



Diagnostics

Roche Diagnostics A/S
Industriholmen 59
2650 Hvidovre

Diagnostics instruments and services

Hvidovre

CVR: 28 48 50 85

ANNUAL REPORT FOR 2019

Approved at the AGM
on 27 July 2020


Henricus Christiaan Bergmans (Chairman)

INDEX	1
Statement by the Board of Directors and Executive Board	2
The independent auditors' report	3
Company details	6
Financial highlights	7
Management review	8
Financial statement for the year ended 31 December 2019	11

STATEMENT BY THE BOARD OF DIRECTORS AND EXECUTIVE BOARD

2

The Board of Directors and Executive Board have today discussed and approved the annual report for the year 1 January - 31 December 2019 for Roche Diagnostics A/S.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2019, and of the results of the Company's operations for the financial year 1 January - 31 December 2019.

Moreover, in our opinion, the Management's Review gives a fair review of developments in the Company's operations and financial position, profit for the year and the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Hvidovre, 27 July 2020

EXECUTIVE BOARD:

DocuSigned by:

Harald Heinrich Bormann

8B5FA48CB28C450

Harald Bormann
(Managing Director)

BOARD OF DIRECTORS



Dr. Beat Krähenmann
(Chairman)



Bernard Colombo

DocuSigned by:

Richard John Wright

A8531018CD06438

Richard John Wright

DocuSigned by:

Harald Heinrich Bormann

8B5FA48CB28C450

Harald Bormann

Independent auditor's report

To the shareholders of Roche Diagnostics A/S

Opinion

We have audited the financial statements of Roche Diagnostics A/S for the financial year 1 January – 31 December 2019 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control, that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain 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.
- obtain 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.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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 the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

27 July 2020

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98



Henrik Barner Christiansen
State Authorised
Public Accountant
mne: 10778

COMPANY DETAILS

6

The purpose of the company	Is according to the Company's by-laws to distribute diagnostics instruments and services to clinical laboratories, hospitals, doctors, etc., as well as any other business which in the opinion of the Board of Directors is related thereto.
Address	Industriholmen 59, 2650 Hvidovre. Registered office in Hvidovre
Established	2005
Financial Year	2019
Ownership	The Company is a wholly-owned subsidiary of Roche Holding Ltd., Grenzacherstrasse 124, 4058 Basel, Switzerland. Copy of the parent company's Annual Report and Group Accounts can be obtained here: https://www.roche.com/dam/jcr:a3545548-a7f9-40f4-a70e-7266a363f856/en/ar19e.pdf
Board of Directors	Dr. Beat Krähenmann Bernhard Colombo Richard John Wright Harald Borrmann
Executive Board	Harald Borrmann
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 Copenhagen Ø CVR: 25 57 81 98
Annual General Meeting	The annual general meeting is to be held on 27 July 2020

FINANCIAL HIGHLIGHTS

7

DKK'000	2019	2018	2017	2016	2015
Revenue	417,315	399,433	431,718	440,870	418,318
Gross profit	100,736	103,989	107,113	109,653	115,123
Ordinary operating profit	14,631	12,689	15,267	10,694	11,148
Net financial items	(310)	(67)	(140)	(180)	(177)
Net profit of the year	11,170	9,960	11,687	8,142	7,949
Total assets	161,774	159,518	146,260	136,692	146,766
Tangible fixed assets	3,543	3,988	6,327	4,545	6,414
Invested Capital	62,503	51,940	38,774	47,652	33,256
Equity	58,303	47,133	37,173	40,486	32,343
Net profit ratio	3.5%	3.2%	3.5%	2.4%	2.7%
Return on investment	25.6%	28.0%	35.2%	26.4%	32.6%
Gross margin ratio	24.1%	26.0%	24.8%	24.9%	27.5%
Equity ratio	36.0%	29.5%	25.4%	29.6%	22.0%
Return on equity	23.4%	23.6%	30.1%	22.4%	27.7%
Average number of full-time employees	95	89	85	92	86

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Ratios" issued by the Danish Society of Financial Analysts. The financial ratios have been calculated as follows:

Net profit ratio	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on Investment	$\frac{\text{Operating profit} \times 100}{\text{Average Invested capital}}$
Invested capital	Total fixed assets and net invested capital
Gross margin ratio	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on Equity	$\frac{\text{Profit for the year}}{\text{Average equity}}$



MANAGEMENT'S REVIEW

Principal activities

The Company's main activity is the sole distribution in Denmark of diagnostics instruments and reagents manufactured by other Roche companies.

