



*Roche Capital Market Ltd –
Financial Statements 2011*

Roche Capital Market Ltd, Financial Statements

Reference numbers indicate corresponding Notes to the Financial Statements.

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

	Year ended 31 December	
	2011	2010
Income		
Financial income – related parties ²	86	85
Other income	-	-
Total income	86	85
Expenses		
Financing costs ²	(71)	(70)
Financing costs – related parties ²	(12)	(12)
Other expenses	-	-
Total expenses	(83)	(82)
Profit before taxes	3	3
Income taxes ³	(1)	(1)
Net income	2	2
Other comprehensive income	-	-
Total comprehensive income	2	2

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

	31 December 2011	31 December 2010	31 December 2009
Non-current assets			
Long-term loans receivable – related parties ⁵	1,500	1,500	1,500
Total non-current assets	1,500	1,500	1,500
Current assets			
Accounts receivable – related parties ⁶	59	74	69
Cash and cash equivalents ⁷	-	-	-
Total current assets	59	74	69
Total assets	1,559	1,574	1,569
Non-current liabilities			
Long-term debt ⁹	(1,483)	(1,480)	(1,477)
Total non-current liabilities	(1,483)	(1,480)	(1,477)
Current liabilities			
Current income tax liabilities ³	(1)	(1)	-
Accrued interest ⁸	(52)	(52)	(53)
Total current liabilities	(53)	(53)	(53)
Total liabilities	(1,536)	(1,533)	(1,530)
Total net assets	23	41	39
Equity			
Share capital ¹⁰	1	1	1
Retained earnings	22	40	38
Total equity	23	41	39

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

	Year ended 31 December	
	2011	2010
Cash flows from operating activities		
Net income	2	2
Add back non-operating (income) expense		
- Financial income – related parties	(86)	(85)
- Financing costs	71	70
- Financing costs – related parties	12	12
- Income taxes	1	1
Income taxes paid	(1)	-
Total cash flows from operating activities	(1)	-
Cash flows from investing activities		
Issue of long-term loans receivable – related parties ⁵	-	-
Proceeds from repayment of loans receivable – related parties ⁵	-	-
Interest received – related parties	86	85
Total cash flows from investing activities	86	85
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	15	(5)
Interest paid	(68)	(68)
Dividends paid	(20)	-
Financing costs paid – related parties	(12)	(12)
Total cash flows from financing activities	(85)	(85)
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 2010			
At 1 January 2010	1	38	39
Net income	-	2	2
Other comprehensive income	-	-	-
Total comprehensive income	-	2	2
Dividends	-	-	-
At 31 December 2010	1	40	41
Year ended 31 December 2011			
At 1 January 2011	1	40	41
Net income	-	2	2
Other comprehensive income	-	-	-
Total comprehensive income	-	2	2
Dividends	-	(20)	(20)
At 31 December 2011	1	22	23

Roche Capital Market Ltd, Notes to the Financial Statements

Reference numbers indicate corresponding Notes to the Financial Statements.

1. Summary of significant accounting policies

Basis of preparation of the Financial Statements

These financial statements are the 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. During the first half of 2009 the Company resumed its financing activities on behalf of the Roche Group and issued bonds, which are guaranteed by Roche Holding Ltd, the parent company of the Roche Group (see Note 9). The Company subsequently entered into new financing arrangements with other members of the Roche Group (see Note 5).

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law. They have been prepared using the historical cost convention. They were approved for issue by the Board of Directors on 24 January 2012.

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

Changes in accounting policies that arise from the application of new or revised standards and interpretations are applied retrospectively, unless otherwise specified in the transitional requirements of the particular standard or interpretation. Retrospective application requires that the results of the comparative period and the opening balances of that period are restated as if the new accounting policy had always been applied. In some cases the transitional requirements of the particular standard or interpretation specify that the changes are to be applied prospectively. Prospective application requires that the new accounting policy only be applied to the results of the current period and the comparative period is not restated. In addition comparatives have been reclassified or extended from the previously reported results to take into account any presentational changes.

