



*Roche Capital Market Ltd –  
Financial Statements 2012*

# 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	
	2012	2011
<b>Income</b>		
Financial income – related parties <sup>2</sup>	<b>102</b>	86
Other income	-	-
<b>Total income</b>	<b>102</b>	86
<b>Expenses</b>		
Financing costs <sup>2</sup>	<b>(85)</b>	(71)
Financing costs – related parties <sup>2</sup>	<b>(15)</b>	(12)
Other expenses	-	-
<b>Total expenses</b>	<b>(100)</b>	(83)
<b>Profit before taxes</b>	<b>2</b>	3
Income taxes <sup>3</sup>	<b>(1)</b>	(1)
<b>Net income</b>	<b>1</b>	2
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>1</b>	2

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

	31 December 2012	31 December 2011	31 December 2010
<b>Non-current assets</b>			
Long-term loans receivable – related parties <sup>5</sup>	<b>2,600</b>	1,500	1,500
<b>Total non-current assets</b>	<b>2,600</b>	1,500	1,500
<b>Current assets</b>			
Short-term loans receivable – related parties <sup>5</sup>	<b>400</b>	-	-
Accounts receivable – related parties <sup>6</sup>	<b>66</b>	59	74
Cash and cash equivalents <sup>7</sup>	-	-	-
<b>Total current assets</b>	<b>466</b>	59	74
<b>Total assets</b>	<b>3,066</b>	1,559	1,574
<b>Non-current liabilities</b>			
Long-term debt <sup>9</sup>	<b>(2,585)</b>	(1,483)	(1,480)
<b>Total non-current liabilities</b>	<b>(2,585)</b>	(1,483)	(1,480)
<b>Current liabilities</b>			
Short-term debt <sup>9</sup>	<b>(400)</b>	-	-
Current income tax liabilities <sup>3</sup>	<b>(1)</b>	(1)	(1)
Accrued interest <sup>8</sup>	<b>(56)</b>	(52)	(52)
<b>Total current liabilities</b>	<b>(457)</b>	(53)	(53)
<b>Total liabilities</b>	<b>(3,042)</b>	(1,536)	(1,533)
<b>Total net assets</b>	<b>24</b>	23	41
<b>Equity</b>			
Share capital <sup>10</sup>	<b>1</b>	1	1
Retained earnings	<b>23</b>	22	40
<b>Total equity</b>	<b>24</b>	23	41

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

	Year ended 31 December	
	2012	2011
<b>Cash flows from operating activities</b>		
Net income	1	2
Add back non-operating (income) expense		
- Financial income – related parties	(102)	(86)
- Financing costs	85	71
- Financing costs – related parties	15	12
- Income taxes	1	1
Income taxes paid	(1)	(1)
<b>Total cash flows from operating activities</b>	<b>(1)</b>	<b>(1)</b>
<b>Cash flows from investing activities</b>		
Issue of loans receivable – related parties <sup>5</sup>	(1,500)	-
Proceeds from repayment of loans receivable – related parties <sup>5</sup>	-	-
Interest received – related parties	98	86
<b>Total cash flows from investing activities</b>	<b>(1,402)</b>	<b>86</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of bonds <sup>9</sup>	1,497	-
Repayment and redemption of bonds <sup>9</sup>	-	-
(Increase) decrease of cash pool balance with related parties <sup>6</sup>	(3)	15
Interest paid	(76)	(68)
Dividends paid	-	(20)
Financing costs paid – related parties	(15)	(12)
<b>Total cash flows from financing activities</b>	<b>1,403</b>	<b>(85)</b>
Net effect of currency translation on cash and cash equivalents	-	-
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at 1 January	-	-
<b>Cash and cash equivalents at 31 December <sup>7</sup></b>	<b>-</b>	<b>-</b>

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

	Share capital	Retained earnings	Total
<b>Year ended 31 December 2011</b>			
At 1 January 2011	1	40	41
Net income	-	2	2
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>2</b>	<b>2</b>
Dividends	-	(20)	(20)
At 31 December 2011	1	22	23
<b>Year ended 31 December 2012</b>			
At 1 January 2012	1	22	23
Net income	-	1	1
Other comprehensive income	-	-	-
<b>Total comprehensive income</b>	<b>-</b>	<b>1</b>	<b>1</b>
Dividends	-	-	-
<b>At 31 December 2012</b>	<b>1</b>	<b>23</b>	<b>24</b>

# 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 2012 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 28 January 2013.