Roche in Denmark

Roche has contributed to the Danish healthcare system and gross national product (GNP) since 1970.

In 2019 the three Danish Roche entities – Roche Innovation Center Copenhagen, Roche Pharma and Roche Diagnostics including Roche Diabetes Care – directly and indirectly contributed with approximately DKK 2.0 billion to the Danish GNP with our core businesses directly contributing with more than DKK 417 million.

Roche Diagnostics A/S

With the sole distribution of diagnostics instruments and reagents developed by Roche as the principal activities it is the ambition of Roche Diagnostics A/S to participate in the improvement of the Danish healthcare system through the development and implementation of quality diagnostics equipment, which is essential to ensure optimized treatments.

Our diagnostic solutions have been developed with a focus on patient needs through improvements in the health sector.

Development in activities and financial positions 2019

With an outcome in sales at DKK 417 million, the financial result is in line with expectations and forecast.

Roche Diagnostics is especially pleased with the continued growth of 17% in 2019 within our Molecular Solutions business.

This is to a large extent due to the Molecular Diagnostics area with an increase of DKK 8.2 million (corresponding to 9.4%) that was the consequence of the impact of the flu season in combination with stock up orders and service. Especially driven by the market's demand and the successful implementation of the Cobas Liat analysis instrument at some major hospitals around the country.

The benefit for both the hospital sector and patients of this new instrument for flu testing – fast stratification and identification of the right patients for the resourceful isolation hospitalization - cannot be underestimated and we saw a continuation of the positive trends throughout 2019.

In addition to the strong performance in our Cobas Liat portfolio, in 2019, we experienced continuous growth in our *qPCR&NAP* business portfolio, a business area focusing on the detection of infectious diseases.

The Roche FLOW solutions – the MagNA Pure and Lightcycler 480 systems – are used in the five major clinical microbiology departments in the country making Denmark the market with most systems per capita. These installations are geographically ideally placed as well.

Built on "open" platforms enabling laboratories to develop tests (LDTs) to be run on the automated FLOW line technology, this system constitutes the vast majority of our *qPCR&NAP* business while once again in 2019 heavily used for flu testing.

Delayed sales of instruments due to quality issues in our *Tissue Diagnostics* business as well as lower *Healthcare Consultancy* incomes makes up for a minus of DKK 1.2 million. However, solutions to the issues



within Tissue Diagnostics are expected to be implemented in 2020 as well as new customers within Healthcare Consultancy were welcomed at the end of 2019.

Roche's *Point of Care* is developed around patient self-monitoring by the use of Roche's market leading Coagu Chek series and medical treatment with the Warfarin drug.

This drug has for years been the preferred anticoagulant for the prevention of ischaemic stroke in patients with atrial fibrillation. However, novel oral anticoagulants (NOACs) are increasingly used as an alternative and adding to this development NOAC's were in 2017 chosen as the first-choice therapy in the new Danish national guidelines. This has resulted in a decline (7%) of sales in Coagu Chek in 2018, however in 2019 we have managed to stabilize our sales in this business area as a result of product innovations and digitalization. We have furthermore grown sales in other areas within the Point of Care portfolio leading to a sales growth of +4% in 2019.

Even though further decline in sales are to be expected in the coming years, Roche maintains its commitment to patient groups for whom treatment using Warfarin has proven its value and NOACs are not approved. We believe in this market making our products relevant through continuous development and innovation of our product portfolio in this area to offset these negative trends.

The Point of Care business increased by DKK 1.8 million (+4%) in 2019.

Organizational wise *Roche Diabetes Care* is an individual business unit included in the Diagnostics entity.

Roche Diabetes Care has for decades supported the Danish diabetes community through new inventions made available for people suffering from Type 1 and Type 2 Diabetes with the Accu-Chek glucose meters and insulin pumps.

The diabetes area is experiencing strong product and price competition in the tenders. Due to this Diabetes Care had a sales decrease of 19% in 2019.

In 2019 Diabetes Care started to shift the most used Accu-Chek platform to our new generation of test equipment - Accu-Chek Guide. A product that also supports our iPDM strategy (integrated Personalised Diabetes Management) with an open ecosystem, and support for both people with diabetes and Healthcare professionals.

Following the implementation of the new test equipment generation, the Diabetes Care business has initiated a reorganization centralizing expertise and competences within the region in order to better support the needs of the local markets, while at the same time driving synergy effects.

