Italy, due 25 June 2018, outstanding principal EUR 155 million, interest rate 3.50%	155	155	175
Roche S.p.A., Italy, due 25 June 2018, outstanding principal EUR 150 million, interest rate 3.50%	150	150	250
Roche Diagnostics S.L., Spain, due 25 June 2018, outstanding principal EUR 75 million, interest rate 3.50%	75	75	150
Roche Farma S.A., Spain, due 25 June 2018, outstanding principal EUR 100 million, interest rate 3.50%	-	100	100
Roche Farmaceutica Quimica, Lda., Portugal, due 25 June 2018, outstanding principal EUR 20 million, interest rate 3.50%	20	20	50
Roche Deutschland Holding GmbH, Germany, due 25 February 2025, outstanding principal EUR 1.0 billion, interest rate 1.80%	1,000	1,000	-
Roche Deutschland Holding GmbH, Germany, due 27 February 2023, outstanding principal EUR 650 million, interest rate 1.515%	650	-	-
Total loans receivable – related parties	2,650	2,000	1,000
Reported as			
- Long-term loans receivable – related parties ¹³	2,879	2,265	1,251
- Short-term loans receivable – related parties ¹³	-	-	-
Total loans receivable – related parties	2,879	2,265	1,251

7. 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. At 31 December the Company also had interest receivables from Roche affiliates in respect of the loans given (see Note 6).

Accounts receivable – related parties *in millions of EUR*

	31 December 2016	31 December 2015	31 December 2014
Accounts receivable with cash pool leader	0	11	5
Interest receivables – related parties	42	36	23
Total accounts receivable – related parties	42	47	28

8. Cash and cash equivalents

At 31 December 2016 the Company had no cash in its bank account (2015: EUR zero).

9. Accrued interest**Accrued interest** *in millions of EUR*

	31 December 2016	31 December 2015	31 December 2014
Interest payable	25	22	15
Total accrued interest	25	22	15

10. Debt**Debt: movements in carrying value of recognised liabilities** *in millions of EUR*

	2016	2015
At 1 January	2,262	1,251
Proceeds from issue of notes	644	995
Repayment and redemption of notes	-	-
Amortisation of debt discount ²	2	1
Currency translation effects	(37)	15
At 31 December	2,871	2,262
Consisting of		
- Notes	2,871	2,262
Total debt	2,871	2,262
Reported as		
- Long-term debt	2,871	2,262
- Short-term debt	-	-
Total debt	2,871	2,262

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

	Effective interest rate	31 December 2016	31 December 2015	31 December 2014
2.0% notes due 25 June 2018, principal EUR 1.0 billion (ISIN: XS0760139773)	2.07%	999	998	998
0.5% notes due 27 February 2023, principal EUR 650 million (ISIN: XS1371715118)	0.63%	645	-	-
5.375% notes due 29 August 2023, principal GBP 250 million, outstanding GBP 200 million (ISIN: XS0175478873)	5.46%	231	269	253
0.875% notes due 25 February 2025, principal EUR 1.0 billion (ISIN: XS1195056079)	0.93%	996	995	-
Total		2,871	2,262	1,251

The fair value of the notes is EUR 3,008 million (2015: EUR 2,352 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

On 26 February 2016 the Company issued EUR 650 million fixed rate notes with a coupon of 0.5% under the Euro Medium Term Note programme. The notes will mature on 27 February 2023 and are listed on the Luxembourg Stock Exchange. These notes are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. The Company received EUR 644 million aggregate net proceeds from the issuance and sale of these fixed notes. On the same date the Company granted a loan to a related party for EUR 650 million due 27 February 2023.

On 25 February 2015 the Company issued EUR 1.0 billion fixed rate notes with a coupon of 0.875% under the Euro Medium Term Note Programme. The notes will mature on 25 February 2025 and are listed on the Luxembourg Stock Exchange. The Company received EUR 995 million aggregate net proceeds from the issuance and sale of these fixed notes.

Redemption and repurchase of notes

The Company did not redeem nor repurchase any notes during the 2016 or 2015.

11. Equity

Share Capital

The authorised share capital of the Company consists of 100,000 shares with a nominal value of EUR 100 each of which 20,000 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 2016 (2015: none).

Own equity instruments

As of 31 December 2016, the Company holds none of its own shares (31 December 2015: none).

12. Contingent liabilities

As of 31 December 2016, the Company does not have any material contingent liabilities (2015: none).

13. Related parties

Controlling shareholders

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. In addition the Company has a current account with Roche Pharmholding B.V., the corporate cash pool leader, as described in Note 7.

Related party transactions in millions of EUR

	Year ended 31 December	
	2016	2015
Interest income – related parties ²	67	62
Guarantee fees – related parties ²	(27)	(21)
Repayment of loans receivable – related parties	100	225
Income from early repayment of loans – related parties ²	6	18
(Increase) decrease of cash pool balance with related parties ⁷	11	(6)
Issue of long-term loans receivable – related parties ⁶	(750)	(1,225)

Related party balances in millions of EUR

	31 December 2016	31 December 2015	31 December 2014
Long-term loans receivable – related parties ⁶	2,879	2,265	1,251
Short-term loans receivable – related parties ⁶	-	-	-
Accounts receivable – related parties ⁷	42	47	28
Accounts payable – related parties	-	-	-

Subsidiaries and associates

The Company has no subsidiaries or associates.

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
Dieter F. Heinis	Member of the Board	Appointed 1 November 2009
Sheri L. Morin	Member of the Board	Appointed 15 August 2016
Grégoire de Mierry	Member of the Board	Appointed 1 December 2016

The directors did not receive remuneration or payment from the Company for their time and expenses related to their services during 2016 and 2015.

