



Roche Capital Market Ltd - Annual Report 2008

Roche Capital Market Ltd, Financial Statements

Reference numbers indicate corresponding Notes to the Financial Statements.

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

	2008	2007
Income		
Financial income – related parties ³	8	32
Other income	-	-
Total income	8	32
Expenses		
Financing costs ³	(7)	(30)
Other expenses	-	-
Total expenses	(7)	(30)
Profit before taxes	1	2
Income taxes ⁴	(1)	-
Net income	-	2

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

	31 December 2008	31 December 2007
Non-current assets	-	-
Current assets		
Loans receivable – related parties ⁶	-	916
Accounts receivable – related parties ⁷	38	134
Cash and cash equivalents ⁸	-	-
Total current assets	38	1,050
Total assets	38	1,050
Non-current liabilities		
Deferred income tax liabilities ⁴	-	(1)
Total non-current liabilities	-	(1)
Current liabilities		
Short-term debt ¹⁰	-	(997)
Current income tax liabilities ⁴	(1)	(1)
Accrued and other current liabilities ⁹	-	(14)
Total current liabilities	(1)	(1,012)
Total liabilities	(1)	(1,013)
Total net assets	37	37
Equity		
Share capital ¹¹	1	1
Retained earnings	36	36
Total equity	37	37

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

	Year ended 31 December	
	2008	2007
Cash flows from operating activities		
Net income	-	-
Add back non-operating (income) expense		
- Financial income – related parties	(8)	(32)
- Financing costs	7	30
- Income taxes	1	2
Income taxes paid	(2)	(2)
Total cash flows from operating activities	(2)	(2)
Cash flows from investing activities		
Interest received –related parties	8	47
Total cash flows from investing activities	8	47
Cash flows from financing activities		
Proceeds from repayment of loans receivable – related parties ⁶	916	-
Repayment and redemption of debt instruments ¹⁰	(1,000)	-
Net settlement accounts receivable – related parties	96	(27)
Interest paid	(18)	(18)
Total cash flows from financing activities	(6)	(45)
Net effect of currency translation on cash and cash equivalents	-	-
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December ⁸	-	-

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

	Share capital	Retained earnings	Total
Year ended 31 December 2007			
At 1 January 2007	1	34	35
Net income recognised directly in equity	-	-	-
Net income recognised in income statement	-	2	2
Total recognised income and expense	1	36	37
Dividends paid	-	-	-
At 31 December 2007	1	36	37
Year ended 31 December 2008			
At 1 January 2008	1	36	37
Net income recognised directly in equity	-	-	-
Net income recognised in income statement	-	-	-
Total recognised income and expense	-	-	-
Dividends paid	-	-	-
At 31 December 2008	1	36	37

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 Switzerland ('the Company'). The Company is 100% owned by Roche Holding Ltd, (*Roche Holding AG*), a public company registered in Switzerland and its nominees. 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. As at 31 December 2008, the Company had no financing arrangements. It is envisaged that the Company will resume its financing activities on behalf of the Roche Group in 2009.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. They have been prepared using the historical cost convention. They were approved for issue by the Board of Directors on 23 February 2009.

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.

Transition to International Financial Reporting Standards

These financial statements are the first financial statements for the Company prepared using International Financial Reporting Standards (IFRS). Previously, the Company prepared its financial statements in conformity with the Swiss Code of Obligations (*Vorschriften des schweizerischen Obligationenrechts*). The most recent financial statements prepared under the Swiss Code of Obligations were for the year ended 31 December 2007.

The Roche Group has issued consolidated financial statements under IFRS since 1990. As a member of the Roche Group, the Company has prepared financial information that is consistent under IFRS for internal purposes and for inclusion in the Roche Group's consolidated financial statements. The values used in these IFRS financial statements of Roche Capital Market Ltd, are based on the values used by the Company for the Roche Group's consolidated financial statements, adjusted where necessary for consolidation amounts.

Included in Note 2 to these financial statements is a statement of financial position as at 1 January 2007, the date of transition to IFRS. Also included are reconciliations of the Company's equity under the Swiss Code of Obligations as compared to IFRS as at 1 January 2007, the date of transition to IFRS, and 31 December 2007, the end of the latest period for which the Company prepared financial statements under the Swiss Code of Obligations. Note 2 also includes a reconciliation of the net income reported for the year ended 31 December 2007 under the Swiss Code of Obligations as compared to IFRS.

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 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 cash flow statement.

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. Valuation techniques are typically used for derivative financial instruments. The fair values of financial assets and liabilities at the balance sheet 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 balance sheet date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. An impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate.