Segment reporting

The Company has only one operating segment and undertakes its 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 for the difference between the carrying value and the estimated recoverable amount where there is objective evidence that the Company will not be able to collect all amounts due. Long-term accounts receivable are discounted to take into account the time value of money, where material.

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 if they are readily convertible to known amounts of cash, are

subject to insignificant risk of changes in value and have a maturity of three months or less from the date of acquisition. This definition is also used for the statement of cash flows.

Provisions

Provisions are recognised where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money, where material. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognised, but are disclosed where an inflow of economic benefits is probable.

Fair values

Fair value is the amount for which a financial asset, liability or instrument could be exchanged between knowledgeable and willing parties in an arm's length transaction. 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 Financial Statements.

Loans and receivables

Loans and receivables are financial assets created by the Company or acquired from the issuer in a primary market. They 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, including transaction costs, and are subsequently carried at amortised cost using the effective interest rate method.

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 income tax assets and liabilities are recognised on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax assets relating to the carry-forward of unused tax losses 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 income 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 income taxes are determined based on the currently enacted tax rates applicable in the tax jurisdiction where the Company operates.

Management judgements made in applying accounting policies

The application of the Company's accounting policies may require management to make judgements, apart from those involving estimates, that can have a significant effect on the amounts recognised in the financial statements. Management judgement may be particularly required when assessing the substance of transactions that have a complicated structure or legal form. There were no transactions that required specific application of management judgement in these financial statements.

Key assumptions and sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes 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.

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

In 2011 the Roche Group, and consequently the Company, have implemented various minor amendments to existing standards and interpretations, which have no impact on the Company's overall results and financial position.

The Roche Group is currently assessing the potential impacts of the other new and revised standards and interpretations that will be effective from 1 January 2012 and beyond, and which the Group has not early adopted. The Company does not anticipate that these will have a material impact on the Company's overall results and financial position.

2. Financial income and financing costs

Financial income – related parties *in millions of CHF*

	Year ended 31 December	
	2011	2010
Interest income – related parties	86	85
Total financial income – related parties	86	85

Financing costs *in millions of CHF*

	Year ended 31 December	
	2011	2010
Interest expense	(68)	(67)
Amortisation of debt discount	(3)	(3)
Guarantee fees – related parties	(12)	(12)
Total financing costs	(83)	(82)

3. Income taxes

Income tax expenses *in millions of CHF*

	2011	2010
Current income taxes	(1)	(1)
Adjustments recognised for current tax of prior periods	-	-
Deferred income taxes	-	-
Total income (expense)	(1)	(1)

The Company's local statutory tax rate is 21.9% (2010: 19.2%) and this is also the effective tax rate in these financial statements.

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

	2011	2010	2009
Current income taxes			
- Assets	-	-	-
- Liabilities	(1)	(1)	-
Net current income tax assets (liabilities)	(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 23 March 2009 the Company gave a loan to F. Hoffmann-La Roche Ltd, Basel for 1,500 million Swiss francs due 23 March 2017. The effective interest rate is 5.63%.

6. 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. As at 31 December 2011 the Company also had interest receivable from F. Hoffmann-La Roche Ltd, Basel in respect of the loan given to that company (see Note 5).

Accounts receivable – related parties *in millions of CHF*

	2011	2010	2009
Accounts receivable with cash pool leader	36	51	46
Interest receivable	23	23	23
Total accounts receivable	59	74	69

7. Cash and cash equivalents

As at 31 December 2011 the Company had no cash in its bank account (2010: zero Swiss francs).

8. Accrued interest

Accrued interest in millions of CHF

	2011	2010	2009
Interest payable	(52)	(52)	(53)
Total accrued interest	(52)	(52)	(53)

9. Debt

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

	2011	2010
At 1 January	(1,480)	(1,477)
Proceeds from issue of bonds	-	-
Repayment and redemption of bonds	-	-
Amortisation of debt discount ²	(3)	(3)
At 31 December	(1,483)	(1,480)
Consisting of		
- Bonds	(1,483)	(1,480)
Total debt	(1,483)	(1,480)
Reported as		
- Long-term debt	(1,483)	(1,480)
- Short-term debt	-	-
Total debt	(1,483)	(1,480)