14. Risk management

Roche Group risk management

Risk management is a fundamental element of the Roche Group's business practice on all levels and encompasses different types of risks. 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. 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 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.

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

By line items in notes	Asset class	31 December 2016		31 December 2015	
		Carrying value	Fair value	Carrying value	Fair value
Long-term loan receivable – related parties ⁶	Loans and receivables	2,879	2,973	2,265	2,337
Accounts receivable – related parties ⁷	Loans and receivables	42	42	47	47
Total		2,921	3,015	2,312	2,384

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 would be Level 2 in the fair value hierarchy.

At 31 December 2016 the Company has no financial assets which are past due but not impaired (2015: none) and no financial assets whose terms have been renegotiated (2015: none).

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. In addition, the Company has access (jointly with other borrowers of the Group) to a currently unused committed credit line with various financial institutions of USD 7.5 billion.

As described in Note 10, at 31 December 2016 the Company had financial liabilities with a principal amount of GBP 200 million due 29 August 2023 (2015: GBP 200 million), with a principal amount of EUR 1.0 billion due 25 June 2018, with a principal amount of EUR 1.0 billion due 25 February 2025 and with a principal amount of EUR 650 million due 27 February 2023. Interest coupons of GBP 10.7 million are payable annually on 29 August for the GBP denominated notes, EUR 20.0 million are payable annually on 25 June for EUR denominated notes, EUR 8.8 million are payable annually on 25 February for EUR denominated notes and EUR 3.2 million are payable annually on 27 February for EUR denominated notes. 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 2016 the Company's exposure to interest rate risk was insignificant, as the outstanding principal amount on the Company's debt (see Note 10) and the loans receivable from related parties (see Note 6) 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 0.2 million (2015: EUR 11 million) with the corporate cash pool leader (see Note 7).

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

	2016	2015	2014
Debt ¹⁰	2,871	2,262	1,251
Equity	25	24	13
Capitalisation	2,896	2,286	1,264

The Company is not subject to regulatory capital adequacy requirements as known in the financial services industry.

Woerden, 31 January 2017

The Board of Directors

Sheri L. Morin

Peter Eisenring

Dieter F. Heinis

Grégoire de Mierry

Other information

Independent auditor's report

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

Appropriation of results for the year 2016

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

Proposed profit appropriation

The directors recommend that the entire profit for the financial year of EUR 538,914 is to be taken to reserves. The proposal has been included in the Company's 2016 Annual Financial Statements.



Independent auditor's report

To: the General Meeting of Shareholders of Roche Finance Europe B.V.

Report on the accompanying financial statements 2016

Our opinion

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 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.

What we have audited

We have audited the financial statements 2016 of Roche Finance Europe B.V., based in Woerden.

The financial statements comprise:

- 1 the statement of financial position as at 31 December 2016;
- 2 the following statements for 2016: the statement of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

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

Audit approach

Materiality




Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 15 million (2015: EUR 11.5 million). The materiality is determined with reference to total assets. We consider total assets as the most appropriate benchmark as the Company is an asset based company. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Board of Directors that misstatements in excess of EUR 750 thousand, 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 matter

Key audit matters are those matters that, in our professional judgment, 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 this matter.

Significant financing transactions	
<p>Description</p> <p>The main activity of the Company is the provision of financing to affiliates of the Roche Group. For that purpose the Company obtains debt funding from the international capital markets through the issuance of notes. These notes are guaranteed by Roche Holding Ltd, the ultimate parent of the company. Under generally matching durations and terms the proceeds of these notes are lent out to affiliates of the Roche Group. During the financial year 2016 the Company issued one new note and granted a loan to a related party. Furthermore the Company received an early repayment of a loan receivable, which repayment has been issued to another related party.</p>	
<p>Our response</p> <p>We performed audit procedures to assess the completeness and accuracy of the amounts reported on the financing transactions, amongst others:</p> <ul style="list-style-type: none"> for each note issued we inspected the required board level approvals and the Euro Medium Term Note ('EMTN') program documentation. We reconciled all outstanding balances with external bank confirmations and recalculated the reported interest expenses and debt amortisations; for loan receivables and early redemptions we inspected the loan agreements, we reconciled intercompany balances to confirmation of balances and confirmed the ultimate parent company's credit ratings in order to support our assessment of the parent company guarantee and loan valuation. We inspected the underlying financial information of each counterparty, including financial statements and made inquiries with management in order to assess the valuation of the loan receivables. We also recalculated the interest income and the early repayment fees reported. 	
<p>Our observation</p> <p>Based on our audit procedures, we determined that the financing transactions are adequately reported in the financial statements and disclosed as related party transactions in note 2, 6, 7 and 13 to the financial statements.</p>	

Report on the other information included in the financial statements

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

- management report;
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code;

Based on the below 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 Netherlands Civil Code.

We have read the other information. Based on our 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 Netherlands 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 Netherlands Civil Code and other Information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.



Report on other legal and regulatory requirements

Engagement

We were engaged in 2004 by the General Meeting of Shareholders as auditor of Roche Finance Europe, as of the audit for year 2004 and have operated as statutory auditor since then. On January 26st, 2016 we were re-appointed by the General Meeting of Shareholders for the year 2016.

Description of the responsibilities for 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 with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

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 framework mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless it 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.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit 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 have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in 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 judgment and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- 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 company'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' 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 company'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; and
- 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.

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 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.

Rotterdam, 31 January 2016

KPMG Accountants N.V.

R.G.A. van der Kruk RA