



*Roche Capital Market Ltd –
Financial Statements 2015*

Roche Capital Market Ltd, Financial Statements

Roche Capital Market Ltd, statement of comprehensive income *in millions of CHF*

	Year ended 31 December	
	2015	2014
Income		
Financial income – related parties ²	105	105
Total income	105	105
Expenses		
Financing costs ²	(85)	(85)
Financing costs – related parties ²	(15)	(15)
Total expenses	(100)	(100)
Profit before taxes	5	5
Income taxes ³	(1)	(1)
Net income	4	4
Other comprehensive income, net of tax	-	-
Total comprehensive income	4	4

Roche Capital Market Ltd, balance sheet *in millions of CHF*

	31 December 2015	31 December 2014	31 December 2013
Non-current assets			
Long-term loans receivable – related parties ⁵	2,600	2,600	2,600
Total non-current assets	2,600	2,600	2,600
Current assets			
Short-term loans receivable – related parties ⁵	62	-	-
Accounts receivable – related parties ⁶	28	79	72
Cash and cash equivalents ⁷	-	-	-
Total current assets	90	79	72
Total assets	2,690	2,679	2,672
Non-current liabilities			
Long-term debt ⁹	(2,594)	(2,591)	(2,588)
Total non-current liabilities	(2,594)	(2,591)	(2,588)
Current liabilities			
Short-term debt ⁹	-	-	-
Current income tax liabilities ³	(1)	(1)	(1)
Accounts payable – related parties ⁶	(4)	-	-
Accrued interest ⁸	(56)	(56)	(56)
Total current liabilities	(61)	(57)	(57)
Total liabilities	(2,655)	(2,648)	(2,645)
Total net assets	35	31	27
Equity			
Share capital ¹⁰	1	1	1
Retained earnings	34	30	26
Total equity	35	31	27

Roche Capital Market Ltd, statement of cash flows in millions of CHF

	Year ended 31 December	
	2015	2014
Cash flows from operating activities		
Net income	4	4
Add back non-operating (income) expense		
- Financial income – related parties	(105)	(105)
- Financing costs	85	85
- Financing costs – related parties	15	15
- Income taxes	1	1
Income taxes paid	(1)	(1)
Total cash flows from operating activities	(1)	(1)
Cash flows from investing activities		
Issue of loans receivable – related parties ⁵	(62)	-
Proceeds from repayment of loans receivable – related parties ⁵	-	-
Interest received – related parties	105	105
Total cash flows from investing activities	43	105
Cash flows from financing activities		
Proceeds from issue of bonds ⁹	-	-
Repayment and redemption of bonds ⁹	-	-
(Increase) decrease of cash pool balance with related parties ⁶	55	(7)
Interest paid	(82)	(82)
Financing costs paid – related parties	(15)	(15)
Total cash flows from financing activities	(42)	(104)
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 ⁷	-	-

Roche Capital Market Ltd, statement of changes in equity in millions of CHF

	Share capital	Retained earnings	Total
Year ended 31 December 2014			
At 1 January 2014	1	26	27
Net income	-	4	4
Other comprehensive income	-	-	-
Total comprehensive income	-	4	4
Dividends	-	-	-
At 31 December 2014	1	30	31
Year ended 31 December 2015			
At 1 January 2015	1	30	31
Net income	-	4	4
Other comprehensive income	-	-	-
Total comprehensive income	-	4	4
Dividends	-	-	-
At 31 December 2015	1	34	35

Roche Capital Market Ltd, Notes to the 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 Capital Market Ltd, (*Roche Kapitalmarkt AG*), a company registered in Basel, Switzerland (hereafter 'the Company'). The Company is 100% owned by Roche Holding Ltd, (*Roche Holding AG*), a public company registered in Switzerland. Roche Holding Ltd is the parent company of the Roche Group, and therefore the Company is a member 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.

In 2015 the Company continued its financing activities on behalf of the Roche Group. The Company did not issue any new bonds in 2015. The Company entered into a new financing arrangement with another member of the Roche Group (see Note 5).

Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). 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 26 January 2016.

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 contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an on-going 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 sources of estimation uncertainty that the Company's management believe to 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 financing operations in Switzerland. Therefore no segment reporting is included in these financial statements.

Foreign currency translation

The functional currency of the Company is the Swiss franc. Transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies 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 option pricing models and 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

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.

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 2015 the Roche Group, and consequently the Company, adopted various new standards and amendments to standards, including any consequential amendments to other standards, which have no material impact on the Company's overall 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 2016 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 Group is also assessing other new and revised which are not mandatory until after 2016, notably IFRS 9 'Financial Instruments'.