Operating in a tender driven market the most notable deviation is within the *Professional Diagnostics* business segment.

Roche Diagnostics is participating in some of the major hospital tenders providing pre-analytic, analytic (clinical chemistry and Immune chemistry), hematology, coagulation and post analytics ensuring quality and efficient workflows to the clinical biochemistry departments of these hospitals. Obviously, the presence of such contracts will have a significant influence on the financial results each year

Despite volatility in the tender driven market segment, in 2019 we managed to stabilize business by engaging in a number of long term customer partnerships with a sales evolution versus 2018 of DKK 24 million corresponding to a 17% increase coming from Professional Diagnostics.

One such tender based collaboration is with Bispebjerg and Frederiksberg Hospital in the capital where the installation of the latest technology and change of work processes provides higher quality and thereby higher patient safety and response times on 10 million patient samples at the hospitals new clinical biochemical

department. With state-of-the-art solutions the laboratory has become the most modern in Northern Europe built on Roche solutions.

We are pleased with these opportunities enabling us to continue making a positive impact to the Danish healthcare ecosystem.

In March 2019 we launched the report "the Role of Diagnostics in the Future Danish Healthcare System" providing views and statements from 25 key stakeholders and decision makers in the healthcare environment.

We look forward to continue to participate in the shaping of Danish healthcare by providing value through modern diagnostics.

The recent developments around the COVID-19 pandemic have once again proven the importance of diagnostics for the society and the value we bring to people, not only in Denmark but all around the globe.

Outlook

Performance in 2020 is expected to be significantly impacted by the COVID-19 pandemic and its aftermath. We expect both positive and negative effects, depending on the business area.

The crisis has put a large pressure on the healthcare system in general, and we are doing our utmost to support the Danish healthcare system and its various testing strategies.

It is expected that COVID-19 will have a significant impact on our future business results, however it is too early to estimate how we will be able to balance all challenges, risks and opportunities throughout 2020. Our customer base remains strong however the pandemic has forced us to re-shift our priorities in terms of resource allocation, product pipeline and innovations.

We are confident that together with our well-trained employees and their strong customer focus, we will manage to create a sound basis for future years with many positive developments.

During the second quarter of 2020 an ad-interim general manager was appointed to replace the former general manager that made an international transfer to a new position within Roche.

Risks

There are no specific uncertainties or unusual conditions in regards to the presentation of the annual report for 2019. Also, the company is not exposed to any special risks besides what can be considered normal business risks.

The financial risks are covered by various intercompany agreements, such as the cash pooling agreement with Roche Pharmholding B.V., Netherlands.

Subsequent events

Since year-end no events *apart from COVID-19* have occurred that could have a significant impact on the Company's financial position.

Intellectual capital

It is of vital importance when dealing in the diagnostics business, that the employees of the Company possess knowledge of products, stakeholders in the healthcare environment and market conditions. The knowledge of our employees is increased and maintained through further education and by recruiting employees with a high level of education, a strong network and knowledge of the skills and competencies we need now and in the future.



FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

11

INCOME STATEMENT

DKK'000	Note	2019	2018
Revenue		417,315	399,433
Cost of sales	2	316,579	295,444
Gross profit		100,736	103,989
Marketing & distribution expenses	2	77,144	78,090
Administrative expenses	2	8,961	13,210
Operating profit		14,631	12,689
Financial income	3	19	9
Financial expense	3	329	76
Profit before tax		14,321	12,622
Tax on profit for the year	4	3,151	2,662
PROFIT FOR THE YEAR	5	11,170	9,960

FINANCIAL STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

12

BALANCE SHEET

(DKK'000)	Note	2019	2018
ASSETS			
Rental assets held by 3 rd party	6	3,527	3,927
Fittings and fixtures	6	16	61
TOTAL FIXED ASSETS		3,543	3,988
Inventories		8,730	29,169
Trade receivables		80,993	59,087
Amounts owed by group enterprises		17,088	862
Amounts owed by group enterprises (Cash Pool)	8	40,670	63,382
Deferred tax asset	4	1,558	1,192
Other receivables		8,836	954
Prepayments	7	356	884
Total receivables		149,501	126,361
TOTAL CURRENT ASSETS		158,231	155,530
TOTAL ASSETS		161,744	159,518

BALANCE SHEET

(DKK'000)