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.

### 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 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.

### 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.

### 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 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 on-going 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**

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.

In 2012 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 2013 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	
	2012	2011
Interest income – related parties	<b>102</b>	86
Total financial income – related parties	<b>102</b>	86

### **Financing costs** *in millions of CHF*

	Year ended 31 December	
	2012	2011
Interest expense	<b>(80)</b>	(68)
Amortisation of debt discount <sup>9</sup>	<b>(5)</b>	(3)
Guarantee fees – related parties	<b>(15)</b>	(12)
Total financing costs	<b>(100)</b>	(83)

## 3. Income taxes

### **Income tax expenses** *in millions of CHF*

	2012	2011
Current income taxes	<b>(1)</b>	(1)
Adjustments recognised for current tax of prior periods	-	-
Deferred income taxes	-	-
Total income (expense)	<b>(1)</b>	(1)

The Company's local statutory tax rate is 22.5% (2011: 21.9%) and this is also the effective tax rate in these financial statements.

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

	2012	2011	2010
Current income taxes			
- Assets	-	-	-
- Liabilities	<b>(1)</b>	(1)	(1)
Net current income tax assets (liabilities)	<b>(1)</b>	(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 2012, following the issuance of Swiss-franc denominated bonds (see Note 9), the Company granted three loans to F. Hoffmann-La Roche Ltd, Basel for 400, 600 and 500 million Swiss francs respectively. Previously, on 23 March 2009 the Company granted a loan to F. Hoffmann-La Roche Ltd, Basel for 1,500 million Swiss francs. The terms of the loans receivable are stated below.

### **Loans receivable – related parties** *in millions of CHF*

	31 December 2012	31 December 2011
Outstanding principal 400 million CHF, due 23 September 2013, effective interest rate 3 months CHF LIBOR + 0.57%	<b>400</b>	-
Outstanding principal 600 million CHF, due 21 September 2018, effective interest rate 1.37%	<b>600</b>	-
Outstanding principal 500 million CHF, due 23 September 2022, effective interest rate 1.97%	<b>500</b>	-
Outstanding principal 1,500 million CHF, due 23 March 2017, effective interest rate 5.63%	<b>1,500</b>	1,500
<b>Total loans receivable – related parties</b>	<b>3,000</b>	1,500
Reported as		
- Long-term loans receivable	<b>2,600</b>	1,500
- Short-term loans receivable	<b>400</b>	-
<b>Total loans receivable – related parties</b>	<b>3,000</b>	1,500

## 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 2012 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*

	2012	2011	2010
Accounts receivable with cash pool leader	<b>39</b>	36	51
Interest receivable	<b>27</b>	23	23
<b>Total accounts receivable</b>	<b>66</b>	59	74

## 7. Cash and cash equivalents

As at 31 December 2012 the Company had no cash in its bank account (2011: zero Swiss francs).

## 8. Accrued interest

### **Accrued interest** *in millions of CHF*

	2012	2011	2010
Interest payable	<b>56</b>	52	52
<b>Total accrued interest</b>	<b>56</b>	52	52

## 9. Debt

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

	2012	2011
At 1 January	<b>1,483</b>	1,480
Proceeds from issue of bonds	<b>1,497</b>	-
Repayment and redemption of bonds	-	-
Amortisation of debt discount <sup>2</sup>	<b>5</b>	3
At 31 December	<b>2,985</b>	1,483
Consisting of		
- Bonds	<b>2,985</b>	1,483
Total debt	<b>2,985</b>	1,483
Reported as		
- Long-term debt	<b>2,585</b>	1,483
- Short-term debt	<b>400</b>	-
Total debt	<b>2,985</b>	1,483

The fair values of the bonds at 31 December 2012 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.

### Fair value of bonds

	31 December 2012	31 December 2011
3 month CHF LIBOR +0.2% bonds due 23 September 2013, principal 400 million CHF (ISIN: CH0180513035), effective interest rate 0.36%	<b>400</b>	-
1% bonds due 21 September 2018, principal 600 million CHF (ISIN: CH0180513068), effective interest rate 1.04%	<b>615</b>	-
1.625% bonds due 23 September 2022, principal 500 million CHF (ISIN: CH0180513183), effective interest rate 1.64%	<b>522</b>	-
4.5% bonds due 23 March 2017, principal 1,500 million CHF (ISIN: CH0039139263), effective interest rate 4.77%	<b>1,763</b>	1,769
Total	<b>3,300</b>	1,769