2. Financial income and financing costs

Financial income – related parties *in millions of CHF*

	Year ended 31 December	
	2015	2014
Interest income – related parties	105	105
Total financial income – related parties	105	105

Financing costs *in millions of CHF*

	Year ended 31 December	
	2015	2014
Interest expense	(82)	(82)
Amortisation of debt discount ⁹	(3)	(3)
Guarantee fees – related parties	(15)	(15)
Total financing costs	(100)	(100)

3. Income taxes

Income tax expenses *in millions of CHF*

	Year ended 31 December	
	2015	2014
Current income taxes	(1)	(1)
Deferred income taxes	-	-
Total income (expense)	(1)	(1)

The Company's local statutory tax rate is 22.2% (2014: 22.2%) and this is also the effective tax rate in these financial statements.

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

	31 December	31 December	31 December
	2015	2014	2013
Current income taxes			
- Assets	-	-	-
- Liabilities	(1)	(1)	(1)
Net current income tax assets (liabilities)	(1)	(1)	(1)

4. Employee benefits

The Company has no employees. F. Hoffmann-La Roche Ltd, Basel performs all administrative activities on behalf of the Company.

5. Loans receivable – related parties

On 17 November 2015 the Company granted a loan to F. Hoffmann-La Roche Ltd, Basel in the amount of CHF 62 million.

Loans receivable – related parties *in millions of CHF*

	31 December 2015	31 December 2014	31 December 2013
Outstanding principal CHF 62 million, due 16 February 2016, interest rate 0.3%	62	-	-
Outstanding principal CHF 1.5 billion, due 23 March 2017, interest rate 5.63%	1,500	1,500	1,500
Outstanding principal CHF 600 million, due 21 September 2018, interest rate 1.37%	600	600	600
Outstanding principal CHF 500 million, due 23 September 2022, interest rate 1.97%	500	500	500
Total loans receivable – related parties	2,662	2,600	2,600
Reported as			
- Long-term loans receivable	2,600	2,600	2,600
- Short-term loans receivable	62	-	-
Total loans receivable – related parties	2,662	2,600	2,600

6. Accounts receivable / payable - 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 receivable from F. Hoffmann-La Roche Ltd, Basel in respect of the loans granted to that company (see Note 5).

Accounts receivable – related parties *in millions of CHF*

	31 December 2015	31 December 2014	31 December 2013
Accounts receivable with cash pool leader	-	51	44
Interest receivable – related parties	28	28	28
Total accounts receivable – related parties	28	79	72

Accounts payable – related parties *in millions of CHF*

	31 December 2015	31 December 2014	31 December 2013
Accounts payable with cash pool leader	4	-	-
Total accounts payable – related parties	4	-	-

7. Cash and cash equivalents

At 31 December 2015 the Company had no cash in its bank account (2014 and 2013: none).

8. Accrued interest

Accrued interest *in millions of CHF*

	31 December 2015	31 December 2014	31 December 2013
Interest payable	56	56	56
Total accrued interest	56	56	56

9. Debt

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

	2015	2014
At 1 January	2,591	2,588
Proceeds from issue of bonds	-	-
Repayment and redemption of bonds	-	-
Amortisation of debt discount ²	3	3
At 31 December	2,594	2,591
Consisting of		
- Bonds	2,594	2,591
Total debt	2,594	2,591
Reported as		
- Long-term debt	2,594	2,591
- Short-term debt	-	-
Total debt	2,594	2,591

Recognised liabilities and effective interest rates of bonds in millions of CHF

	Effective interest rate	31 December 2015	31 December 2014	31 December 2013
4.5% bonds due 23 March 2017, principal CHF 1.5 billion (ISIN: CH0039139263)	4.77%	1,495	1,492	1,489
1% bonds due 21 September 2018, principal CHF 0.6 billion (ISIN: CH0180513068)	1.04%	600	600	600
1.625% bonds due 23 September 2022, principal CHF 0.5 billion (ISIN: CH0180513183)	1.64%	499	499	499
Total		2,594	2,591	2,588

The fair values of the bonds at 31 December 2015 are stated below. These are determined based on the observable market prices of the bonds. There are no pledges on the Company's assets in connection with the debt. All issued bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Fair value of bonds in millions of CHF

	31 December 2015	31 December 2014
4.5% bonds due 23 March 2017, principal CHF 1.5 billion (ISIN: CH0039139263), effective interest rate 4.77%	1,586	1,648
1% bonds due 21 September 2018, principal CHF 0.6 billion (ISIN: CH0180513068), effective interest rate 1.04%	618	620
1.625% bonds due 23 September 2022, principal CHF 0.5 billion (ISIN: CH0180513183), effective interest rate 1.64%	547	543
Total	2,751	2,811

Issuance of bonds

The Company did not issue any bonds during 2015 or 2014.

Redemption of bonds

The Company did not have any redemption of bonds during 2015 or 2014.