	Note	2019	2018
LIABILITIES AND EQUITY			
EQUITY			
Share capital	9	1,300	1,300
Retained earnings		57,003	45,833
Total equity		58,303	47,133
PROVISIONS			
Other provisions	10	4,201	4,808
Total provisions		4,201	4,808
SHORT TERM LIABILITIES			
Trade payables		62,814	57,553
Amounts owed to group enterprises		0	8,010
Payable joint taxation contribution	4	1,598	3,558
Prepayments liabilities	11	6,964	7,697
Other liabilities	12	27,894	30,759
Total current liabilities other than provisions		99,270	107,577
Total liabilities		103,471	112,385
TOTAL LIABILITIES AND EQUITY		161,774	159,518
Contingent liabilities and obligations	13		
Related party disclosures	14		

EQUITY

(DKK'000)	Share capital	Retained earnings	Total
Equity at 1 January 2019	1,300	45,833	47,133
Transferred, cf. profit appropriation	-	11,170	11,170
Equity at 31 December 2019	1,300	57,003	58,303

NOTES

1 Accounting Policies

The annual report of Roche Diagnostics A/S for 2019 has been presented in accordance with the provisions applying to reporting class C for medium-sized entities under the Danish Financial Statements Act. The accounting policies used are consistent with those of last year.

With reference to the Danish Financial Statement §86, section 4, the cash flow statement is omitted. Instead we refer to the Annual Report for Roche Holding Ltd., Basel, Switzerland. A link to the 2019 Annual Report can be found via:

<https://www.roche.com/dam/jcr:a3545548-a7f9-40f4-a70e-7266a363f856/en/ar19e.pdf>

Recognition and measurement

Included in the income statement is recognition of value adjustments of financial assets and liabilities measured at fair value or amortized cost. Furthermore, all expenses incurred to achieve the earnings for the year are recognized in the income statement, including depreciation, amortization, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognized in the income statement. Assets are recognized in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognized in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognized in the income statement as financial income or expense.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest financial statements is recognized in the income statement as financial income or expense.

NOTES

1 Accounting Policies (continued)**Recognition of revenue**

Revenue from the sale of goods where installation is a condition for major risks being considered transferred to the buyer is recognized as revenue when; 1) delivery and installation have been made before year-end; 2) a binding sales agreement has been made; 3) the sales price has been determined; 4) payment has been received at the time of sale or may with reasonable certainty be expected to be received.

A contract is broken down into individual transactions when the fair value of the individual sales transactions may be reliably measured, and the individual sales transactions are of separate value to the buyer. Sales transactions are deemed to be of a separate value to the buyer when the transaction is individually identifiable and usually sold individually. The contract price is broken down into the individual sales transactions in accordance with the relative current cost approach.

Revenue from the sale of goods, comprising the sale of reagents and other finished products, is recognized as revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received.

Under Danish GAAP, Roche elects to use IFRS 15 as interpretative basis for ÅRL, meaning that we recognize revenue in the statutory annual report in accordance with our group reporting (as this is in conformity with IFRS 15).

Marketing and distribution expenses

Marketing expenses include wages for marketing staff, promotion material, warehouse and distribution costs, etc.

Administrative expenses

Administrative expenses include wages for administrative staff, depreciation of office machines and other office costs, etc.

Financial income and expenses

Financial income and expenses comprise interest, realized and unrealized exchange adjustments, etc.

NOTES

I Accounting Policies (continued)**BALANCE SHEET****Tangible fixed assets**

Tangible fixed assets are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

The basis of depreciation is costs less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. Scrap value is estimated to zero. The estimated useful lives are as follows:

Office Equipment	3-5 years
Assets placed at 3 rd party	5 years
Furniture & fixtures	10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognized prospectively.

Gains and losses on the disposal of tangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognized in the income statement as other operating income or other operating costs, respectively.

Depreciation is recognized in the income statement as marketing & distribution expenses and administrative expenses, respectively.

Leases

Payments relating to operating leases and other leases are recognized in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed as contractual obligations and contingencies, etc.

Impairment of tangible fixed assets

The carrying amount of tangible fixed assets is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognized write-downs are reversed when the basis for the write-down no longer exists.

NOTES

1 Accounting Policies (continued)**Inventories**

Inventories are measured at cost in accordance with the FIFO method. Where the net realizable value is lower than cost, inventories are written down to this lower value. Goods for resale are measured at cost, comprising purchase price plus delivery costs.