### Issuance of bonds and notes – 2012

On 23 March 2012 the Company completed an offering of Swiss franc-denominated fixed rate and floating rate bonds. The terms and net proceeds of the bonds were as follows:

### Issuance of Swiss franc-denominated bonds

	Effective interest rate	Principal amount CHF millions	Net proceeds CHF millions
Floating rate 3 month CHF LIBOR +0.2% bonds due 23 September 2013, principal 400 million Swiss francs (ISIN: CH0180513035)	0.36%	400	400
Fixed rate 1% bonds due 21 September 2018, principal 600 million Swiss francs (ISIN: CH0180513068)	1.04%	600	598
Fixed rate 1.625% bonds due 23 September 2022, principal 500 million Swiss francs (ISIN: CH0180513183)	1.64%	500	499
Total		1,500	1,497

These bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

### Issuance of bonds and notes – 2011

The Company did not issue any bonds or notes during 2011.

### **Outstanding bonds**

On 23 March 2009 the Company issued Swiss franc-denominated 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.

## **10. Equity**

### **Share capital**

As of 31 December 2012, 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**

The Company paid no dividends in 2012 (2011: 20 million Swiss francs).

### **Own equity instruments**

The Company holds none of its own shares (2011: 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 2012, the Company does not have any material contingent liabilities (2011: 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*

	2012	2011
Interest income – related parties	<b>102</b>	86
Guarantee fees – related parties	<b>(15)</b>	(12)
Repayment of loans receivable – related parties <sup>5</sup>	-	-
(Increase) decrease of cash pool balance with related parties <sup>6</sup>	<b>(3)</b>	15
Issue of loans receivable – related parties <sup>5</sup>	<b>(1,500)</b>	-

### Related party balances *in millions of CHF*

	2012	2011	2010
Long-term loans receivable – related parties <sup>5</sup>	<b>2,600</b>	1,500	1,500
Short-term loans receivable – related parties <sup>5</sup>	<b>400</b>	-	-
Accounts receivable – related parties <sup>6</sup>	<b>66</b>	59	74

### Subsidiaries and associates

The Company has no subsidiaries or associates.

### Key management personnel

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

### Board of Directors of Roche 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 2012 and 2011.

## 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 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	2012 Fair value	Carrying value	2011 Fair value
Long-term loan receivable – related parties <sup>5</sup>	Loans and receivables	<b>2,600</b>	<b>2,741</b>	1,500	1,621
Short-term loan receivable – related parties <sup>5</sup>	Loans and receivables	<b>400</b>	<b>400</b>	-	-
Accounts receivable – related parties <sup>6</sup>	Loans and receivables	<b>66</b>	<b>66</b>	59	59
Total		<b>3,066</b>	<b>3,207</b>	1,559	1,680

The fair values for loan receivables – related parties disclosed in the above table were calculated by discounting future cash flows from each loan using a discount rate reflecting market interest rates and a credit adjustment appropriate for each balance. 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 2012 the Company has no financial assets which are past due but not impaired (2011: none) and no financial assets whose terms have been renegotiated (2011: 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 2012 the Company had financial liabilities with a principal amount of 3,000 million Swiss francs. In 2012 the Company issued three new Swiss franc-denominated bonds with the total principal amount of 1,500 million Swiss francs. The 400 million Swiss franc floating rate bond is repayable at 23 September 2013 and interest coupons are paid quarterly based on the 3-month CHF LIBOR. The 600 million Swiss franc fixed rate bond is due 21 September 2018 and the 500 million Swiss franc fixed rate bond is due on 23 September 2022. Interest coupons of 6 million Swiss francs and 8 million Swiss francs related to these bonds are payable annually on 21 September and 23 September respectively.

At 31 December 2012 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 in 2009. 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 2012 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/liabilities were short-term debt (see Note 9) and short-term loan receivable from related parties (see Note 5) referenced to three month LIBOR as well as the receivable balance with the corporate cash pool leader (see Note 6) referenced to one month LIBOR.

As at 31 December 2012 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

	2012	2011	2010
Debt <sup>9</sup>	<b>2,985</b>	1,483	1,480
Equity	<b>24</b>	23	41
Capitalisation	<b>3,009</b>	1,506	1,521

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 14 for the year ended 31 December 2012.

**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 2012 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*



Audrey Hamm  
*Licensed Audit Expert*

Basel, 28 January 2013