10. Equity

Share capital

At 31 December 2015, the authorised and issued share capital of the Company consisted of 1,000 shares with a nominal value of CHF 1,000 each, as in the preceding year. All the shares are owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

The Company paid no dividends in 2015 (2014: no dividends).

Own equity instruments

The Company holds none of its own shares (2014 and 2013: none).

11. Contingent liabilities

At 31 December 2015 the Company does not have any material contingent liabilities (2014: none).

12. 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 6.

Related party transactions *in millions of CHF*

	Year ended 31 December	
	2015	2014
Interest income – related parties	105	105
Guarantee fees – related parties	(15)	(15)
Repayment of loans receivable – related parties ⁵	-	-
(Increase) decrease of cash pool balance with related parties ⁶	55	(7)
Issue of loans receivable – related parties ⁵	(62)	-

Related party balances *in millions of CHF*

	31 December	31 December	31 December
	2015	2014	2013
Long-term loans receivable – related parties ⁵	2,600	2,600	2,600
Short-term loans receivable – related parties ⁵	62	-	-
Accounts receivable – related parties ⁶	28	79	72
Accounts payable – related parties ⁶	(4)	-	-

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-makers.

Board of Directors of Roche Capital Market Ltd

Dr Alan Hippe	Chairman	Appointed 1 April 2011
Dr Gottlieb Keller	Member of the Board	Appointed 1 October 2008

The directors did not receive remuneration or payment from the Company for their time and expenses related to their services during 2015 and 2014.

13. Financial 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 the 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 the Roche Group.

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 CHF*

By line items in notes	Asset class	Carrying value	2015 Fair value	Carrying value	2014 Fair value
Long-term loan receivable – related parties ⁵	Loans and receivables	2,600	2,716	2,600	2,727
Short-term loan receivable – related parties ⁵	Loans and receivables	62	62	-	-
Accounts receivable – related parties ⁶	Loans and receivables	28	28	79	79
Total		2,690	2,806	2,679	2,806

The fair values for loan receivables – related parties disclosed in the above table were 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 Roche Group. The fair value of the loans receivable would be Level 2 in the fair value hierarchy.

At 31 December 2015 the Company has no financial assets which are past due but not impaired (2014: none) and no financial assets whose terms have been renegotiated (2014: 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.

As described in Note 9, at 31 December 2015 the Company had financial liabilities with a principal amount of CHF 2.6 billion (2014: CHF 2.6 billion).

In 2009 the Company issued CHF 1.5 billion fixed rate bonds with a coupon of 4.5 %. The bonds will mature on 23 March 2017 and are listed on the SIX Swiss Exchange. The Company received CHF 1,475 million aggregate net

proceeds from the issuance and sale of these bonds. The bonds have interest coupons of CHF 68 million paid annually on 23 March.

In 2012 the Company issued CHF 0.6 billion fixed rate bonds with a coupon of 1.0 % that will mature on 21 September 2018 and CHF 0.5 billion fixed rate bonds with a coupon of 1.625 % that will mature on 23 September 2022. The bonds are listed on the SIX Swiss Exchange. The Company received CHF 598 million and CHF 499 million, respectively, aggregate net proceeds from the issuance and sale of these bonds. The bonds have interest coupons of CHF 6 million paid annually on 21 September and CHF 8 million paid annually on 23 September, respectively.

At 31 December 2015 there are no other financial liability contractual cash flows.

Market risk

Market risk arises from changing market prices of the Company's financial assets or financial liabilities. Market risk may affect the Company's financial result and the value of the Company's equity.

At 31 December 2015 the Company's exposure to interest rate risk was insignificant, as the outstanding principal amount on the Company's long-term debt (see Note 9) and the long-term loans receivable from related parties (see Note 5) are both at fixed interest rates. The Company's variable interest-bearing financial assets are the receivable balance with the corporate cash pool leader (see Note 6) referenced to one month LIBOR.

At 31 December 2015 the Company did not have any exposure to foreign exchange risks, as all of the Company's financial assets and liabilities were denominated in Swiss francs, the Company's functional currency.

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 CHF

	31 December 2015	31 December 2014	31 December 2013
Debt ⁹	2,594	2,591	2,589
Equity	35	31	27
Capitalisation	2,629	2,622	2,616

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

Report of the Independent Auditor on the Financial Statements

Report of the Independent Auditor on the Financial Statements to the Board of Directors of Roche Capital Market Ltd, Basel

As independent auditor, we have audited the accompanying financial statements of Roche Capital Market Ltd, which comprise the statement of comprehensive income, balance sheet, statement of cash flows and statement of changes in equity and notes on pages 2 to 12 for the year ended 31 December 2015.

Board of Directors' Responsibility: The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility: Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the existence and effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion: In our opinion, the financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS).

KPMG AG



Ian Starkey
Licensed Audit Expert
Auditor in Charge



Marc Ziegler
Licensed Audit Expert

Basel, 26 January 2016