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortized cost. Write-down for bad debt losses are based on an individual assessment of receivables.

Prepayments

Prepayment assets comprise costs incurred concerning subsequent financial years.

Provisions

Provisions comprise anticipated costs related to warranties. Provisions are recognized when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realizable value.

Liabilities other than provisions

Financial liabilities are recognized at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortized cost, corresponding to the capitalized value using the effective interest rate.

Prepayments liabilities

Prepayments liabilities comprise deferred income concerning subsequent financial years.

Corporation tax and deferred tax

The company tax expected to be paid on the taxable income for the year is expensed together with the movement in deferred taxes calculated on the timing differences between income for financial reporting purposes and income for tax purposes. Deferred taxes are calculated on the basis of the current tax rate as at the balance sheet date and are included in current assets in the balance sheet.

Current tax payable and receivable is recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

The Company is subject to the Danish rules on compulsory joint taxation of the Roche Group's Danish subsidiaries. The company settles internally on account to the managing company. Receivable and payable to the managing company are shown in the accounting records "Receivable joint taxation contribution" and "Payable joint taxation contribution" respectively.

NOTES (DKK'000)

1 Accounting Policies (continued)

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

2 Personnel expenses

	<u>2019</u>	<u>2018</u>
Wages and salaries	73,409	68,879
Pensions	5,928	5,466
Other social security costs	<u>2,955</u>	<u>3,156</u>
Total	<u>82,292</u>	<u>77,501</u>
Personal Expenses stated by function		
Cost of sales	18,993	13,185
Marketing & distribution expenses	57,023	55,147
Administrative expenses	<u>6,276</u>	<u>9,169</u>
Total	<u>82,292</u>	<u>77,501</u>

Remuneration of the Company's management and board of directors is not disclosed pursuant to Section 98b (iii), no. 2 of the Danish Financial Statements Act.

The average number of employees during the year was 95 full-time employees (2018: 89).

A long-term award program is granted by the Roche Group exclusive to selected employees of Roche Diagnostics A/S. The program consists of a mix of stock-settled stock appreciations rights (s-SARs) and performance share plan (PSP), the employees can decide on a preferred mix based on available combinations. Concerning all activity regarding Roche Diagnostics A/S the long-term award program is solely offered to Roche Diagnostics A/S employees. The total costs related to the long-term award program of DKK 598 thousand (2018: DKK 602 thousand) is included in the staff costs and not further detailed as per the Danish Financial Statement Act, sec. 98 (ii), 2.

NOTES (DKK'000)

3 Financial income and expenses

	<u>2019</u>	<u>2018</u>
Financial intercompany income	15	9
Financial intercompany expenses	26	10
Financial 3 rd party income	6	1
Financial 3 rd party expenses	<u>304</u>	<u>67</u>
Total	<u>(309)</u>	<u>(67)</u>

4 Tax on profit for the year

	<u>2019</u>	<u>2018</u>
Tax on profit for the year	3,575	3,091
Adjustment deferred tax	(365)	(273)
Adjustment prior year tax	<u>(59)</u>	<u>(156)</u>
Tax as per income statement	<u>3,151</u>	<u>2,662</u>
Tax balance 1 January 2019	(3,558)	(624)
Paid taxes during the year	5,476	0
Adjustment prior year tax	59	157
Tax on profit for the year	<u>(3,575)</u>	<u>(3,091)</u>
Tax balance 31 December 2019	<u>(1,598)</u>	<u>(3,558)</u>
Deferred tax 1 January 2019	1,192	919
Adjustment deferred tax	<u>366</u>	<u>273</u>
Deferred tax 31 December 2019	<u>1,558</u>	<u>1,192</u>
Deferred tax concerns:		
Tangible fixed assets	707	499
Trade receivables	0	(10)
Other Provision	<u>851</u>	<u>703</u>
	<u>1,558</u>	<u>1,192</u>

5 Proposed allocation of profits

	<u>2019</u>	<u>2018</u>
Proposed dividend	0	0
Retained earnings	<u>11,170</u>	<u>9,960</u>
Total	<u>11,170</u>	<u>9,960</u>

NOTES (DKK'000)

6 Tangible fixed assets

	Rental assets Placed at 3 rd party	Fittings and Fixtures
Cost at 1 January 2019	11,664	3,646
Additions during the year	1,896	0
Disposals during the year	715	946
Cost at 31 December 2019	12,845	2,700
Accumulated depreciations at 1 January 2019	7,737	3,586
Depreciation for the year	1,630	11
Depreciation on disposals	51	913
Accumulated depreciations at 31 December 2019	9,318	2,684
Net book value at 31 December 2019	3,527	16