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

Debt instruments

Debt instruments are initially recorded at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortised cost. Any discount between the net proceeds received and the principal value due on redemption is amortised over the duration of the debt instrument and is recognised as part of financing costs using the effective interest rate method. The Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

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 each 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 consolidated 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 consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the 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 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 2007 the Roche Group early adopted IFRS 8 'Operating Segments' and IAS 23 (revised) 'Borrowing Costs' which are required to be implemented from 1 January 2009 at the latest. In 2008 the Group early adopted the revised versions of IFRS 3 'Business Combinations' and IAS 27 'Consolidated and Separate Financial Statements' that were published in early 2008 and which are required to be implemented from 1 January 2010 at the latest. The Group has implemented the amendments to IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' published in October 2008 relating to the reclassification of Financial Assets. The Group has also adopted IFRIC interpretation 14 which relates to IAS 19 'Employee benefits'. While these changes were also adopted by the Company, none of them had changes have any impact on these financial statements of the Company.

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 2009 and beyond, and which the Group has not early adopted. These include further revisions to IAS 1 'Presentation of Financial Statements' and revisions to IFRS 2 'Share based Payment'. The Company does not anticipate that these will have a material impact on the Company's overall results and financial position.

2. Transition to International Financial Reporting Standards

These financial statements are the first financial statements for the Company prepared using International Financial Reporting Standards (IFRS). Previously, the Company prepared its financial statements in conformity with the Swiss Code of Obligations (*Vorschriften des schweizerischen Obligationenrechts*). The most recent financial statements prepared under the Swiss Code of Obligations were for the year ended 31 December 2007.

The Roche Group has issued consolidated financial statements under IFRS since 1990. As a member of the Roche Group, the Company has prepared financial information that is consistent under IFRS for internal purposes and for inclusion in the Roche Group's consolidated financial statements. The values used in these IFRS financial statements of Roche Capital Market Ltd, are based on the values used by the Company for the Roche Group's consolidated financial statements, adjusted where necessary for consolidation amounts.

Balance Sheet at 1 January 2007, date of transition to IFRS *in millions of CHF*

	Most recent financial statements	Adjustments	IFRS
Non-current assets			
Loans receivable – related parties ⁶	916	-	916
Total non-current assets	916	-	916
Current assets			
Accounts receivable – related parties ⁷	122	-	122
Cash and cash equivalents ⁸	-	-	-
Total current assets	122	-	122
Total assets	1,038	-	1,038
Non-current liabilities			
Long-term debt ¹⁰	(993)	8 ^{a)}	(985)
Deferred income tax liabilities ⁴	-	(2)	(2)
Total non-current liabilities	(993)	6	(987)
Current liabilities			
Current income tax liabilities ⁴	(2)	-	(2)
Accrued and other current liabilities ⁹	(14)	-	(14)
Total current liabilities	(16)	-	(16)
Total liabilities	(1,009)	-	(1,003)
Total net assets	29	6	35
Equity			
Share capital ¹¹	1	-	1
Retained earnings	28	6	34
Total equity	29	6	35

Reconciliation of equity *in millions of CHF*

Note	31 December 2007 (most recent financial statements)	1 January 2007 (transition to IFRS)
Equity in previously published financial statements under Swiss Code of Obligations	34	29
(a) Amortisation of discount on debt instruments	3	8
Deferred income taxes on above items	-	(2)
Equity in these IFRS financial statements	37	35

Reconciliation of net income *in millions of CHF*

Note	31 December 2007 (most recent financial statements)
Net income in previously published financial statements under Swiss Code of Obligations	5
(a) Amortisation of discount on debt instruments	(5)
Deferred income taxes on above items	2
Net income in these IFRS financial statements	2

Notes to the reconciliations

- (a) The difference between IFRS and Swiss Code of Obligations is due to different methods of amortisation of the bond-discount and different accounting treatments of the expired warrants previously attached to the bond.

3. Financial income and financing costs**Financial income – related parties** *in millions of CHF*

	Year ended 31 December	
	2008	2007
Interest income – related parties	8	32
Total financial income – related parties	8	32

Financing costs *in millions of CHF*

	Year ended 31 December	
	2008	2007
Interest expense	(4)	(18)
Amortisation of discount on debt instruments	(3)	(12)
Total financing costs	(7)	(30)

4. Income taxes**Income tax expenses** *in millions of CHF*

	2008	2007
Current income taxes	(1)	(1)
Adjustments recognised for current tax of prior periods	(1)	-
Deferred income taxes	1	1
Total income (expense)	(1)	-

The Company's local statutory tax rate is 24.0% (2007: 24.8%) and this is also the effective tax rate in these financial statements.