Outstanding bonds

On 23 March 2009 the Company issued Swiss franc fixed rate 4.5% bonds due 23 March 2017 with a principal amount of 1,500 million Swiss francs (ISIN: CH0039139263). The net proceeds were 1,475 million Swiss francs and the effective interest rate is 4.77%. These bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

The fair value of the bonds at 31 December 2011 is 1,769 million Swiss francs (31 December 2010: 1,701 million Swiss francs; 31 December 2009: 1,684 million Swiss francs). This is determined based on the observable market price of the bonds. There are no pledges on the Company's assets in connection with the debt.

Issuance of new bonds and notes – 2011 and 2010

The Company did not issue any bonds or notes in 2011 and 2010.

10. Equity

Share capital

As of 31 December 2011, the authorised and issued share capital of the Company consisted of 1,000 shares with a nominal value of 1,000 Swiss francs each, as in the preceding year. All the shares are owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On 1 April 2011 the Board of Directors of the Company approved the distribution of a dividend to Roche Holding Ltd of 20 million Swiss francs in respect of the 2010 business year and the Company's reserves (2010: none). The dividend distribution has been recorded against retained earnings in 2011.

Own equity instruments

The Company holds none of its own shares (2010: none).

11. Contingent liabilities

The operations and earnings of the Company may, from time to time and in varying degrees, be affected by political, legislative, fiscal or regulatory developments, in the countries in which it operates. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings, are not predictable. As of 31 December 2011, the Company does not have any material contingent liabilities (2010: 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 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*

	2011	2010
Interest income – related parties	86	85
Guarantee fees – related parties	(12)	(12)
Repayment of loans receivable – related parties ⁵	-	-
(Increase) decrease of cash pool balance with related parties ⁶	15	(5)
Issue of long-term loans receivable – related parties ⁵	-	-

Related party balances *in millions of CHF*

	2011	2010	2009
Long-term loans receivable – related parties ⁵	1,500	1,500	1,500
Accounts receivable – related parties ⁶	59	74	69

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.

Change in Board of Directors of Roche Capital Market Ltd: Effective 31 March 2011 Dr Erich Hunziker, formerly Chairman of the Board of Directors of the Company, resigned from the Board. On 1 April 2011 Dr Alan Hippe was appointed to succeed Dr Erich Hunziker as Chairman of the Board.

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 2011 and 2010.

13. 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 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	2011 Fair value	Carrying value	2010 Fair value
Long-term loan receivable – related parties ⁵	Loans and receivables	1,500	1,500	1,500	1,500
Accounts receivable – related parties ⁶	Loans and receivables	59	59	74	74
Total		1,559	1,559	1,574	1,574

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.

As at 31 December 2011 the Company has no financial assets which are past due but not impaired (2010: none) and no financial assets whose terms have been renegotiated (2010: 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 2011 and 2010 the Company had financial liabilities with a principal amount of 1,500 million Swiss francs due 23 March 2017 related to the issue of Swiss francs denominated bonds. Interest coupons of 68 million Swiss francs related to these bonds are payable annually on 23 March. There are no other contractual cash flows from financial liabilities.

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.

As at 31 December 2011 and 2010 the Company's exposure to interest rate risk was insignificant, as the outstanding principal amount on the Company's debt (see Note 9) and the loans receivable from related parties (see Note 5) are both at fixed interest rate. The Company's only variable interest-bearing financial asset/liability referenced to one month LIBOR was the receivable balance of 36 million Swiss francs (2010: 51 million Swiss francs) with the corporate cash pool leader (see Note 6).

As at 31 December 2011 and 2010 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

	2011	2010	2009
Debt ⁹	1,483	1,480	1,477
Equity	23	41	39
Capitalisation	1,506	1,521	1,516

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 2011.

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) and the requirements of Swiss law. 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 Swiss law, Swiss Auditing Standards and 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 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 2011 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) and comply with Swiss law.

KPMG AG



Ian Starkey
Licensed Audit Expert
Auditor in Charge



François Rouiller
Licensed Audit Expert

Basel, 24 January 2012