7 Prepayments

	2019	2018
Prepaid rent expenses	0	74
Prepaid lease expenses	0	651
Prepaid insurance expenses	12	159
Other prepaid expenses	344	0
Total	356	884

8 Amounts owed by group enterprises (Cash Pool)

The Company is part of the cash pooling agreement with Roche Pharmholding B.V., Netherlands which ensures daily liquidity and the foreign exchange hedging agreement where the FX-exposure of the cash pool accounts are hedged by Roche Pharmholding B.V., Netherlands.

9 Share Capital

The share capital consists of 130 shares of DKK 10,000 each. No shares have special rights. No changes have been made to the share capital within the previous 5 years.

All shares rank equally.

NOTES (DKK'000)

10 Other Provisions

A liability of DKK 3,406 thousand (2018: DKK 4,808 thousand) has been accrued to cover expected warranty costs based on the costs of previous years as well as customer related claims. In addition a restructuring provision of DKK 795 thousand (2018: nil) has been accrued for the reorganization of the local Diabetes Care business. The total balance of other provisions in 2019 is therefore DKK 4,201 thousand.

11 Prepayments liabilities

Prepayments liabilities comprise deferred income concerning subsequent years.

12 Other Liabilities

	<u>2019</u>	<u>2018</u>
Vacation pay accrual	9,090	7,618
VAT	10,719	14,549
Other salary related liabilities	8,085	8,558
Other Liabilities	<u>0</u>	<u>34</u>
Total	<u>27,894</u>	<u>30,759</u>

NOTES

13 Contingent liabilities and obligations**Lease obligations**

Roche Diagnostics A/S has operating lease obligations of DKK 11,099 thousand at 31 December 2019 (2018: 10,110 tDKK) of which DKK 5,797 thousand is due within the next 12 months (2018: 5,579 tDKK). Roche Diagnostics A/S no longer holds mortgage obligations regarding expatriate employees housing. The obligation amounts to DKK 0 (nil) at 31 December 2019 (2018: 217 tDKK).

Guarantees

Roche Diagnostics A/S has at 31 December 2019 provided bank guarantees of DKK 4,850 thousand (2018: 5,060 tDKK). The guarantees have been provided as security for prepayment and deliveries according to contracts between Roche Diagnostics A/S and customers regarding the purchase of instruments.

Service agreements

Roche Diagnostics A/S has entered into service agreements with the associated company Roche A/S. The total obligation for the resignation period of 6 months amounts to DKK 2,670 thousand at 31 December 2019 (2018: 2,633 tDKK).

Joint taxation

Roche Diagnostics A/S is jointly taxed with other Danish companies in the Roche Group. As the administrative company and a wholly owned subsidiary of Roche Holding Ltd. the Company is unlimited and solidarity liable with the other companies in the joint taxation regarding Danish corporation taxes and withholding taxes on dividends, interests and royalties in the joint taxation. At 31 December 2019, the jointly taxed companies' net liabilities to SKAT amounted to DKK 0 (nil). Any subsequent corrections of the taxable income in the joint taxation or withholding taxes could lead to the Company's liability being higher.

NOTES (DKK'000)

14 Related parties

The Company is a 100% owned subsidiary. The Company is part of the consolidated financial statements of Roche Holding Ltd, Grenzacherstrasse 124, 4058 Basel, Switzerland, in which the Company is included as a subsidiary.

The consolidated financial statements of Roche Holding Ltd can be obtained by contacting the Company or at the following website:

<https://www.roche.com/dam/jcr:3545548-a7f9-40f4-a70e-7266a363f856/en/ar19e.pdf>

	<u>2019</u>
Purchase of goods from group companies	-314,451
Purchase of services from group companies	-7,396
Sale of goods to group companies	450
Sale of service to group companies	317

The company's balances with group companies at December, 31 2019 are recognized in the balance sheet. Accounts receivable balances consist of services reinvoiced for regional employees working out of Roche Diagnostics Denmark A/S. Accounts payable balances primarily consist of purchased goods from Roche Diagnostics International Ltd. and services delivered under the Service Level Agreement with Roche A/S.

Interest income and expenses are disclosed in note 3.

Purchase of services from group companies consists of facility services, office services and canteen services.