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

	31 December 2008	31 December 2007	1 January 2007
Current income taxes			
- Assets	-	-	-
- Liabilities	(1)	(1)	(2)
Net current income tax assets (liabilities)	(1)	(1)	(2)
Deferred income taxes			
- Assets	-	-	-
- Liabilities	-	(1)	(2)
Net deferred income tax assets (liabilities)	-	(1)	(2)

The deferred income tax assets and liabilities and the deferred income tax charges (credits) are attributable to the following items:

Deferred income taxes: movements in recognised net assets (liabilities) *in millions of CHF*

	Total
Year ended 31 December 2007	
Net deferred income tax asset (liability) at 1 January 2007	(2)
(Charged) credited to the income statement	1
Net deferred income tax asset (liability) at 31 December 2007	(1)
Year ended 31 December 2008	
Net deferred income tax asset (liability) at 1 January 2008	(1)
(Charged) credited to the income statement	1
Net deferred income tax asset (liability) at 31 December 2008	-

5. Employee benefits

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

6. Loans receivable – related parties

On 16 December 2005 the Company gave a loan to F. Hoffmann-La Roche Ltd, Basel for 916 million Swiss francs. The effective interest rate was 3.25%. On the due date of 20 March 2008 the loan was repaid.

7. Accounts receivable – related parties

The Company deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited are immediately available and bear variable interest referenced to one month LIBOR. As at 1 January 2007 the Company also had interest receivable from F. Hoffmann-La Roche Ltd, Basel in respect of the loan given to that company (see Note 6).

Accounts receivable – related parties *in millions of CHF*

	31 December 2008	31 December 2007	1 January 2007
Accounts receivable with cash pool leader	38	134	107
Interest receivable	-	-	15
Total accounts receivable	38	134	122

8. Cash and cash equivalents

As at 31 December 2008 the Company had 33 thousand Swiss francs (2007: 67 thousand Swiss francs, 1 January 2007: 127 thousand Swiss francs) in its bank account.

9. Accrued and other current liabilities**Accrued liabilities and other current liabilities** *in millions of CHF*

	31 December 2008	31 December 2007	1 January 2007
Interest payable	-	(14)	(14)
Total accrued and other current liabilities	-	(14)	(14)

10. Debt**Debt: recognised liabilities** *in millions of CHF*

	31 December 2008	31 December 2007	1 January 2007
Debt instruments	-	(997)	(985)
Total debt	-	(997)	(985)
Reported as			
- Long-term debt	-	-	(985)
- Short-term debt	-	(997)	-
Total debt	-	(997)	(985)

Debt instruments

On 19 February 1998 the Company issued Swiss franc 'Rodeo' 1.75% bonds due 20 March 2008 with a principal amount of 1,000 million Swiss francs. The net proceeds were 972 million Swiss francs and the effective interest rate was 3.00%. On the due date of 20 March 2008 the Company redeemed these bonds at the original issue amount plus accrued original issue discount ('OID'). The cash outflow was 1,000 million Swiss francs and there was no gain or loss recorded on the redemption.

The unamortised discount included in the carrying value of debt as of 31 December 2007 was 3 million Swiss francs (1 January 2007: 15 million Swiss francs).

The fair value of the debt instruments at 31 December 2007 was 1.0 billion Swiss francs. This is determined based on the observable market prices of the debt instruments.

11. Equity**Share capital**

As of 31 December 2008 and 2007, the authorised and issued share capital of the Company consisted of 1,000 shares with a nominal value of 1,000 Swiss francs each. Roche Holding Ltd, a public company in Switzerland, owns 998 of the shares. The Company's two directors, who are nominees of Roche Holding Ltd, own one share each.

Dividends

The Company paid no dividends in 2008 (2007: none).

Own equity instruments

The Company holds none of its own shares (2007: none).

12. 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 2008, the Company does not have any material contingent liabilities (2007: none).

13. Related parties

Controlling shareholders

As a member of the Roche Group, all of the Company's related party transactions are with Roche Group affiliates. The transactions include interest on and repayments of loans given by the Company. In addition the Company has a current account with Roche Pharmholding B.V., the corporate cash pool leader, as described in Note 7.

Related party transactions *in millions of CHF*

	2008	2007
Interest income – related parties	8	32
Repayment of loans receivable – related parties ⁶	916	-

Related party balances *in millions of CHF*

	31 December 2008	31 December 2007	1 January 2007
Loans receivable – related parties ⁶	-	916	916
Accounts receivable – related parties ⁷	38	134	122

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 Company has no operating functions except through its affiliates. 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 Erich Hunziker	Chairman	
Dr Gottlieb Keller	Member of the Board	Appointed 1 October 2008
Dr Bruno Maier	Member of the Board	Retired 1 October 2008

The directors did not receive remuneration or payment from the Company for their time and expenses related to their services during 2008 and 2007. The directors, as nominees of Roche Holding Ltd, hold one share each in the Company.

14. Risk management

Roche Group risk management

Risk management is a fundamental element of the Roche Group's business practice on all levels and encompasses different types of risks. At a group level risk management is an integral part of the business planning and controlling processes. Material risks are monitored and regularly discussed with the Corporate Executive Committee and the Audit Committee of the Board of Directors.

Financial risk management

The Company is exposed to financial risks arising from its corporate finance activities of providing financing to other affiliates of the Roche Group and obtaining refinancing on the bond or loan markets. The Company's financial risk exposures are related to changes in interest rates and the creditworthiness and solvency of the Company's counterparties.

Financial risk management within the Roche Group is governed by policies reviewed by the Board of Directors. These policies cover credit risk, liquidity risk and market risk and are also applicable to the Company. These policies provide guidance on risk limits, type of authorised financial instruments and monitoring procedures. As a general principle, the policies prohibit the use of derivative financial instruments for speculative trading purposes. Policy implementation and day-to-day risk management are carried out by the relevant treasury functions and regular reporting on these risks is performed by the relevant accounting and controlling functions within Roche.

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

By line items in notes	Asset class	2008		2007	
		Carrying value	Fair value	Carrying value	Fair value
Loans receivable – related parties ⁶	Loans and receivables	-	-	916	916
Accounts receivable – related parties ⁷	Loans and receivables	38	38	134	134
Total		38	38	1,050	1,050

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. 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.

Cash: As described in Notes 7 and 8, the Company deposits funds with Roche Pharmholding B.V. and only maintains minimal amounts in its bank account.

Overdue assets: As at 31 December 2008 the Company has no financial assets which are past due but not impaired (2007: none) and no financial assets whose terms have been renegotiated (2007: none).

Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. As described in Notes 7 and 8, the Company deposits funds with Roche Pharmholding B.V. and only maintains minimal amounts in its bank account. The Company's obligations to third parties on the bond or loan markets are covered by loan receivables from other members of the Roche Group that have the same maturity and conditions.

The Company had no financial liabilities at 31 December 2008. At 31 December 2007 the Company had undiscounted financial liabilities of 1,018 million Swiss francs due within three months relating to the repayment of the 'Rodeo' Swiss franc bonds (see Note 10), including a final interest payment of 18 million Swiss francs.

In connection with the 'Rodeo' Swiss franc bonds, the Company had entered into a Keep Well Agreement with Roche Holding Ltd, under which that company undertook to directly or indirectly own all of the outstanding shares of the Company and to cause the Company to have a net worth (as defined in the agreement) at all times of at least 100,000

Swiss francs. The bonds were fully redeemed on 20 March 2008 and the agreement has subsequently been terminated.

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 2008 and 2007 the Company's exposure to market risk was insignificant.

Foreign exchange risk

Foreign exchange risk arises because the amount of Swiss francs paid or received by the Company for transactions denominated in foreign currencies may vary due to changes in exchange rates ('transaction exposures'). As at 31 December 2008 and 2007 the Company's exposure to foreign exchange risk was insignificant, as all of the Company's financial assets and liabilities were denominated in Swiss francs, the Company's functional currency.

Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Company's financial result or the value of the Company's equity. Changes in interest rates may cause variations in interest income and expense. In addition, they may affect the market value of certain financial assets, liabilities and hedging instruments.

As at 31 December 2008 the Company's exposure to interest rate risk was insignificant, as the Company's only interest-bearing financial asset/liability was the receivable balance of 38 million Swiss francs (2007: 134 million Swiss francs) with the corporate cash pool leader (see Note 7). As at 31 December 2007 the Company's exposure to interest rate risk was insignificant, as the outstanding principal amount on the Company's debt (see Note 10) and the loans receivable from related parties (see Note 6) were both at fixed interest rate and near maturity.

Other price risk

Other price risk arises mainly from movements in the prices of equity securities. At 31 December the Company held no equity securities (2007: none).

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 ratio, which is calculated as being total assets as a percentage of total debt and 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 capital and capitalisation ratio are shown in the table below.

Capital in millions of CHF

	2008	2007
Debt ¹⁰	-	997
Equity	37	37
Capitalisation	37	1,034
Total assets	38	1,050
Capitalisation ratio	103%	102%

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

Report of the Independent Auditor

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 balance sheet, income statement, cash flow statement and statement of changes in equity and notes for the year ended 31 December 2008.

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 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 2008 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 and comply with Swiss law.

KPMG Klynveld Peat Marwick Goerdeler SA



John A. Morris
Licensed Audit Expert
Auditor in Charge



François Rouiller
Licensed Audit Expert

Basel, 23 February 2009